

State of Minnesota
Comprehensive Annual
Financial Report

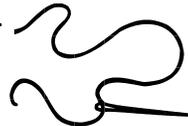


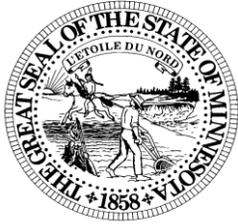
For the Year Ended June 30, 2012

Minnesota is represented by its many symbols. Every Minnesota school child knows the Common Loon and the Lady's Slipper are symbols of the state. But Minnesota, like all states, has named a number of official symbols to represent the cultural and natural treasures of the state, among them the Norway Pine (tree), the Monarch (butterfly), Honeycrisp™ Apple (fruit), Wild Rice (grain), Lake Superior Agate (gemstone), the Morel (mushroom) and the Blueberry Muffin (muffin).

It may sound a little silly but there is definite reasoning behind the careful consideration and selection of state symbols. State symbols represent things that are special to a particular state. They are generally used to identify a characteristic of the state's heritage or natural resources which represents "uniqueness" and conveys a message of interest to the rest of the country and world.

Minnesota's symbols are the fabric of who and what we are.





State of Minnesota

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Prepared by Minnesota
Management and Budget
James Schowalter,
Commissioner
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155



State of Minnesota

2012
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The State of Minnesota Comprehensive Annual Financial Report can be made available in alternative formats upon request, to ensure that it is accessible to people with disabilities. To obtain this document in an alternate format, contact:

Minnesota Management and Budget
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1489
651-201-8000

The Minnesota Relay service phone number is 1-800-627-3529.

The State of Minnesota Comprehensive Annual Financial Report is available at the following website:

<http://www.mmb.state.mn.us/>



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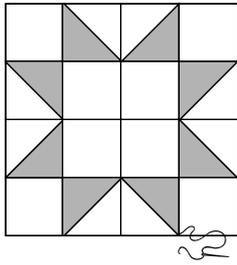
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State of Minnesota

Introduction

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State of Minnesota

2012 Comprehensive Annual Financial Report Transmittal Letter from the Commissioner of Minnesota Management and Budget

March 20, 2013



400 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155
Voice: (651) 201-8000
Fax: (651) 296-8685
TTY: 1-800-627-3529

The Honorable Mark Dayton, Governor

Members of the Legislature

In accordance with Minnesota Statutes, Section 16A.50, Minnesota Management and Budget is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the state of Minnesota for the fiscal year ended June 30, 2012. 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:

- Introduction Section – Includes this letter of transmittal, the certificate of achievement, the state's organization chart, and the list of principal officials.
- Financial Section – Includes the auditor's opinion, management's discussion and analysis, basic financial statements, combining and individual fund statements for nonmajor funds, and the general obligation debt schedule. 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.
- Statistical Section – Includes 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, 2012. 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

AN EQUAL OPPORTUNITY EMPLOYER

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, 2012. The supplementary report, "Financial and Compliance Report on Federally Assisted Programs," will be available in May 2013.

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 blended and discretely presented 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. Component units meeting this criteria are considered discretely presented unless the boards are substantially the same as the state or the component unit provides services or benefits entirely, or almost entirely, to the state.

The Housing Finance Agency, Metropolitan Council, University of Minnesota, Agricultural and Economic Development Board, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, Rural Finance Authority, and Workers' Compensation Assigned Risk Plan are component units reported discretely. The state has either the ability to impose its will over these agencies or provides substantial funding.

The Tobacco Securitization Authority is a blended component unit as it exists exclusively to benefit the state.

Minnesota Management and Budget is responsible for the Statewide Integrated Financial Tools (SWIFT), an Oracle PeopleSoft Enterprise Resource Planning System, which replaced a previous accounting system on July 1, 2011. The majority of the information related to these financial statements was prepared from information provided by SWIFT. SWIFT maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting basis for the financial statements. As SWIFT does not maintain all accrual information, adjustments to accounting data are necessary to provide financial statements in accordance with GAAP. The second ledger tracks information on a budgetary basis and recognizes revenues and expenditures essentially on a cash basis, except that encumbrances at year-end are considered expenditures. These disparate bases result in budgetary fund balances, which often differ significantly from those calculated under GAAP.

Minnesota Statutes, Section 16A.50, requires MMB to produce the CAFR by December 31st following the end of the fiscal year. As this was the state's first reporting cycle under SWIFT, it required a substantial commitment of time to design, develop, and test the new reports needed to produce the financial statements and related disclosures. This caused a delay in completing the financial statements and related disclosures by the statutory deadline as we maintained our commitment to high standards for accuracy and completeness.

Minnesota Management and Budget 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, or February after a gubernatorial transition, 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, Petroleum Tank Cleanup, Natural Resources, Game and Fish, Environmental and Remediation, Heritage, Special Compensation, Health Care Access, and Workforce Development funds.

Budgetary control is provided primarily through SWIFT. 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

By most measures, Minnesota's economy outperformed the U. S. economy during fiscal year 2012. The state's personal income growth rate exceeded the nation's, and our unemployment rate at the end of fiscal year 2012 was well below the national average. However, job creation in Minnesota appears to have been slower. Payroll employment in the state at the end of fiscal year 2012 was up by nearly 28,000 jobs or 1.0 percent. Nationally, payroll employment grew by 1.6 percent.

Minnesota's goods producing sectors added 10,600 jobs in fiscal year 2012, which was up 2.7 percent from fiscal year 2011 levels. Construction employment was up 3,900 jobs (4.4 percent), and manufacturing employment was more than 6,600 jobs (2.2 percent) above the level observed in June 2011. Construction and manufacturing employment, however, continue to be well below the levels observed before the onset of the Great Recession. Only about one-third of the nearly 48,000 manufacturing jobs lost in the recession were recovered by the close of fiscal year 2012. Construction industry employment recovery has been even slower, with less than 11 percent of the nearly 25,000 jobs lost recovered. Despite the slow growth in the goods producing sector, payroll employment levels in Minnesota are closer to their pre-recession levels compared to national level. By the end of fiscal year 2012, total payroll employment in Minnesota was reported to have recovered 51 percent of the jobs lost in the Great Recession, while nationally only 49 percent of the jobs lost have been recovered.

Minnesota's unemployment rate closed the fiscal year at 5.6 percent, 1.1 percentage points below its June 2011 level, and 2.7 percentage points lower than the national average. Minnesota's June 2012 unemployment rate was the 9th lowest among the 50 states. For the entire fiscal year, unemployment in Minnesota averaged 5.9 percent, while the U.S. rate averaged 8.6 percent.

Personal income in Minnesota also grew faster than the nation during the fiscal year 2012. Personal income grew at a 3.2 percent rate in fiscal year 2012, while U.S. personal income grew by 3.0 percent. Minnesota ranked 25th among states in personal income growth between the 2nd quarter of 2011 and the 2nd quarter of 2012.

Minnesota's economy is likely to have another year of slow growth in fiscal year 2013. Payroll employment growth is expected to pick up slightly from the levels observed in fiscal year 2012, with about 44,000 jobs added. The 1.3 percent increase in payroll employment is slightly below the growth expected for the U.S. economy. Manufacturing employment is expected to grow by about 2,500 jobs and construction employment by about 1,000 jobs. The health care sector is forecasted to add more than 15,000 new jobs in fiscal year 2013.

General Fund Condition

On a budgetary basis, the General Fund ended fiscal year 2012 with an undesignated fund balance of \$680 million. General Fund spending in fiscal year 2012 increased on a budgetary basis by 7.8 percent while revenues increased by 7.8 percent compared to fiscal year 2011. Two significant factors impacted fiscal year 2012 spending. Funding through the federal American Recovery and Reinvestment Act

(ARRA) for human services ended and expenditures shifted back to the General fund. In addition, the K-12 payment deferral increased from 30 percent to 40 percent.

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

On a GAAP basis, the General Fund reported a deficit of \$113 million for fiscal year 2012, a difference of \$793 million from the budgetary General Fund balance. The difference between the General Fund budgetary and GAAP fund balance results from two primary reasons. First, on a GAAP basis, the accruals of revenue and expenditures are required to be reported under the modified accrual basis of accounting. Second, several funds are included in the GAAP fund balance which are not included in the budgetary fund balance. These additional funds reported a fund balance of \$954 million. The difference between the GAAP basis and budgetary basis General Fund fund balance, excluding these additional funds not reported in the budgetary fund balance, was \$1.7 billion. For details of the budget to GAAP differences, see Note 18 – Budgetary Basis vs. GAAP in the Notes to the Financial Statements.

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, 2011. This was the twenty-seventh 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 Minnesota Management and Budget 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 Minnesota Management and Budget and in other agencies who helped in the preparation of this report. Without the efforts of all involved, this report would not have been possible.

Sincerely,



James Schowalter
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, 2011

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.



Christopher P. Morill

President

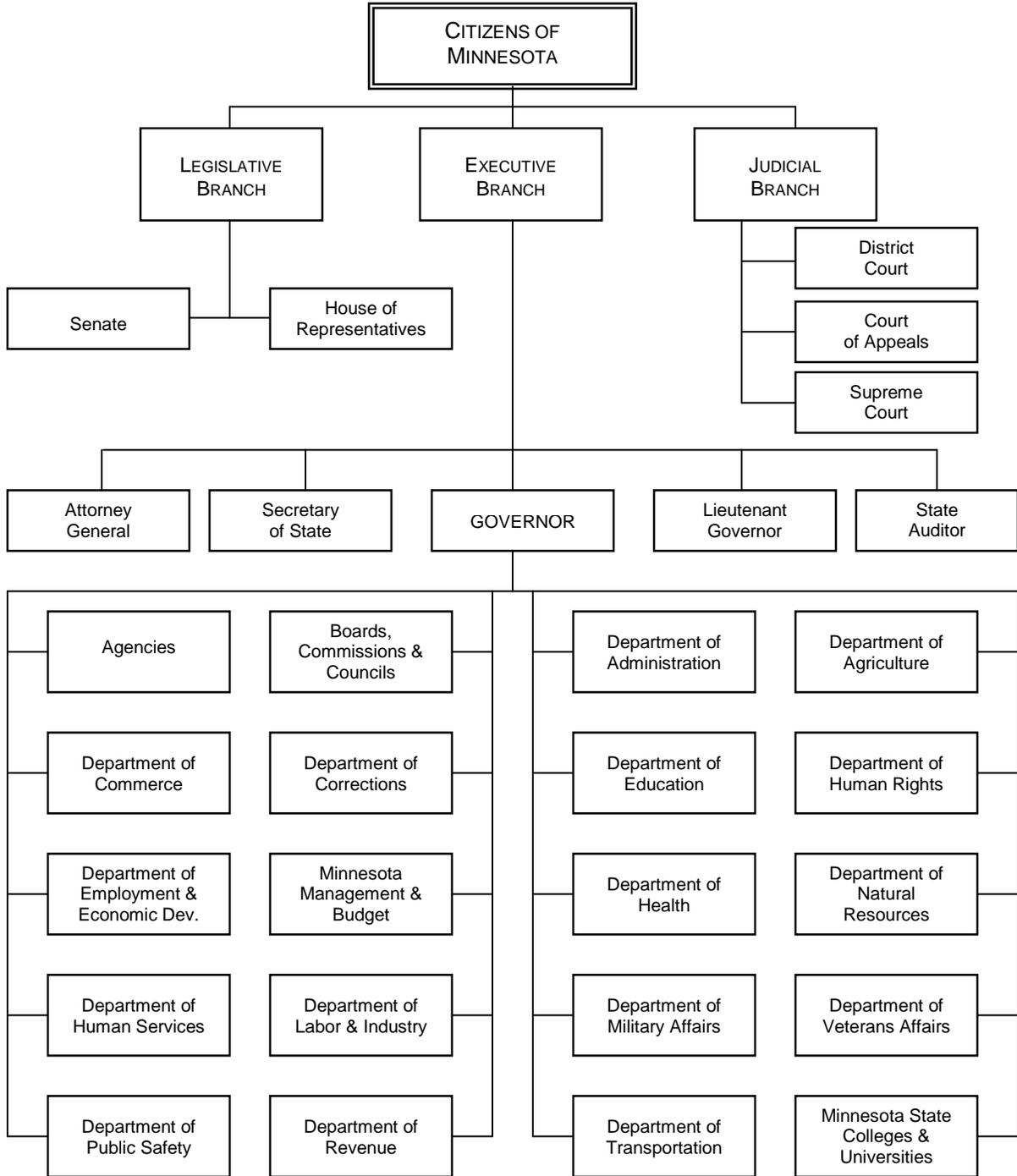
Jeffrey R. Emer

Executive Director



State of Minnesota

2012 Comprehensive Annual Financial Report
State Organization Chart





State of Minnesota

2012 Comprehensive Annual Financial Report
State Principal Officials

Executive Branch

Governor
Lieutenant Governor
Attorney General
Secretary of State
State Auditor

Mark Dayton
Yvonne Prettner Solon
Lori Swanson
Mark Ritchie
Rebecca Otto

Legislative Branch

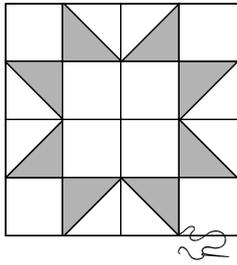
Speaker of the House of Representatives
President of the Senate

Kurt Zellers
Michelle L. Fischbach

Judicial Branch

Chief Justice of the Supreme Court

Lorie Skjerven Gildea





State of Minnesota

Financial Section

2012
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Financial Report



Independent Auditor's Report

Members of the Minnesota State Legislature

The Honorable Mark Dayton, Governor

Mr. James Schowalter, Commissioner, Minnesota Management and Budget

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the state's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State of Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Minnesota State Colleges and Universities, which is a major proprietary fund and represents 76 percent, 76 percent, and 23 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the Housing Finance Agency, Metropolitan Council, University of Minnesota, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, and Workers' Compensation Assigned Risk Plan, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and operating revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned major proprietary fund, business-type activities, and discretely presented component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The financial statements of the National Sports Center Foundation and the Workers' Compensation Assigned Risk Plan, which are discretely presented nonmajor component units, were not audited in accordance with *Government Auditing Standards*. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

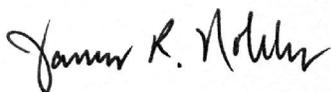
The financial statements contained in this report are late. By state law, the Minnesota Department of Management and Budget is required to issue the State of Minnesota's financial statements by December 31 of each year. According to the department, the implementation of a new accounting system

in July 2011 resulted in it being unable to produce timely financial statements for fiscal year 2012. This late release of the state's financial statements not only creates concern about legal compliance, it also diminishes the value of the information in the statements.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the State of Minnesota's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the State of Minnesota's basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Schedules, General Obligation Debt Schedule, and the Statistical Section, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Combining and Individual Nonmajor Fund Financial Statements and Schedules and the General Obligation Debt Schedule have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introduction and Statistical Sections have 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.

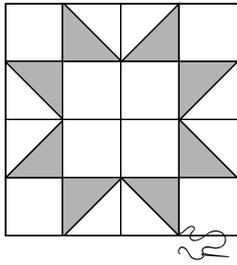


James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

March 20, 2013





2012 Comprehensive Annual Financial Report Management's Discussion and Analysis

Introduction

The following discussion and analysis of the state of Minnesota (state) financial performance provides an overview of the state's financial activities for the fiscal year ended June 30, 2012, and identifies changes in the financial position of the state, which occurred during the fiscal year. This section should be read in conjunction with the preceding transmittal letter and the state's financial statements and notes to the financial statements, which follow.

Overview of the Financial Statements

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

The financial section of this annual report has four parts:

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

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

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

Government-wide Financial Statements

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

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

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

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

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

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

Governmental Activities

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

Business-type Activities

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

Component Units

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

The state has one blended component unit, the Tobacco Securitization Authority, that is shown as a nonmajor special revenue fund.

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

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

- Housing Finance Agency
- Metropolitan Council
- University of Minnesota

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

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

State Fund and Component Unit Financial Statements

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

The fund financial statements focus on individual parts of the state, reporting the state's operations in more detail than in the government-wide statements. Fund financial statements focus on the most significant funds within the state.

The state's funds are divided into three categories:

Governmental Funds

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

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

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

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

The state maintains 23 individual state governmental funds, plus the blended component unit discussed above. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Federal funds, which are reported as major funds. Information from the remaining funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements included in this report.

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

Proprietary Funds

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

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

The state maintains 16 individual proprietary funds. The State Colleges and Universities and Unemployment Insurance funds, both of which are considered major funds, are presented separately in the proprietary funds statement of net assets and in the proprietary funds statement of revenues, expenses, and changes in net assets. Information from the 8 nonmajor enterprise funds and the 6 internal service funds are combined into two separate aggregated columns. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements presented in this report.

Fiduciary Funds

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

The state maintains 21 individual fiduciary funds. The state's fiduciary funds are the pension trust funds, the investment trust funds (which account for the transactions, assets, liabilities, and fund equity of the external investment pools), and the Agency Fund (which accounts for the assets held for distribution by the state as an agent for other governmental units, other organizations, or individuals). Individual fund detail is included in the combining financial statements included in this report.

Component Units

Component units are legally separate organizations for which the state is financially accountable. The government-wide financial statements present information for the discretely presented component units in a single column on the statement of net assets. Also, some information on the statement of changes in

net assets is aggregated for component units. The discretely presented component units' statements of net assets and statements of changes in net assets provide detail for each major discretely presented component unit and aggregate the detail for nonmajor discretely presented component units. Individual nonmajor discretely presented component unit detail can be found in the combining financial statements included in this report. The state's blended component unit is included in a combined single, aggregated column for nonmajor governmental funds. Individual fund data for this blended component unit is provided in the form of combining statements for nonmajor governmental funds included in this report.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Financial Highlights

Government-wide

- The assets of the state exceeded liabilities at June 30, 2012, by \$13.1 billion (presented as net assets). Of this amount, a deficit of \$2.8 billion was reported as unrestricted net assets. For discussion on the variances from prior year, see the Government-wide Financial Analysis section.
- The state's total net assets increased by \$993 million (8.2 percent) during fiscal year 2012. Net assets of governmental activities increased by \$277 million (2.7 percent), while net assets of the business-type activities showed an increase of \$716 million (37.4 percent). For discussion on the variances from prior year, see the Government-wide Financial Analysis section.

Fund Level

- At the end of the current fiscal year, governmental funds reported a combined ending fund balance of \$4.2 billion, an increase of \$548 million compared to the prior year. Included in the ending fund balance is a General Fund unassigned deficit of \$887 million. For discussion on the variances from prior year, see the State Funds Financial Analysis section.

Long-Term Debt

- The state's total long-term liabilities increased by \$292 million (3.3 percent) during the current fiscal year. The increase is primarily a result of the state issuing tobacco settlement revenue bonds for the Tobacco Securitization Authority (blended component unit). This increase was offset by a decrease in loans in the Unemployment Insurance Fund (enterprise fund) due to the payoff of cash advances to the U.S. Treasury for unemployment benefits.

Government-wide Financial Analysis

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

Net Assets June 30, 2012 and 2011 (In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current Assets ⁽¹⁾	\$ 11,255,905	\$ 10,303,270	\$ 1,735,427	\$ 1,545,363	\$ 12,991,332	\$ 11,848,633
Noncurrent Assets:						
Capital Assets ⁽¹⁾	12,791,184	12,375,682	2,004,524	1,906,660	14,795,708	14,282,342
Other Assets ⁽¹⁾	853,032	828,448	123,406	176,380	976,438	1,004,828
Total Assets	<u>\$ 24,900,121</u>	<u>\$ 23,507,400</u>	<u>\$ 3,863,357</u>	<u>\$ 3,628,403</u>	<u>\$ 28,763,478</u>	<u>\$ 27,135,803</u>
Current Liabilities	\$ 6,709,396	\$ 6,476,809	\$ 368,881	\$ 700,861	\$ 7,078,277	\$ 7,177,670
Noncurrent Liabilities	7,702,030	6,819,172	865,048	1,014,010	8,567,078	7,833,182
Total Liabilities	<u>\$ 14,411,426</u>	<u>\$ 13,295,981</u>	<u>\$ 1,233,929</u>	<u>\$ 1,714,871</u>	<u>\$ 15,645,355</u>	<u>\$ 15,010,852</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt ⁽¹⁾	\$ 9,773,122	\$ 9,166,460	\$ 1,383,762	\$ 1,352,739	\$ 11,156,884	\$ 10,519,199
Restricted ⁽¹⁾	3,546,397	3,379,428	1,252,075	643,700	4,798,472	4,023,128
Unrestricted ⁽¹⁾	(2,830,824)	(2,334,469)	(6,409)	(82,907)	(2,837,233)	(2,417,376)
Total Net Assets	<u>\$ 10,488,695</u>	<u>\$ 10,211,419</u>	<u>\$ 2,629,428</u>	<u>\$ 1,913,532</u>	<u>\$ 13,118,123</u>	<u>\$ 12,124,951</u>

⁽¹⁾ 2011 has been restated to be consistent with 2012 presentation.

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

Approximately \$4.8 billion of the state's net assets represent resources subject to external restrictions, constitutional provisions, or enabling legislation, which restricts how these assets may be used. Additional information on the state's net asset restrictions is located in Note 16 – Equity in the notes to the financial statements.

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

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

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

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

⁽¹⁾ 2011 has been restated to be consistent with 2012 presentation.

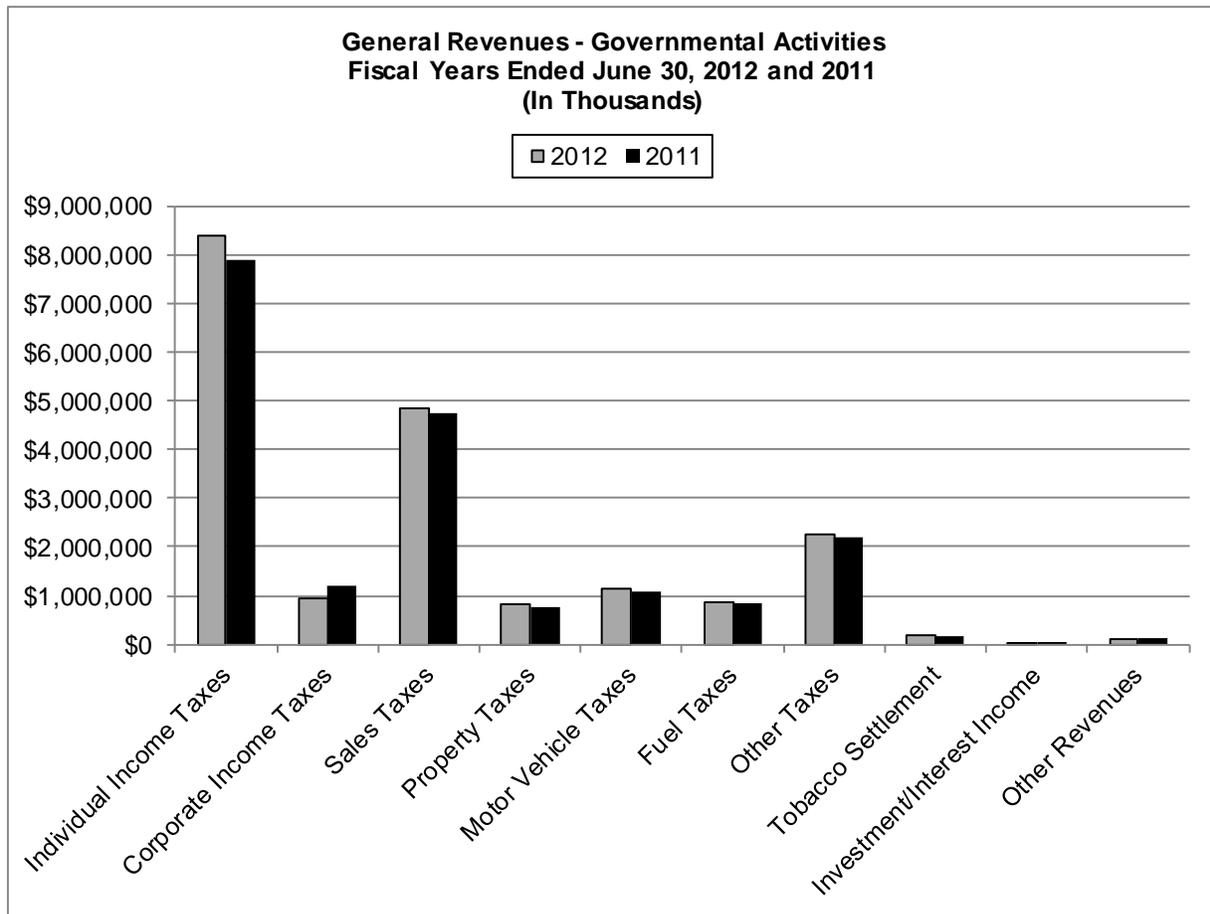
Approximately 57 percent of the state's total revenue (governmental and business-type activities) came from taxes, while 29 percent resulted from grants and contributions, including federal aid. Charges for various goods and services provided 13 percent of the total revenues. The remaining 1 percent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

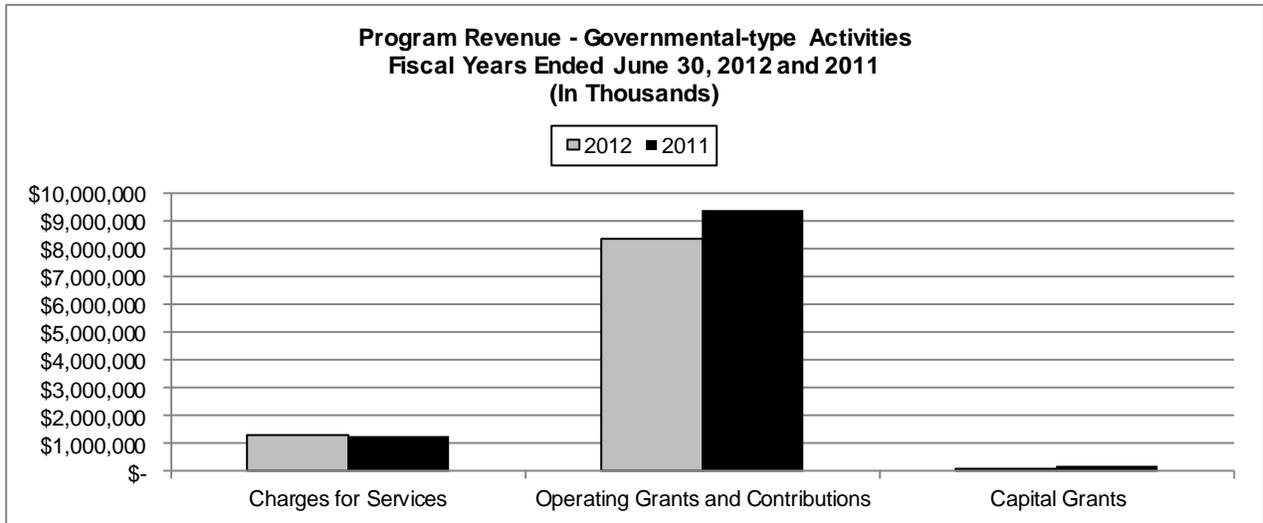
The state's expenses cover a range of services. The largest expenses were for general education, and health and human services.

Governmental Activities

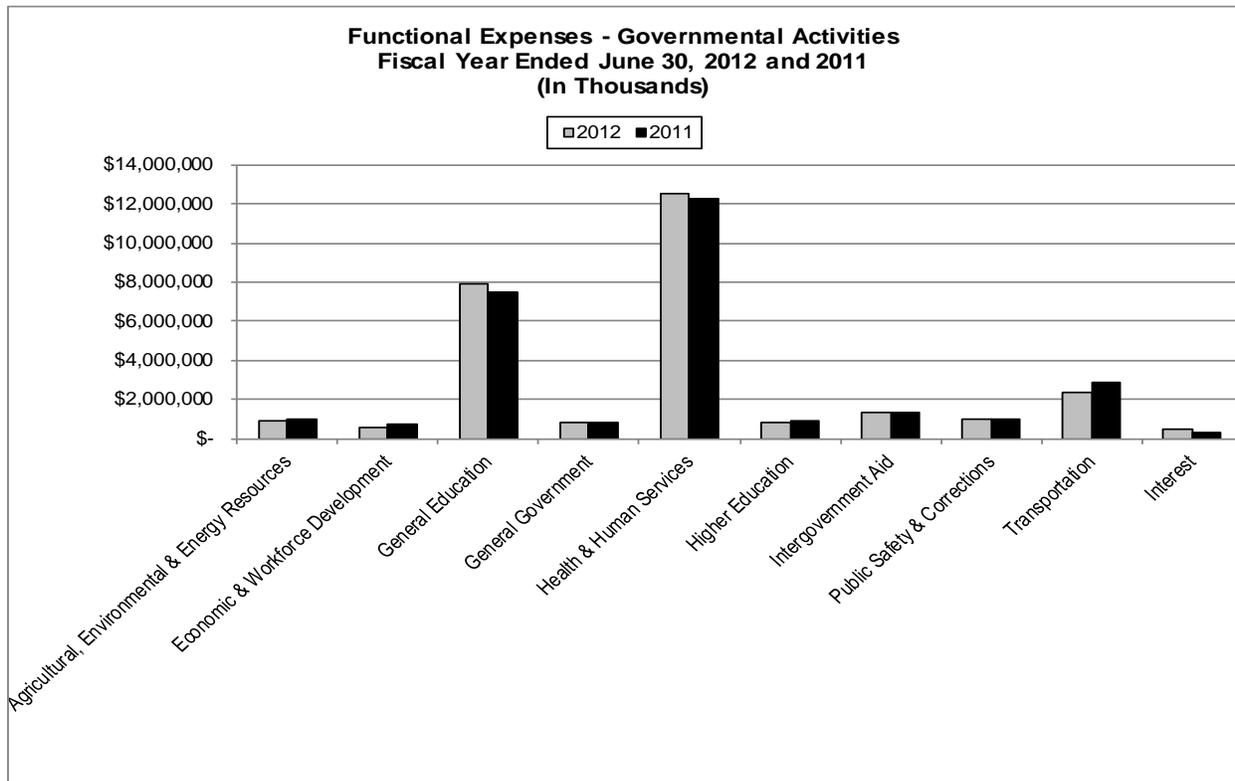
Governmental activities increased the state's net assets by \$277 million compared to an increase of \$690 million in the prior year.

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



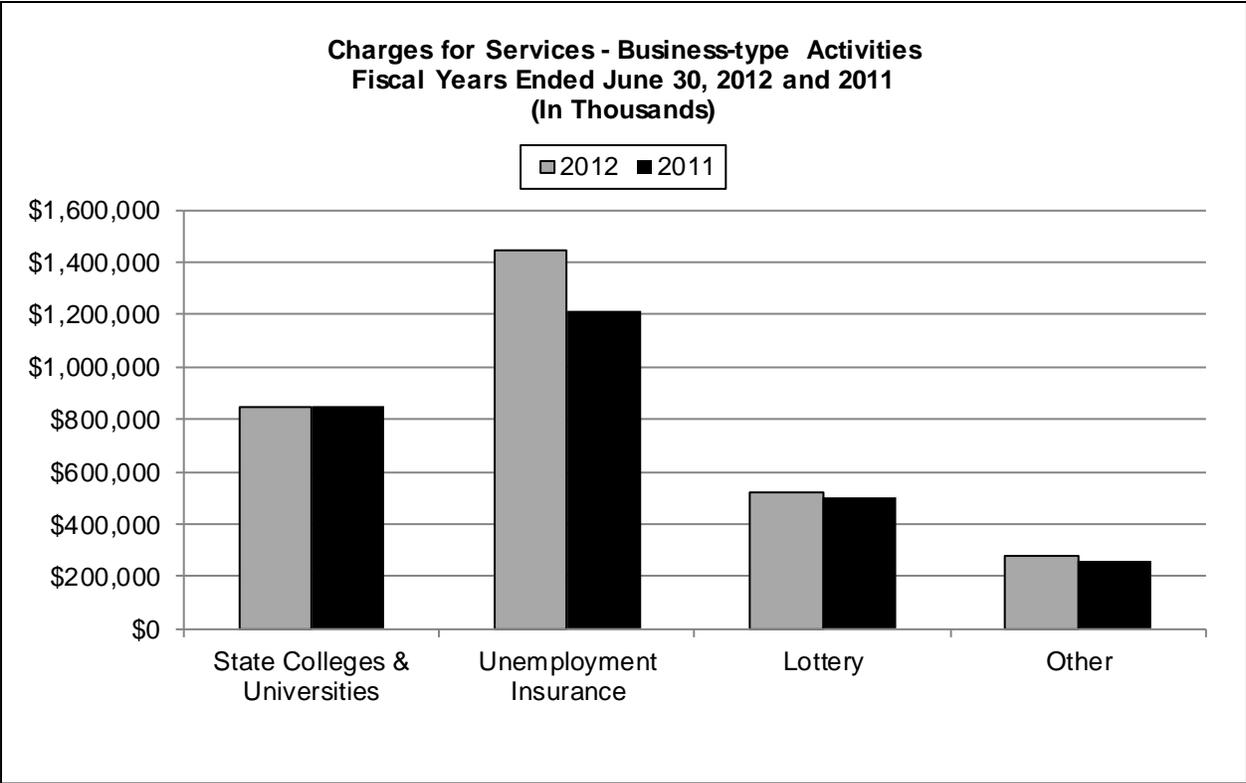


There was a slight decrease in functional expenses compared to the prior year. The decrease in transportation expense related to smaller grants to counties and cities as well as a one-time grant to Metropolitan Council (component unit). This grant was a result of the state transferring title of state-owned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



Business-type Activities

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



State Funds Financial Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the state’s governmental funds reported combined ending fund balances of \$4.2 billion, an increase of \$548 million over the prior year.

The General Fund is the chief operating fund of the state. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of \$887 million, a decrease in the unassigned fund balance of \$125 million during the current year.

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

Proprietary Funds

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

The state's proprietary funds net assets increased by \$716 million during the current year. This primarily resulted from a \$122 million increase in net assets of the State Colleges and Universities Fund and an increase of \$597 million in net assets of the Unemployment Insurance Fund. For further discussion, see the Government-wide Financial Analysis – Business-type Activities section.

General Fund Budgetary Highlights

General Fund Budgetary Highlights

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

Actions Establishing the Fiscal Year 2012 Budget

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

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

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

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

Budget Actions during Fiscal Year 2012

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

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

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

Budget and GAAP Based Financial Outlook

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

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

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

The February 2013 forecast showed increased revenue estimates of \$217 million, decreased spending of \$63 million, and a reduction to the stadium reserve of \$15 million due to decreasing lawful gambling revenues from the November 2012 forecast. This resulted in a \$295 million balance in the fiscal year 2012-13 biennium. Of this amount, \$9 million was allocated to restore the budget reserve, \$282 million was allocated to repaying the K-12 payment shift leaving \$808 million of the shift still outstanding, and the remaining \$4 million, after rounding to the nearest one tenth of a percent, was added to the budgetary reserve. The fiscal year 2014-15 outlook also improved with the budget shortfall dropping to \$627 million.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets for governmental and business-type activities as of June 30, 2012, was \$17.8 billion, less accumulated depreciation of \$3.0 billion, resulting in a net book value of \$14.8 billion. This investment in capital assets includes land, buildings, construction and development in progress, infrastructure, easements, art and historical treasures, internally generated computer software, and equipment. Infrastructure assets are long-lived capital assets, such as pavement, bridges, tunnels, drainage systems, lighting systems, and similar items that are normally stationary in nature.

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

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

⁽¹⁾ 2011 has been restated to be consistent with 2012 presentation.

The state uses the modified approach for reporting selected infrastructure assets. The modified approach requires that the state meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 29,000 lane miles of pavement and 3,000 bridges that are maintained by the Minnesota Department of Transportation (MnDOT).

The state's goal is to maintain pavement at, or above, a 3.0 Pavement Quality Index (PQI) for all principal arterial pavement and at, or above, a 2.8 PQI for all other pavement. The most recent condition assessment, completed for calendar year 2011, indicated that the average PQI for principal arterial pavement was 3.3 and 3.2 for all other pavements. The state has maintained a stable condition of pavement over the past several years.

The state's goal is to have over 92 percent of principal arterial system bridges and 80 percent of all other system bridges in fair to good condition. The most recent condition assessment, completed for calendar year 2011, indicated that 95 percent of principal arterial system bridges and 91 percent of all other system bridges were in fair to good condition. The state has also maintained a stable condition of bridges over the past several years.

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

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

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

Debt Administration

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

The state's general obligation bonds were rated on June 30, 2012, as follows:

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

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

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

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

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

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

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

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

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

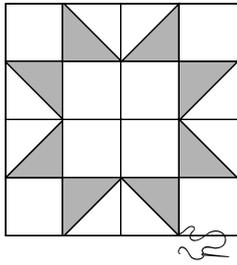
- \$757.0 million in tobacco settlement revenue bonds

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

Requests for Information

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

Questions about this report or requests for additional financial information should be addressed to Minnesota Management and Budget, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota, 55155.

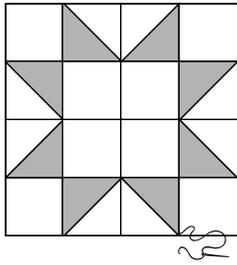




State of Minnesota

Basic Financial Statements

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State of Minnesota

Government-wide Financial Statements

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STATE OF MINNESOTA

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

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

STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

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

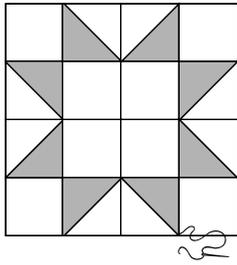
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
Agricultural, Environmental and Energy Resources..	\$ 916,001	\$ 384,593	\$ 258,525	\$ 3,621
Economic and Workforce Development.....	543,680	59,481	243,326	-
General Education.....	7,890,863	23,418	714,254	-
General Government.....	856,328	249,824	25,165	26
Health and Human Services.....	12,487,762	399,963	6,369,736	-
Higher Education.....	778,389	636	289	-
Intergovernment Aid.....	1,358,521	-	-	-
Public Safety and Corrections.....	952,585	159,882	150,776	-
Transportation.....	2,343,031	19,146	648,240	131,466
Interest.....	506,909	-	-	-
Total Governmental Activities.....	<u>\$ 28,634,069</u>	<u>\$ 1,296,943</u>	<u>\$ 8,410,311</u>	<u>\$ 135,113</u>
Business-type Activities:				
State Colleges and Universities.....	\$ 1,816,268	\$ 848,541	\$ 476,609	\$ -
Unemployment Insurance.....	1,490,943	1,444,622	636,972	-
Lottery.....	396,590	520,049	-	-
Other.....	280,817	274,825	-	-
Total Business-type Activities.....	<u>\$ 3,984,618</u>	<u>\$ 3,088,037</u>	<u>\$ 1,113,581</u>	<u>\$ -</u>
Total Primary Government.....	<u>\$ 32,618,687</u>	<u>\$ 4,384,980</u>	<u>\$ 9,523,892</u>	<u>\$ 135,113</u>
Component Units:				
University of Minnesota.....	\$ 3,347,344	\$ 1,406,677	\$ 971,550	\$ 170,922
Metropolitan Council.....	836,063	327,241	143,660	529,095
Housing Finance.....	401,252	204,807	203,043	-
Others.....	370,002	139,405	55,725	-
Total Component Units.....	<u>\$ 4,954,661</u>	<u>\$ 2,078,130</u>	<u>\$ 1,373,978</u>	<u>\$ 700,017</u>
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.....				
Extraordinary Item.....				
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

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>COMPONENT UNITS</u>
\$ (269,262)		\$ (269,262)	
(240,873)		(240,873)	
(7,153,191)		(7,153,191)	
(581,313)		(581,313)	
(5,718,063)		(5,718,063)	
(777,464)		(777,464)	
(1,358,521)		(1,358,521)	
(641,927)		(641,927)	
(1,544,179)		(1,544,179)	
(506,909)		(506,909)	
<u>\$ (18,791,702)</u>		<u>\$ (18,791,702)</u>	
	\$ (491,118)	\$ (491,118)	
	590,651	590,651	
	123,459	123,459	
	(5,992)	(5,992)	
	<u>\$ 217,000</u>	<u>\$ 217,000</u>	
<u>\$ (18,791,702)</u>	<u>\$ 217,000</u>	<u>\$ (18,574,702)</u>	
			\$ (798,195)
			163,933
			6,598
			<u>(174,872)</u>
			<u>\$ (802,536)</u>
\$ 8,409,530	\$ -	\$ 8,409,530	\$ -
953,428	-	953,428	-
4,849,514	-	4,849,514	-
809,044	-	809,044	-
1,150,343	-	1,150,343	-
849,955	-	849,955	-
2,253,625	-	2,253,625	264,948
166,154	-	166,154	-
12,873	6,567	19,440	87,344
94,707	12,134	106,841	317,342
-	-	-	827,337
-	-	-	22,788
(480,195)	480,195	-	-
<u>\$ 19,068,978</u>	<u>\$ 498,896</u>	<u>\$ 19,567,874</u>	<u>\$ 1,519,759</u>
<u>\$ 277,276</u>	<u>\$ 715,896</u>	<u>\$ 993,172</u>	<u>\$ 717,223</u>
\$ 10,009,567	\$ 1,913,532	\$ 11,923,099	\$ 9,848,302
201,852	-	201,852	(12,619)
<u>\$ 10,211,419</u>	<u>\$ 1,913,532</u>	<u>\$ 12,124,951</u>	<u>\$ 9,835,683</u>
<u>\$ 10,488,695</u>	<u>\$ 2,629,428</u>	<u>\$ 13,118,123</u>	<u>\$ 10,552,906</u>

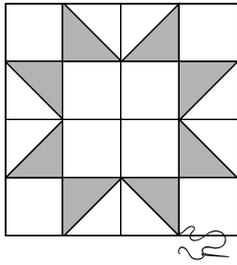




State of Minnesota

Fund Financial Statements

2012
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State of Minnesota

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.

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STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

**JUNE 30, 2012
(IN THOUSANDS)**

Total Fund Balance for Governmental Funds..... \$ 4,186,038

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Infrastructure.....	\$ 8,097,607	
Nondepreciable Capital Assets.....	2,752,436	
Depreciable Capital Assets.....	3,316,454	
Accumulated Depreciation.....	<u>(1,424,548)</u>	
Total Capital Assets.....		12,741,949

Net effect of state revenues that will be collected after year-end but not available to pay for current period expenditures and refunds of revenues that will be paid after year-end..... 1,483,184

The pension assets resulting from contributions in excess of the annual required contributions are not financial resources and therefore are not reported in the funds..... 17,006

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets..... 276,722

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued Interest Payable.....	\$ (91,002)	
General Obligation Bonds Payable.....	(5,153,512)	
Revenue Bonds Payable.....	(768,130)	
Loans and Notes Payable.....	(10,160)	
Bond Premium Payable.....	(644,966)	
Due to Component Units.....	(16,684)	
Capital Leases Payable.....	(144,319)	
Certificate of Participation Payable.....	(65,555)	
Certificate of Participation Premium Payable.....	(5,187)	
Claims Payable.....	(779,685)	
Compensated Absences Payable.....	(273,677)	
Net Other Post-Employment Benefits Obligation.....	(165,584)	
Net Pension Obligation.....	<u>(97,743)</u>	
Total Liabilities.....		(8,216,204)

Net Assets of Governmental Activities..... \$ 10,488,695

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

Net Change in Fund Balances for Governmental Funds.....	\$ 547,936
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlay exceeded depreciation of \$108,217 in the current period.....	431,391
Governmental funds report the proceeds from the sale of capital assets as increases in financial resources. However, in the Statement of Activities, only the gain or loss on the sale and the fair market value of donated capital assets are reported.....	(18,430)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of internal service funds activities reported with governmental activities.....	(41,617)
Net changes in revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.....	79,075
Bond and loan proceeds provide current financial resources to governmental funds; however, issuing or incurring debt is reported as an increase of long-term liabilities in the Statement of Net Assets.....	(1,660,122)
Repayment of bonds, loans and capital leases are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.....	943,755
Net changes in expenses reported in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.....	(4,712)
Change in Net Assets of Governmental Activities.....	\$ <u>277,276</u>

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

MAJOR GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL BUDGETARY BASIS YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

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

The notes are an integral part of the financial statements.



State of Minnesota

2012
Comprehensive
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Major Proprietary Funds

State Colleges and Universities Fund

The fund accounts for the activities of Minnesota State Colleges and Universities (MnSCU). MnSCU is a system of public state universities and two-year colleges 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.

STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

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

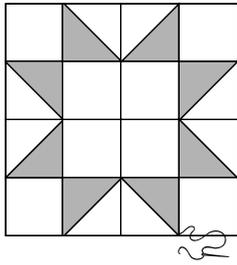
	ENTERPRISE FUNDS				INTERNAL SERVICE FUNDS
	STATE COLLEGES & UNIVERSITIES	UNEMPLOYMENT INSURANCE	NONMAJOR ENTERPRISE FUNDS	TOTAL	
Cash Flows from Operating Activities:					
Receipts from Customers.....	\$ 850,437	\$ 1,429,999	\$ 790,620	\$ 3,071,056	\$ 850,115
Receipts from Other Revenues.....	-	-	4,297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

STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.





State of Minnesota

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Fiduciary Funds

Pension Trust Funds

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

Investment Trust Funds

The funds account for the external portion of the state's investment pools.

Agency Fund

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

STATE OF MINNESOTA

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

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

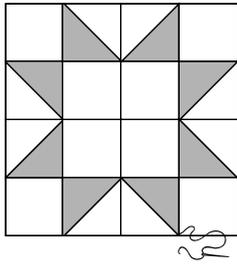
The notes are an integral part of the financial statements.

STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.





State of Minnesota

2012
Comprehensive
Annual
Financial Report

Major Discretely Presented Component Unit Funds

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 undergraduate and graduate degrees, advanced research opportunities, and an extension service. The university includes several nonprofit foundations that provide resources which benefit the university.

STATE OF MINNESOTA

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

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

The notes are an integral part of the financial statements.

STATE OF MINNESOTA

COMPONENT UNIT FUNDS

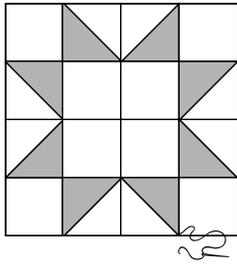
STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2011 and JUNE 30, 2012

(IN THOUSANDS)

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

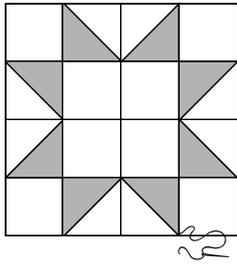
The notes are an integral part of the financial statements.





2012 Comprehensive Annual Financial Report
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2012 Comprehensive Annual Financial Report Notes to the Financial Statements

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

Note 1 – Summary of Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements of the state of Minnesota (the state) have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented the following GASB statement for the fiscal year ended June 30, 2012:

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

Financial Reporting Entity of the State of Minnesota

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

Component units may be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the state’s operations. Discretely presented component units are shown separately from the primary government. The “Component Units” column in the accompanying financial statements includes the financial data of the state’s discretely presented component units. Discretely presented component units are also identified separately in the note disclosures because of their separate legal status. All discretely presented component units are presented in this report on the economic resources measurement focus and the accrual basis of accounting.

Blended Component Unit

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

Discretely Presented Component Units

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

- Housing Finance Agency (HFA) – HFA provides money for loans and technical assistance for constructing and rehabilitating housing for families of low and moderate incomes. The HFA board has seven members who are either heads of state departments or appointed by the governor. HFA is under the administrative control of a commissioner appointed by the governor. The state has the ability to significantly influence the programs, projects, and levels of services provided by HFA. HFA issues bonds in its own name.
- Metropolitan Council (MC) – MC is responsible for coordinating the planning and development of the seven-county metropolitan area. MC operates the public transit system and the regional sewage collection and treatment system. The governor appoints the council members, including the chair, subject to the advice and consent of the Minnesota senate. The state has the ability to significantly influence the projects and levels of services provided by MC. The regional administrator, appointed by the council, is responsible for the administration of council activities. MC includes the Metropolitan Sports Facilities Commission as a component unit. The fiscal year for MC ends December 31.
- University of Minnesota (U of M) – U of M was established permanently by the Minnesota constitution. The state appropriates a large percentage of the U of M's operating budget. The legislature elects the twelve-member board of regents, which governs U of M, but the state does not have direct authority over the management of the university. The state has issued debt for U of M capital projects. U of M includes several foundations as component units.
- Agricultural and Economic Development Board (AEDB) – AEDB administers programs for agricultural and economic development. AEDB has seven members, four of whom are commissioners of state departments. The state has the ability to significantly influence the programs and projects of AEDB. AEDB controls the operations of the agriculture resource programs and loans. AEDB may issue revenue bonds for the purpose of financing development projects.
- National Sports Center Foundation (NSCF) – The Minnesota Amateur Sports Commission contracts with NSCF to operate various sports facilities, including the National Sports Center, primarily for holding youth-oriented athletic and other non-athletic functions and events. Although the facilities belong to the state, NSCF is responsible for the operating costs and certain improvements to the facilities. The commission appoints foundation board members, approves the foundation's spending budget, approves all rates and fees, and owns any reserve funds. The fiscal year for NSCF ends December 31.
- Office of Higher Education (OHE) – OHE makes and guarantees loans to qualified post-secondary students. To fund the loan program, revenue bonds are issued in OHE's name with limitations set by the legislature. OHE also administers the state grant program. The state provides administrative funding for these programs. The governor appoints the OHE director with the advice and consent of the senate.
- Public Facilities Authority (PFA) – PFA provides assistance to municipalities, primarily for wastewater treatment construction projects. The state provides funding and administrative services for PFA. The authority is composed of commissioners from state departments and agencies. The commissioners direct the operations of the authority and determine the funding for local government projects. PFA issues revenue bonds to make loans for wastewater treatment facilities.

- Rural Finance Authority (RFA) – RFA administers a number of state agriculture programs, including the homestead redemption program, loan restructuring program, and agricultural improvement program. The board of the authority consists of state department heads and members appointed by the governor. RFA is under the administrative control of the commissioner of the Department of Agriculture, who is a member of the board. The state has issued general obligation bond debt for RFA programs.
- Workers' Compensation Assigned Risk Plan (WCARP) – WCARP is the source of workers' compensation and employers' liability coverage for Minnesota employers unable to obtain an insurance policy through the voluntary market. WCARP operations are subject to review by the state commissioner of the Department of Commerce. The commissioner enters into administrative contracts, sets premium rates, and makes assessments. The commissioner has the authority to assess all licensed workers' compensation insurance companies doing business in Minnesota an amount sufficient to fully fund the obligations of the plan to the extent that the assets of the plan are inadequate to meet its obligations. The fiscal year for WCARP ends December 31.

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

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

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

Housing Finance Agency 400 Sibley Street, Suite 300 St. Paul, Minnesota 55101-1998	Office of Higher Education 1450 Energy Park Drive, Suite 350 St. Paul, Minnesota 55108-5227
University of Minnesota Office of the Controller 205 West Bank Office Building 1300 South Second Street Minneapolis, Minnesota 55455	Public Facilities Authority Department of Employment & Economic Development 1st National Bank Building 332 Minnesota Street, Suite E-200 St. Paul, Minnesota 55101-1351
National Sports Center Foundation National Sports Center 1700 105th Avenue Northeast Blaine, Minnesota 55449	Workers' Compensation Assigned Risk Plan Affinity Insurance Services, Inc. 5600 West 83 rd Street 8200 Tower, Suite 1100 Minneapolis, Minnesota 55437
Metropolitan Council 390 North Robert Street St. Paul, Minnesota 55101	

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

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

- Joint Underwriting Association – The state commissioner of the Department of Commerce appoints a majority of the board. The board establishes the operating plan and determines premium rates and assessments. Membership in the association is a condition for doing business in the state.
- Metropolitan Airports Commission – The governor appoints a majority of the voting commissioners. The state has no statutory authority to directly affect the commission's activities and operations. Holders of the commission's debt instruments have no recourse against the state.
- Workers' Compensation Reinsurance Association – The state commissioner of the Department of Labor and Industry appoints, or approves the appointment of, a majority of the board. The association supports itself solely from revenues derived from premiums charged to association members. The state has no authority to affect the operations of the association.

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

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

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

Financial Reporting Structure of the State of Minnesota

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Classification of Funds

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

Governmental Fund Types – These funds account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Most state operations are accounted for in this fund category. The fund types included in this category are the General Fund plus special revenue, capital project, debt service, and permanent funds.

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

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

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

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

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

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

- Pension trust funds report retirement funds administered by independent boards for which the state has a fiduciary role.
- Investment trust funds provide an investment vehicle for entities outside the state, including various public retirement plans.
- The Agency Fund accounts for resources held in a custodial capacity for individuals, private organizations, or other governmental units. Some examples include resources held for inmates of correctional facilities or residents of veterans and group homes, sales taxes to be distributed to local governments, and child support collections to be distributed to custodial parents.

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

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

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

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

general tax. Property tax is recognized, net of uncollectible amounts, in the period for which the taxes are levied and the taxes are available.

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

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

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

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

Cash Equivalents and Investments

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

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

Inventories

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

Securities Lending

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

Restricted Assets

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

Income Tax Credits

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

Grant Expenditures and Liabilities Recognition

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

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

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

Compensated Absences

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

Capital Assets

Capital assets, which include land, buildings, equipment, infrastructure, and intangible assets, are reported in the government-wide financial statements and the fund financial statements for proprietary and fiduciary funds. Capital assets are generally defined by the state as assets with an initial, individual cost of more than \$30,000 for equipment, \$300,000 for buildings, and \$30,000 to \$2,000,000 for internally generated computer software, depending on the fund type. Capital assets must also have an estimated useful life of at least three years.

Capital assets are recorded at cost or, for donated assets, at fair value at the date of acquisition. An inventory of land and buildings was completed in 1985. Historical cost records for older capital assets are incomplete or not available; therefore, estimated historical costs have been used in these situations. Permanent School Fund (permanent fund) land is reported at estimated historic cost. The land included in the Permanent School Fund was granted to the state by the federal government in connection with the state being admitted to the United States. Tax forfeited land is not included in land inventory because the state does not take permanent title. When the land is sold, proceeds are distributed to local jurisdictions.

Capital assets are depreciated using the straight-line method generally based on the following useful lives: 20-50 years for buildings, 20-50 years for large improvements, 20-50 years for easements, 8-12 years for internally generated computer software, 3-10 years for small improvements, and 3-12 years for equipment. Transportation infrastructure assets using the modified approach, land, construction and development in progress, permanent easements with indefinite useful lives, and works of art and historical treasures, such as the state capitol, are not depreciated.

GASB Statement No. 34 allows an alternative (modified) approach to the recording of infrastructure assets in which costs to maintain and preserve these assets are expensed in lieu of depreciation. The transportation infrastructure capital assets of pavement and bridges are reported using the modified approach. In electing to use this option for transportation infrastructure, the state uses an asset management system which establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's pavement and bridges are included in Required Supplementary Information. See Note 6 – Capital Assets for further information on capital assets.

Current and Noncurrent Assets

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

Noncurrent Liabilities

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

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

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

Deferred Compensation Plan

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

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

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

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

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

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

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

Budgeting and Budgetary Control

The state operates on a two-year (biennial) budget cycle ending on June 30 of odd-numbered years. Appropriations in the biennial budget are usually for a single year; however, where specified, single year appropriations may be carried forward to the following year of the biennium. The governor's budget for the biennium is developed by Minnesota Management and Budget and presented to the legislature for approval. Specific appropriations are required for the majority of the expenditures from the General Fund. The accounts not requiring specific appropriations are considered perspective differences in the budgetary basis vs. GAAP reconciliation. Specific appropriations are also required for all special revenue funds except the Federal, Municipal State-Aid Street, County State-Aid Highway, Douglas J. Johnson Economic Protection Trust, Endowment, and Miscellaneous Special Revenue funds as well as the Tobacco Securitization Authority Fund (blended component unit). Some appropriations are "open appropriations" for entitlement type and some interfund transfer programs. In these cases, the amount that is needed to fulfill the obligation for the fiscal year is made available. There is no limit on the amount that can be expended for the program. Estimates of the amount needed for such programs are included in the budget forecast.

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

Unencumbered appropriation balances generally cancel to the fund at the end of the fiscal year. However, if specifically provided by law, or if statutory authority is invoked by the agency, the unencumbered balance may be carried forward between fiscal years. The accounting system maintains two separate ledgers. One is maintained primarily on a modified cash basis of accounting with certain accrual information and represents the starting point for the financial statements. The second ledger tracks information on a budgetary basis of accounting, which approximates a cash basis with the exception that, at year-end, encumbered amounts are included as expenditures of the year appropriated for budgetary reporting. The budget ledger controls expenditures by appropriation line item as established in the legally adopted appropriation bills. A separate report showing the detail of legal level of budgetary control and actual expenditures is available from Minnesota Management and Budget.

Interfund Activity and Balances

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

Change in Fund Structure

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

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

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

Change in Reporting Entity

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

Note 2 – Cash, Investments, and Derivative Instruments

Primary Government

Cash and Cash Equivalents

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

Deposits

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

Investments

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

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

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

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

Investment Derivative Instruments

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

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

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

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

Primary Government Derivative Activity for the Year Ended June 30, 2012 By Derivative Type (In Thousands)			
	Change in Fair Value	Year End Notional Amount	Year End Fair Value
Governmental Activities:			
Futures	\$ 17,968	\$ 41,997	\$ -
Warrants	13	-	-
	<u>\$ 17,981</u>	<u>\$ 41,997</u>	<u>\$ -</u>
Fiduciary Activities:			
Futures	\$ 5,111	\$ (223,189)	\$ -
Futures Options Bought	(473)	889	35
Futures Options Written	1,678	(674)	(202)
FX Forwards	5,293	447,101	(437)
Warrants/Stock Rights	435	644	278
	<u>\$ 12,044</u>	<u>\$ 224,771</u>	<u>\$ (326)</u>

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

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

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

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The state does not have a policy on interest rate risk. The contracts between SBI and investment managers contain the guidelines and limitations regarding interest rate risk. Debt securities are constrained around the quality rating, sector mix, and duration of the Barclays Capital US Aggregate Bond index. Interest rate risk information is presented using the weighted average maturity method, which expresses investment time horizons, the period when investments become due and payable in years or months, weighted to reflect the dollar size of individual investments within investment type.

Credit Risk of Debt Security Investments

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

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

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

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

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

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

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

Concentration of Credit Risk – Investments

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

Unrated Corporate Obligations

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

Corporate Stock

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

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

Foreign Currency Risk – Investments

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

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

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

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

Custodial Risk – Investments

Custodial risk for investments is the risk that, in the event of a failure of the counterparty, the state will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investments are held in the state's name and collateral for repurchase agreements is held in the state's name by third party agents. The primary government does not have a formal policy for custodial credit risk.

Securities Lending

Minnesota Statutes do not prohibit the state from participating in securities lending transactions. The state has, by a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to act as agent in lending state securities to approved borrowers. State Street, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, State Street lent, on behalf of the state, certain securities held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. State Street does not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to at least 100 percent of the fair value of the loaned securities.

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

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

Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2012, the state had no credit risk exposure to borrowers because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state.

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

Component Units

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

Housing Finance Agency

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

HFA cash equivalents included \$82,836,000 of investment agreements, which are generally uncollateralized interest-bearing contracts. As of June 30, 2012, all the investment agreement providers had a Standard & Poor's long-term credit rating of 'AA-' or higher and a Moody's long-term credit rating of 'A1' or higher, except for Depfa Bank PLC's Standard & Poor's rating which is discussed below. The individual investment agreements were unrated. Substantially all of the agreements contain termination clauses so that HFA may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. Certain investment agreements with Depfa Bank PLC (\$25,518,000) require a downgrade to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating is 'BBB' from Standard & Poor's, HFA reduced the carrying value of those agreements by \$1,029,000 as of June 30, 2012.

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

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

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

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

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

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

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

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

Metropolitan Council

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

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

MC has adopted a simulation model of reporting investment sensitivity to fluctuation in interest rates. Assumptions are made of interest rate changes of 50, 100, 150, and 200 basis points with interest rate changes occurring on December 31, 2011. The investment portfolio has an average yield of 1.1 percent, modified duration of 2.7 years, effective duration of 1.5 years, and convexity of -.19.

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

Major Component Unit Metropolitan Council Fair Value of Investments As of December 31, 2011 (In Thousands)	
	Estimated Fair Value
Fair Value of Portfolio Before Basis Point Increase	\$ 663,666
Fair Value of Portfolio After Basis Point Increase of:	
50 Points	\$ 657,757
100 Points	\$ 653,974
150 Points	\$ 649,949
200 Points	\$ 645,242

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

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

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

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

University of Minnesota

As of June 30, 2012, University of Minnesota (U of M), including its discretely presented component units, had \$391,609,000 of cash and cash equivalents and \$3,823,854,000 of investments. U of M's discretely presented component units do not classify investments according to risk because these entities prepare their financial statements under standards set by the Financial Accounting Standards Board. Excluding discretely presented component units, U of M reported cash and cash equivalents of \$355,520,000 and investments of \$1,859,256,000.

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

U of M maintains centralized management for substantially all of its cash and investments. The Board of Regents establishes U of M's investment policies and objectives. U of M uses internal investment pools designed to meet respective investment objectives within established risk parameters for each pool.

U of M has established policies to address the various types of investment risks. U of M uses Standard & Poor's ratings and duration as a measure of a debt investment's exposure to fair value changes arising from changing interest rates. As of June 30, 2012, \$1,169,159,000 of investment in securities was subject to quality rating and interest rate risk. This amount was rated as follows:

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

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

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

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

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

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

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

Nonmajor Component Units

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

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

Note 3 – Disaggregation of Receivables

Primary Government Components of Net Receivables Government-wide As of June 30, 2012 (In Thousands)				
	Governmental Activities			Total
	General Fund	Federal Fund	Nonmajor Governmental Funds ⁽¹⁾	
Taxes:				
Corporate and Individual	\$ 1,011,388	\$ -	\$ -	\$ 1,011,388
Sales and Use	415,327	-	21,084	436,411
Property	390,241	-	-	390,241
Health Care Provider	270,233	-	87,067	357,300
Highway Users	-	-	71,581	71,581
Child Support	66,976	66,779	287	134,042
Workers' Compensation	-	-	105,298	105,298
Other	458,369	137,005	78,096	673,470
Net Receivables	\$ 2,612,534	\$ 203,784	\$ 363,413	\$ 3,179,731
Business-type Activities				
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Insurance Premiums	\$ -	\$ 470,222	\$ -	\$ 470,222
Tuition and Fees	58,435	-	-	58,435
Other	-	-	31,120	31,120
Net Receivables	\$ 58,435	\$ 470,222	\$ 31,120	\$ 559,777
Total Government-wide Net Receivables				\$ 3,739,508

⁽¹⁾Includes \$3,672 Internal Service Funds.

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

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

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

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

Note 4 – Loans and Notes Receivable

Primary Government Loans and Notes Receivable, Net of Allowance As of June 30, 2012 (In Thousands)					
	General Fund	Federal Fund	Nonmajor Special Revenue Funds	Capital Projects Funds	State Colleges and Universities Fund
Student Loan Program	\$ -	\$ -	\$ -	\$ -	\$ 32,190
Economic Development	69,867	107	41,973	-	-
School Districts	44,976	-	-	-	-
Agricultural, Environmental and Energy Resources	-	-	74,599	-	-
Transportation	-	-	16,343	163	-
Other	3,575	-	3,554	-	-
Total	<u>\$ 118,418</u>	<u>\$ 107</u>	<u>\$ 136,469</u>	<u>\$ 163</u>	<u>\$ 32,190</u>

Component Units Loans and Notes Receivable As of June 30, 2012 (In Thousands)	
Housing Finance Authority	\$ 1,845,098
Metropolitan Council	49,464
University of Minnesota	62,367
Agricultural and Economic Development Board	738
Office of Higher Education	698,780
Public Facilities Authority	1,975,130
Rural Finance Authority	<u>53,886</u>
Total	<u>\$ 4,685,463</u>

Note 5 – Interfund Transactions

Primary Government

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

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

Primary Government Interfund Receivables and Payables As of June 30, 2012 (In Thousands)	
Due to the General Fund From:	
Federal Fund	\$ 246,454
Nonmajor Governmental Funds	15,917
Nonmajor Enterprise Funds	18,910
Total Due to General Fund From Other Funds	<u>\$ 281,281</u>
Due to the Federal Fund From:	
General Fund	\$ 7,731
Nonmajor Governmental Funds	1,109
Unemployment Insurance Fund	798
Total Due to Federal Fund From Other Funds	<u>\$ 9,638</u>
Due to the State Colleges and Universities Fund From:	
Nonmajor Governmental Funds	\$ 26,965
Total Due to State Colleges and Universities From Other Funds	<u>\$ 26,965</u>
Due to the Nonmajor Enterprise Funds From:	
Nonmajor Enterprise Funds	\$ 2,223
Total Due to Nonmajor Enterprise Funds From Other Funds	<u>\$ 2,223</u>
Due to Fiduciary Funds From:	
General Fund	\$ 64
Fiduciary Funds	10,406
Total Due to Fiduciary Funds From Other Funds	<u>\$ 10,470</u>
Due to the Nonmajor Governmental Funds From:	
General Fund	\$ 85,063
Federal Fund	80
Unemployment Insurance Fund	13,696
Nonmajor Governmental Funds	151,239
Total Due to Nonmajor Governmental Funds From Other Funds	<u>\$ 250,078</u>

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

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

Component Units

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

	Due From Primary Government	Due To Primary Government
Component Units		
Major Component Units:		
Metropolitan Council	\$ 67,416	\$ -
University of Minnesota	4,182	30,639
Total Major Component Units	\$ 71,598	\$ 30,639
Nonmajor Component Units	\$ 16,684	\$ 97,138
Total Component Units	\$ 88,282	\$ 127,777
	Due From Component Units	Due To Component Units
Primary Government		
Major Governmental Funds:		
General Fund	\$ -	\$ 55
Federal Fund	-	1,989
Total Major Governmental Funds	\$ -	\$ 2,044
Nonmajor Governmental Funds	\$ 100,685	\$ 6,021
Total Primary Government	\$ 100,685	\$ 8,065 ⁽¹⁾

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

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

Note 6 – Capital Assets

Primary Government

Primary Government Capital Asset Activity Government-wide Governmental Activities Year Ended June 30, 2012 (In Thousands)				
	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>
Governmental Activities				
Capital Assets not Depreciated:				
Land	\$ 2,048,043	\$ 69,980	\$ (3,419)	\$ 2,114,604
Buildings, Structures, Improvements	29,909	859	-	30,768
Construction in Progress	235,108	113,727	(83,642)	265,193
Development in Progress	74,673	28,065	(72,791)	29,947
Infrastructure	7,842,775	264,173	(9,341)	8,097,607
Easements	311,003	13,200	-	324,203
Art and Historical Treasures	2,353	1,778	(400)	3,731
Total Capital Assets not Depreciated	\$ 10,543,864	\$ 491,782	\$ (169,593)	\$ 10,866,053
Capital Assets Depreciated:				
Buildings, Structures, Improvements	\$ 2,474,807	\$ 84,922	\$ (8,140)	\$ 2,551,589
Infrastructure	160,683	7,214	(28)	167,869
Internally Generated Computer	396	66,614	-	67,010
Easements	4,090	-	-	4,090
Equipment, Furniture, Fixtures	599,734	54,946	(35,502)	619,178
Total Capital Assets Depreciated	\$ 3,239,710	\$ 213,696	\$ (43,670)	\$ 3,409,736
Accumulated Depreciation for:				
Buildings, Structures, Improvements	\$ (962,804)	\$ (64,030)	\$ 6,680	\$ (1,020,154)
Infrastructure	(47,294)	(3,236)	2	(50,528)
Easements	(565)	(98)	-	(663)
Internally Generated Computer	-	(5,630)	-	(5,630)
Equipment, Furniture, Fixtures ⁽¹⁾	(397,229)	(44,107)	33,706	(407,630)
Total Accumulated Depreciation	\$ (1,407,892)	\$ (117,101)	\$ 40,388	\$ (1,484,605)
Total Capital Assets Depreciated, Net	\$ 1,831,818	\$ 96,595	\$ (3,282)	\$ 1,925,131
Governmental Act. Capital Assets, Net	\$ 12,375,682	\$ 588,377	\$ (172,875)	\$ 12,791,184

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

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

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

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

Primary Government Capital Asset Activity Government-wide Business-type Activities and Fiduciary Funds Year Ended June 30, 2012 (In Thousands)				
	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>
Business-type Activities				
Capital Assets not Depreciated:				
Land	\$ 88,009	\$ 597	\$ (186)	\$ 88,420
Construction in Progress	105,162	183,760	(96,769)	192,153
Total Capital Assets not Depreciated	<u>\$ 193,171</u>	<u>\$ 184,357</u>	<u>\$ (96,955)</u>	<u>\$ 280,573</u>
Capital Assets Depreciated:				
Buildings, Structures, Improvements	\$ 2,734,339	\$ 106,506	\$ (5,584)	\$ 2,835,261
Library Collections	47,167	5,970	(7,013)	46,124
Internally Generated Computer	14,923	1,558	(786)	15,695
Equipment, Furniture, Fixtures	334,709	14,665	(15,817)	333,557
Total Capital Assets Depreciated	<u>\$ 3,131,138</u>	<u>\$ 128,699</u>	<u>\$ (29,200)</u>	<u>\$ 3,230,637</u>
Accumulated Depreciation for:				
Buildings, Structures, Improvements	\$ (1,170,704)	\$ (83,329)	\$ 3,506	\$ (1,250,527)
Library Collections	(27,630)	(6,589)	7,013	(27,206)
Internally Generated Computer	(6,718)	(2,148)	738	(8,128)
Equipment, Furniture, Fixtures	(212,597)	(23,479)	15,251	(220,825)
Total Accumulated Depreciation	<u>\$ (1,417,649)</u>	<u>\$ (115,545)</u>	<u>\$ 26,508</u>	<u>\$ (1,506,686)</u>
Total Capital Assets Depreciated, Net	<u>\$ 1,713,489</u>	<u>\$ 13,154</u>	<u>\$ (2,692)</u>	<u>\$ 1,723,951</u>
Business-type Act. Capital Assets, Net	<u>\$ 1,906,660</u>	<u>\$ 197,511</u>	<u>\$ (99,647)</u>	<u>\$ 2,004,524</u>
Fiduciary Funds				
Capital Assets not Depreciated:				
Land	\$ 429	\$ -	\$ -	\$ 429
Total Capital Assets not Depreciated	<u>\$ 429</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 429</u>
Capital Assets Depreciated:				
Buildings	\$ 29,763	\$ 1	\$ -	\$ 29,764
Equipment, Furniture, Fixtures	8,330	2,306	(915)	9,721
Total Capital Assets Depreciated	<u>\$ 38,093</u>	<u>\$ 2,307</u>	<u>\$ (915)</u>	<u>\$ 39,485</u>
Accumulated Depreciation for:				
Buildings	\$ (7,440)	\$ (760)	\$ -	\$ (8,200)
Equipment, Furniture, Fixtures	(4,295)	(559)	610	(4,244)
Total Accumulated Depreciation	<u>\$ (11,735)</u>	<u>\$ (1,319)</u>	<u>\$ 610</u>	<u>\$ (12,444)</u>
Total Capital Assets Depreciated, Net	<u>\$ 26,358</u>	<u>\$ 988</u>	<u>\$ (305)</u>	<u>\$ 27,041</u>
Fiduciary Funds, Capital Assets, Net	<u>\$ 26,787</u>	<u>\$ 988</u>	<u>\$ (305)</u>	<u>\$ 27,470</u>

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

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

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

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

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

Component Units

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

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

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

Note 7 – Disaggregation of Payables

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

	Governmental Activities			Total
	General Fund ⁽²⁾	Federal Fund	Nonmajor Governmental Funds ⁽¹⁾	
School Aid Programs	\$ 2,583,846	\$ 183,063	\$ 1,258	\$ 2,768,167
Tax Refunds	540,716	-	-	540,716
Medical Care Programs	561,552	648,474	66,300	1,276,326
Grants	207,120	129,391	77,056	413,567
Salaries and Benefits	58,074	12,275	28,058	98,407
Vendors/Service Providers	<u>111,367</u>	<u>68,474</u>	<u>318,440</u>	<u>498,281</u>
Net Payables	<u>\$ 4,062,675</u>	<u>\$ 1,041,677</u>	<u>\$ 491,112</u>	<u>\$ 5,595,464</u>
	Business-type Activities			
	State Colleges and Universities	Unemployment Insurance	Nonmajor Enterprise Funds	Total
Salaries and Benefits	\$ 87,066	\$ -	\$ 994	\$ 88,060
Vendors/Service Providers	<u>67,228</u>	<u>29,327</u>	<u>36,261</u>	<u>132,816</u>
Net Payables	<u>\$ 154,294</u>	<u>\$ 29,327</u>	<u>\$ 37,255</u>	<u>\$ 220,876</u>
Total Government-wide Net Payables				<u>\$ 5,816,340</u>

⁽¹⁾ Includes \$50,832 Internal Service Funds.

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

Note 8 – Pension and Investment Trust Funds

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

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

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

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

Basis of Accounting and Valuation of Investments

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

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

The individual pension trust funds participate in internal investment pools sponsored by the state and administered by the Minnesota State Board of Investment (SBI). The pools function much like mutual funds, with the various pension trust funds purchasing "units" in the pool rather than individual securities. At year-end, some security purchase and sale transactions entered into by SBI were not settled, resulting in securities trades receivables and payables. These unsettled securities trades are an essential element in determining the fair value of each pension trust fund's pooled investment balance; therefore, the trades are reported in the Combining Statement of Net Assets of pension trust funds as net amounts and allocated to the individual pension trust funds. As of June 30, 2012, this presentation resulted in a negative asset within the total investment pool participation.

Defined Benefit Pension Funds

Plan Descriptions and Contribution Information

- Multiple-employer, cost-sharing plans:

The State Employees Retirement Fund (SERF) covers most state employees, University of Minnesota non-faculty employees, and selected metropolitan agency employees. Twenty-seven employers participate in this plan. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent of a member's average salary for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the average of the five highest paid consecutive years of service. Annual benefits increase by 2.0 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

The Public Employees Retirement Fund (PERF) covers employees of various governmental units and subdivisions, including counties, cities, school districts, and related organizations. Approximately 2,000 employers participate in this plan. There are two types of membership: 'basic' for members not covered by the Social Security Act (closed to new members since 1968) and 'coordinated' for members who are covered by the act. The annuity formula for each type of membership is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.2 and 2.7 percent, and for coordinated members, 1.2 and 1.7 percent. Annual benefits increase by 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is not an employer of the participants in the plan, but performs in a fiduciary capacity.

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

The Police and Fire Fund (P&FF) covers persons employed as police officers and firefighters by local governmental units and subdivisions. Approximately 500 employers participate in this plan. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Annual benefits increase by 1.0 percent, then by the CPI up to 1.5 percent until the fund is 90 percent of full funding, then the CPI up to 2.5 percent. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

The Public Employees Correctional Fund (PECF) covers employees in county correctional facilities who have direct contact with inmates. Eighty county employers participate in this plan. The annuity formula for each member is 1.9 percent of average salary for each year of service in that plan. Annual benefits increase by at least 1.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state is not an employer of participants in the plan, but performs in a fiduciary capacity.

The Teachers Retirement Fund (TRF) covers teachers and other related professionals employed by school districts or by the state. Approximately 575 employers participate in this plan. Basic membership includes participants who are not covered by the Social Security Act, while coordinated membership includes participants who are covered by the Act. The annuity formula for the coordinated members is the greater of a step rate with a flat reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarially based reduction for early retirement. The applicable rates for each year of allowable service based on average salary for basic members are 2.5 percent, and for coordinated members, 1.2 and 1.7 percent for service rendered before July 1, 2006, and 1.9 percent for service rendered on or after July 1, 2006. Annual benefits increases will not occur until January 1, 2013, when they will be at least 2.0 percent or 2.5 percent if the plan is funded at least 90 percent of full funding. The state, as an employer for some participants, is liable for a portion of any unfunded accrued liability of this fund.

- Multiple employer, agent plan

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

- Single-employer (state of Minnesota) plans:

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

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

The Judicial Retirement Fund (JRF) covers judges of the Supreme Court, Court of Appeals, and district courts. The annuity is 2.7 percent of average salary for each year of service prior to June 30, 1980, and 3.2 percent for each year thereafter up to 76.8 percent. Annual benefits increase by 2.0 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

The Legislative Retirement Fund (LRF) covers certain members of the state's House of Representatives and Senate. Legislators newly elected since July 1, 1997, are covered by the Unclassified Employee Retirement Fund (defined contribution fund). The annuity benefit formula ranges from 2.5 percent to 5.0 percent of average salary for each year of service depending on a member's length of service. Annual benefits increase by 2.0 percent or 2.5 percent if SERF's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

The State Patrol Retirement Fund (SPRF) covers state troopers, conservation officers, and certain crime bureau and gambling enforcement agents. The annuity is 3.0 percent of average salary for each year of allowable service. Annual benefits increase by 1.5 percent or 2.5 percent if the plan's accrued liability funding ratio is at least 90 percent determined on a market value of assets basis.

Statutory Contribution Rates Year Ended June 30, 2012							
	<u>Single Employer</u>					<u>Multiple Employer</u>	
	<u>CERF</u>	<u>ESOF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>	<u>SERF</u>	<u>TRF</u>
Statutory Authority, Minnesota Chapter	352.90- 352.955	352C	490	3A	352B	352.01- 352.87	354
Required Contribution Rate							
Active Members	8.60%	N/A	8.00%	9.00%	12.40%	5.00%	6.00%
Employer(s)	12.10%	N/A	20.50%	N/A	18.60%	5.00%	6.00%

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

		<u>SERF</u>	<u>TRF</u>
Required Contributions⁽¹⁾			
Employee	2012	\$ 118,358	\$ 239,834
	2011	\$ 122,029	\$ 218,024
	2010	\$ 113,716	\$ 214,909
Employers ⁽²⁾	2012	\$ 115,159	\$ 244,935
	2011	\$ 118,563	\$ 222,723
	2010	\$ 115,181	\$ 220,538
Primary Government ⁽³⁾	2012	\$ 86,273	\$ 27,994
	2011	\$ 86,698	\$ 28,287
	2010	\$ 82,642	\$ 28,693

⁽¹⁾ Contribution rates are statutorily determined.

⁽²⁾ Contributions were at least 100 percent of required contributions.

⁽³⁾ Primary Government's portion of Employer Contributions.

**Single Employer Plan Disclosures
As of June 30, 2012
(In Thousands)**

	<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Annual Required Contributions (ARC) ⁽¹⁾	\$ 52,185	\$ 12,203	\$ 17,212	\$ 22,828
Interest on Net Pension Obligation (NPO) ⁽¹⁾	5,769	(654)	376	(1,171)
Amortization Adjustment to ARC ⁽¹⁾	<u>(4,103)</u>	<u>489</u>	<u>(545)</u>	<u>1,012</u>
Annual Pension Cost (APC)	\$ 53,851	\$ 12,038	\$ 17,043	\$ 22,669
Contributions	<u>(41,391)</u>	<u>(10,853)</u>	<u>(4,059)</u>	<u>(19,373)</u>
Increase (Decrease) in NPO	\$ 12,460	\$ 1,185	\$ 12,984	\$ 3,296
NPO, Beginning Balance	\$ 67,872	\$ (7,697)	\$ 4,427	\$ (13,790)
NPO, Ending (Asset)	<u>\$ 80,332</u>	<u>\$ (6,512)</u>	<u>\$ 17,411</u>	<u>\$ (10,494)</u>

⁽¹⁾ Components of annual pension cost.

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

		<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Annual Pension Cost (APC)	2012	\$ 53,851	\$ 12,038	\$ 17,043	\$ 22,669
	2011	\$ 50,077	\$ 11,467	\$ 6,750	\$ 20,406
	2010	\$ 49,088	\$ 12,146	\$ 7,992	\$ 23,536
Percentage of APC Contributed	2012	77%	90%	24%	85%
	2011	82%	99%	44%	81%
	2010	76%	99%	27%	72%
Net Pension Obligation (NPO) (End of Year)	2012	\$ 80,332	\$ (6,512)	\$ 17,411	\$ (10,494)
	2011	\$ 67,872	\$ (7,697)	\$ 4,427	\$ (13,790)
	2010	\$ 58,689	\$ (7,857)	\$ 642	\$ (17,745)

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

	<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Actual Valuation Date	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial Value of Plan Assets	\$ 637,027	\$ 145,996	\$ 19,140	\$ 563,046
Actuarial Accrued Liability	\$ 907,012	\$ 248,630	\$ 216,559	\$ 700,898
Total Unfunded Actuarial Liability	\$ 269,985	\$ 102,634	\$ 197,419	\$ 137,852
Funded Ratio	70%	59%	9%	80%
Annual Covered Payroll	\$ 197,702	\$ 40,473	\$ 1,774	\$ 63,250
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	137%	254%	11,128%	218%

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

Actuarial Assumptions for MSRS Defined Benefit Retirement Plans

- The actuarial cost method used by all plans is the Individual Entry Age Normal Cost Method. The date of actuarial valuation is July 1, 2011.
- The calculation of the actuarial valuation of assets is the sum of the market asset value at July 1, 2011, plus the scheduled recognition of investment gains or losses during the current and the preceding four fiscal years.
- Expected net investment returns for pre-retirement and post-retirement for July 1, 2011, are 8.5 percent and 6.5 percent, respectively, except for the SPRF whose post-retirement return is 7.0 and LRF whose pre-retirement and post-retirement are 0.0 percent. Future return assumptions for pre-retirement and post-retirement, respectively, will be 8.0 percent and 6.0 percent, from July 1, 2012, to June 30, 2017. Beginning July 1, 2017, the net investment returns for pre-retirement and post-retirement will be 8.5 percent and 6.5 percent. SPRF expected net investment returns for pre-retirement and post-retirement are 8.0 percent and 6.5 percent from July 1, 2012, to June 30, 2017. Beginning July 1, 2017, the net investment returns for pre-retirement and post-retirement will be 8.5 and 7.0 percent. Future return assumptions for pre-retirement and post-retirement return is 0.0 percent for LRF.
- Minnesota statutory valuation standards do not require an inflation rate assumption to cost the plans. Benefit increases after retirement are accounted for by the 6.5 percent post-retirement investment return assumption that is 2.0 percent less than the pre-retirement investment return assumption, except for LRF whose benefit increases after retirement are 2.0 percent.
- The amortization method uses level percentage of projected payroll growth, except for the Legislative and ESOF Retirement plans, which use the level dollar amortization method.
- Projected payroll growth is a level 4.50 percent except for JRF, which is a level 4.0 percent, and SERF, which is a level 3.75 percent.
- The statutory amortization periods for SERF, CERF, ESORF, JRF, LRF, and SPRF are through June 30, of 2040, 2038, 2017, 2038, 2021, and 2036, respectively.
- The amortization period is closed.
- Additional actuarial assumptions are detailed in the July 1, 2011, actuarial valuation reports for the MSRS defined benefit retirement funds. These reports are located online at <http://www.msrs.state.mn.us/info/fincl.htmls>.

Defined Contribution Funds

The defined contribution funds presented in the financial statements include various statewide public employee retirement funds. The benefits received are limited to an annuity, which can be purchased with the combined contributions of both the employee and employer or solely with employee contributions, depending on the fund. Accordingly, there is no unfunded liability for these funds; therefore, there is no actuarial accrued benefit liability or actuarially required contribution.

Plan Descriptions and Contribution Information

The Hennepin County Supplemental Retirement Fund (HCSRFB), authorized by Minnesota Statutes, Sections 383B.46-52, covers employees of Hennepin County who began employment prior to April 14, 1982. The employee and employer contribution rate is 1.0 percent of the employee's salary.

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

The Unclassified Employees Retirement Fund (UERF), authorized by Minnesota Statutes, Chapter 352D, covers only those state employees who are included either by statute or policy in the "unclassified service" of the state, specified employees of various statutorily designated entities, or judges who exceed the maximum benefit cap under the Judicial Retirement Fund. Statutory contribution rates are 5.0 percent for employee and 6.0 percent for employer. However, contribution rates for participating judges is 8.0 percent with no employer contribution. Benefits are either participant's account balance withdrawals or an annuity based on age, value of the participant's account, and a 6.0 percent post-retirement interest assumption.

The Minnesota Deferred Compensation Plan (State Deferred Compensation Fund) is a voluntary retirement savings plan authorized under section 457(b) of the Internal Revenue Code and Minnesota Statutes, Section 352.965. The plan is primarily composed of employee pre-tax contributions and accumulated investment gains or losses. Participants may withdraw funds upon termination of public service or in the event of an unforeseeable emergency. Employees and elected officials of the state and its political subdivisions are eligible to participate in the plan.

The Defined Contribution Fund (DCF) is authorized by Minnesota Statutes, Chapter 353D. The plan covers local units of government of which current or former elected officials elect to participate (with the exception of elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. The statutory contribution rate is 5.0 percent. Plan benefits depend solely on amounts contributed to the plan, plus investment earnings, less administrative expenses.

The State Colleges and Universities Retirement Fund (CURF), authorized by Minnesota Statutes, Chapter 354B and Chapter 354C, covers unclassified teachers, librarians, administrators, and certain other staff members who have been employed full-time by Minnesota State Colleges and Universities for a minimum of two academic years. Participation is mandatory for qualified employees. This fund consists of an Individual Retirement Account Plan (IRAP) and a Supplemental Retirement Plan (SRP). Two member groups, faculty and managerial employees, participate in the IRAP. The employer and employee statutory contribution rates are 6.0 and 4.5 percent, respectively. For the SRP, the statutorily required contribution rate is 5.0 percent of salary between \$6,000 and \$60,000. Statutes allow additional employer and employee contributions under specific circumstances.

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

**Defined Contribution Plans
Contributions
Year Ended June 30, 2012
(In Thousands)**

	<u>HCSRF</u>	<u>PHCBF</u>	<u>UERF</u>	<u>DCF</u>	<u>CURF</u>
Employee Contributions	\$ 458	\$ 128,375	\$ 5,586	\$ 1,548	\$ 34,926
Employer Contributions	\$ 459	N/A	\$ 5,918	\$ 1,674	\$ 41,500

Investment Trust Funds

The Supplemental Retirement and the Investment Trust funds (investment trust funds) are administered by the State Board of Investment, which issues a separate report (see Note 1 – Summary of Significant Accounting and Reporting Policies for the address). These funds are investment pools for external participants.

Component Units

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

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

Note 9 – Termination and Postemployment Benefits

Primary Government – Termination Benefits

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

Only three state bargaining agreements provide for this benefit. These agreements, affecting only Minnesota State Colleges and Universities (MnSCU) employees, are the Minnesota State College Faculty, Inter Faculty Organization, and Minnesota State University Association of Administrative Service Faculty contracts. Faculty members who meet a combination of age and years of service plus certain eligibility requirements are eligible to receive an early retirement incentive cash payment based on base salary plus health insurance paid for one year after separation. In addition, Minnesota Statutes, Section 136F.481, authorized MnSCU to implement an early separation incentive program in fiscal year 2010. Approximately 150 former faculty members and staff currently receive this benefit. The cost of the benefits was \$1,891,000 during fiscal year ended June 30, 2012, with a remaining liability as of June 30, 2012, of \$3,879,000.

Primary Government – Postemployment Benefits Other Than Pensions

Plan Description

Other postemployment benefits (OPEB) are available to state employees and their dependents through a single-employer defined benefit health care plan, as allowed by Minnesota Statutes, Section 43A.27, Subdivision 3, and Minnesota Statutes, Section 471.61, Subdivision 2a, and required under the terms of selected employment contracts. All pre-age 65 state retirees with at least 5 years of allowable pension service who are entitled at the time of retirement to receive an annuity under the state retirement program are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rate and are, therefore, subsidized by the insurance premiums rates for active state employees, resulting in an implicit rate subsidy. As of July 1, 2010, there were approximately 2,450 retirees participating in the state's insurance plan under this provision.

The state also subsidizes the health care and dental premium rates for certain employees, primarily conservation officers, correctional officers at state correctional facilities, and state troopers through an explicit rate subsidy under terms of selected employment contracts. If the retiree terminates employment prior to age 55, the employer's premium contribution rate is frozen at the date of the employee's retirement and is payable by the state until the retiree is age 65. The retiree is responsible for any other portion of the premiums. If the retiree terminates employment at age 55 or later, the employer contributes the active employee's premium rate each year until the retiree is age 65. Coverage ends at the retiree's attainment of age 65. As of July 1, 2010, there were approximately 1,150 correctional and law enforcement retirees receiving an explicit rate subsidy.

The state also offered an early retirement incentive that provided up to 24 months of employer contributions to the health and dental premiums at the level of coverage the employee was receiving at the time of separation. Employees must have met the eligibility requirements and retire before June 30, 2011, to receive this benefit. There were approximately 1,000 retirees receiving an explicit rate subsidy under this incentive.

The state does not issue a separate financial report for its OPEB as the state does not fund an OPEB plan and operates on a pay-as-you-go basis.

Funding Policy

The contribution requirement of plan members and the state are established and may be amended by the state legislature or through selected employment contracts, which are negotiated every other year. The required contribution is based on a projected pay-as-you-go basis. For fiscal year ended June 30, 2012, the state contributed \$53,217,000 to the plan. Plan members retirees receiving benefits through the implicit rate subsidy contributed \$25,123,000 through their average required contribution of \$447 per month for retiree-only coverage and \$1,315 for retiree-family coverage.

Annual OPEB Cost and Net OPEB Obligation

The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a thirty year amortization period using a 4.75 percent discount rate. For year ending June 30, 2012, the state's ARC is \$80,079,000.

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

OPEB Disclosures As of June 30, 2012 (In Thousands)	
Annual Required Contributions (ARC) ⁽¹⁾	\$ 80,079
Interest on Net OPEB Obligation (NOO) ⁽¹⁾	7,804
Amortization Adjustment to ARC ⁽¹⁾	<u>(6,355)</u>
Annual OPEB Cost (Expense)	\$ 81,528
Contributions	<u>(53,217)</u>
Increase in NOO	<u>\$ 28,311</u>
NOO, Beginning Balance	<u>\$ 164,311</u>
NOO, Ending ⁽²⁾	<u><u>\$ 192,622</u></u>
⁽¹⁾ Components of annual OPEB cost.	
⁽²⁾ Governmental Activities, Business-type Activities, and Fiduciary Funds include \$166,156; \$26,303; and \$163, respectively.	

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2011, and 2010 are as follows:

OPEB Disclosures (In Thousands)			
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 81,528	65%	\$ 192,622
June 30, 2011	\$ 77,250	51%	\$ 164,311
June 30, 2010	\$ 73,312	43%	\$ 126,579

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits and the unfunded actuarial accrued liability (UAAL) was \$799,321,000. The actuarial value of assets is zero as no assets have been deposited into an irrevocable OPEB trust for future benefits. The covered payroll (annual payroll of active employees covered by the plan) was \$3,027,241,000, and the ratio of the UAAL to the covered payroll was 26.4 percent.

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

Actuarial Methods and Assumptions

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

Actuarial Assumptions for OPEB

- The actuarial cost method used is the Entry Age Normal Cost method. The date of actuarial valuation is July 1, 2010.
- Expected investment return is 4.75 percent based on the estimated long-term investment yield on the general assets of the state.
- Inflation rate is 3.0 percent.
- Projected salary increases are a level 4.0 percent.

- The annual health care cost trend rate is 7.65 percent initially, reduced by increments to an ultimate rate of 5.0 percent after approximately 20 years. The annual dental cost trend rate is 5.0 percent.
- The amortization period for the unfunded actuarial accrued liability is 30 year level percent of pay.
- The amortization period is open.

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

Component Units – Postemployment Benefits Other Than Pensions

Metropolitan Council (MC) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care and life insurance plan to eligible retirees, their spouses, and dependents. MC does not fund its OPEB benefits in an irrevocable trust. However, it has separately invested \$106,218,000 as of December 31, 2011, for this purpose. The annual required contribution for 2011 was \$31,217,000 or 11.4 percent of annual covered payroll. As of December 31, 2011, 2010, and 2009, the net OPEB obligation was \$70,628,000, \$57,948,000, and \$44,400,000 respectively. The actuarial accrued liability (AAL) for benefits was \$337,805,000 as of December 31, 2011, all of which was unfunded. The covered payroll was \$275,037,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 122.8 percent.

University of Minnesota (U of M) administers another postemployment benefit (OPEB) plan, a single-employer defined benefit health care plan to eligible employees, retirees, their spouses, and dependents and an academic disability plan for faculty and academic professional and administrative employees. U of M does not fund its OPEB benefits in an irrevocable trust. The annual required contribution for the year ended June 30, 2012, was \$26,157,000 or 2.1 percent of annual covered payroll. As of June 30, 2012, 2011, and 2010, the net OPEB obligation was \$62,987,000, \$44,131,000, and \$33,482,000. The actuarial accrued liability (AAL) for benefits was \$116,182,000 as of June 30, 2012, all of which was unfunded. The covered payroll was \$1,222,548,000, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 9.5 percent.

Note 10 – Long-Term Commitments

Long-term commitments consist of grant agreements, construction projects, and other contracts. A portion of these commitments will be funded by current reserves, and these amounts are included on the face of the financial statements in the restricted, committed, and assigned fund balance amounts. Resources provided by future bond proceeds, gas taxes, motor vehicle registration revenues, and federal grants will fund the remaining commitments. Governmental funds' encumbrances, both current and long-term, as of June 30, 2012, were as follows:

Primary Government Encumbrances As of June 30, 2012 (In Thousands)	
Major Fund: General Fund	\$ 184,491
Non-Major Governmental Funds	<u>1,397,744</u>
Total Encumbrances	<u>\$1,582,235</u>

Petroleum Tank Environmental Cleanup

The Petroleum Tank Release Cleanup Act, Minnesota Statutes Chapter 115C, requires the state to reimburse eligible applicants for a significant portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks. Reimbursements are made from the Petroleum Tank Cleanup Fund (Petrofund) (special revenue fund). As of November 2012, the Petrofund has reimbursed eligible applicants approximately \$423,000,000 since program inception in 1987. Future expenditures from the Petrofund will be necessary as existing cleanup projects are completed and new cleanup projects are begun at currently undiscovered leak sites. The estimated total payments from the program, which is scheduled to sunset on June 30, 2017, are between \$435,000,000 and \$465,000,000 for investigative and cleanup costs.

Environmental and Remediation Fund

The Remediation Account was established in the state treasury as part of the Environmental and Remediation Fund (special revenue fund) to provide a reliable source of public money for response and corrective actions to address releases of hazardous substances, pollutants, contaminants, agricultural chemicals, and petroleum, and for environmental response actions at qualified closed landfills for which the state has assumed responsibility. Money in the general portion of the fund may be spent for remediation actions related to releases of hazardous substances, pollutants, or containments and to provide technical and other assistance. Additionally, funds may be spent for corrective actions to address incidents involving agricultural chemicals, including related administrative costs, enforcement and cost recovery actions.

In addition to the general portion of the fund, two dedicated accounts are held within the fund. Money in the dry cleaner environmental response and reimbursement account may be used for environmental response actions at dry cleaning facilities and sites as well as related administrative costs. The metropolitan landfill contingency action trust account receives twenty-five percent of the metropolitan solid waste landfill fee. Money in this dedicated account is appropriated for closure and post closure care of mixed municipal solid waste disposal facilities in the metropolitan area for a 30 year period after closure if determined that the operator/owner cannot take the necessary actions as directed by the commissioner of the Minnesota Pollution Control Agency.

The Closed Landfill Investment Account consists of money credited to the fund plus interest and other earnings. Money in the fund may be spent only after fiscal year 2020 as determined by the commissioner of the Minnesota Pollution Control Agency on environmental response actions at qualified closed mixed municipal solid waste disposal facilities.

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities had commitments of \$95,449,000 for construction and renovation of college and university facilities as of June 30, 2012.

Component Units

As of June 30, 2012, the Housing Finance Agency (HFA) had committed approximately \$273,919,000 for the purchase or origination of future loans or other housing assistance.

Metropolitan Council entered into contracts for various purposes such as transit services and construction projects. As of December 31, 2011, unpaid commitments for Metro Transit Bus services were approximately \$73,966,000. Future commitments for Metro Transit Light Rail were approximately \$234,696,000, while future commitments for Metro Transit Commuter Rail were approximately \$5,548,000. Finally, future commitments for Regional Transit and Environmental Services were approximately \$307,233,000 and \$48,476,000, respectively.

University of Minnesota (U of M) had construction projects in progress with an estimated completion cost of \$358,449,000 as of June 30, 2012. These costs will be funded from plant fund assets and state appropriations.

As of June 30, 2012, Public Facilities Authority (PFA) had committed approximately \$195,000,000 for the origination or disbursement of future loans under the Clean Water, Drinking Water, and Transportation Revolving Loan programs. PFA also committed \$38,000,000 for grants.

Note 11 – Operating Lease Agreements

Operating Leases

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

Lease expenditures for the fiscal year ended June 30, 2012, totaled approximately \$87,417,000 and \$22,756,000 for the primary government and component units, respectively. Lease expenditures for the year ended December 31, 2011, totaled approximately \$1,438,000 for component units.

Primary Government and Component Units Future Minimum Lease Payments (In Thousands)					
Primary Government		Component Units			
Year Ended June 30	Amount	Year Ended June 30	Amount	Year Ended December 31	Amount
2013	\$ 84,527	2013	\$ 17,586	2012	\$ 1,091
2014	66,317	2014	14,771	2013	1,131
2015	46,273	2015	9,602	2014	918
2016	39,083	2016	6,840	2015	487
2017	33,013	2017	6,547	2016	430
2018-2022	77,436	2018-2022	25,114	2017-2021	1,015
2023-2027	8,260	2023-2027	8,078	2022-2026	103
2028-2032	1,990	2028-2032	7,924	2027-2031	103
2033-2037	-	2033-2037	5,122	2032-2036	102
2038-2042	-	2038-2042	-	2037-2041	7
Total	<u>\$ 356,899</u>	Total	<u>\$ 101,584</u>	Total	<u>\$ 5,387</u>

Note 12 – Long-Term Liabilities – Primary Government

Primary Government Long-Term Liabilities Year Ended June 30, 2012 (In Thousands)					
	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities					
Liabilities For:					
General Obligation Bonds	\$ 5,814,900	\$ 875,967	\$ 918,833	\$ 5,772,034	\$ 282,837
Revenue Bonds	12,055	784,155	1,636	794,574	915
Loans	31,583	10,019	12,990	28,612	10,446
Due to Component Unit	18,818	-	2,134	16,684	2,196
Capital Leases	151,156	-	6,837	144,319	7,026
Certificates of Participation	79,408	-	8,666	70,742	8,245
Claims	840,693	48,257	99,747	789,203	112,497
Compensated Absences	285,035	234,810	240,401	279,444	33,319
Net Other Postemployment Obligation	142,597	68,989	45,430	166,156	-
Net Pension Obligation	72,299	70,894	45,450	97,743	-
Total	<u>\$ 7,448,544</u>	<u>\$ 2,093,091</u>	<u>\$ 1,382,124</u>	<u>\$ 8,159,511</u>	<u>\$ 457,481</u>
Business-type Activities					
Liabilities For:					
General Obligation Bonds	\$ 260,618	\$ 9,719	\$ 20,701	\$ 249,636	\$ 18,483
Revenue Bonds	375,409	79,356	22,813	431,952	23,130
Loans	465,280	866,716	1,326,981	5,015	731
Capital Leases	46,168	-	6,031	40,137	4,784
Claims	7,717	3,477	4,257	6,937	3,122
Compensated Absences	141,839	23,200	25,814	139,225	15,683
Net Other Postemployment Obligation	21,513	12,347	7,557	26,303	-
Total	<u>\$ 1,318,544</u>	<u>\$ 994,815</u>	<u>\$ 1,414,154</u>	<u>\$ 899,205</u>	<u>\$ 65,933</u>

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

	Governmental Activities				Total
	General Fund	Special Revenue Funds	Internal Service Funds	Business-type Activities	
Liabilities For:					
General Obligation Bonds	\$ 4,655,864	\$ 1,116,170	\$ -	\$ 249,636	\$ 6,021,670
Revenue Bonds	5,588	788,986	-	431,952	1,226,526
Loans	-	10,160	18,452	5,015	33,627
Due to Component Unit	-	16,684	-	-	16,684
Capital Leases	142,443	1,876	-	40,137	184,456
Certificates of Participation	70,742	-	-	-	70,742
Claims	114,541	665,144	9,518	6,937	796,140
Compensated Absences	141,934	131,743	5,767	139,225	418,669
Net Other Postemployment Benefit Obligation	165,584	-	572	26,303	192,459
Net Pension Obligation	97,743	-	-	-	97,743
Total	<u>\$ 5,394,439</u>	<u>\$ 2,730,763</u>	<u>\$ 34,309</u>	<u>\$ 899,205</u>	<u>\$ 9,058,716</u>

The following tables show principal and interest payment schedules for general obligation bonds, revenue bonds, loans, due to component unit, capital leases, and certificates of participation. There are no payment schedules for claims, compensated absences, net other postemployment benefit obligation, and net pension obligation.

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

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 282,837	\$ 236,808	\$ 18,483	\$ 10,905	\$ 301,320	\$ 247,713
2014	271,703	225,618	18,407	10,013	290,110	235,631
2015	451,012	209,626	17,993	9,119	469,005	218,745
2016	422,203	188,860	17,537	8,244	439,740	197,104
2017	398,676	169,210	16,704	7,383	415,380	176,593
2018-2022	1,664,989	587,900	76,381	25,196	1,741,370	613,096
2023-2027	1,160,997	241,089	51,793	9,131	1,212,790	250,220
2028-2032	501,095	41,356	15,185	1,028	516,280	42,384
Total	<u>\$ 5,153,512</u>	<u>\$ 1,900,467</u>	<u>\$ 232,483</u>	<u>\$ 81,019</u>	<u>\$ 5,385,995</u>	<u>\$ 1,981,486</u>
Bond Premium	618,522	-	17,153	-	635,675	-
Total	<u>\$ 5,772,034</u>	<u>\$ 1,900,467</u>	<u>\$ 249,636</u>	<u>\$ 81,019</u>	<u>\$ 6,021,670</u>	<u>\$ 1,981,486</u>

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

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 915	\$ 37,616	\$ 23,130	\$ 18,351	\$ 24,045	\$ 55,967
2014	37,855	37,579	24,305	17,430	62,160	55,009
2015	38,780	36,562	25,280	16,435	64,060	52,997
2016	31,295	35,348	26,230	15,399	57,525	50,747
2017	32,775	33,887	26,665	14,287	59,440	48,174
2018-2022	179,100	144,415	129,550	53,768	308,650	198,183
2023-2027	217,460	95,907	108,370	25,085	325,830	120,992
2028-2032	229,950	31,088	50,155	6,530	280,105	37,618
2033-2037	-	-	3,081	74	3,081	74
Total	\$ 768,130	\$ 452,402	\$ 416,766	\$ 167,359	\$ 1,184,896	\$ 619,761
Bond Premium	26,444	-	15,186	-	41,630	-
Total	<u>\$ 794,574</u>	<u>\$ 452,402</u>	<u>\$ 431,952</u>	<u>\$ 167,359</u>	<u>\$ 1,226,526</u>	<u>\$ 619,761</u>

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

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 12,642	\$ 755	\$ 731	\$ 213	\$ 13,373	\$ 968
2014	15,169	556	735	180	15,904	736
2015	5,964	418	429	157	6,393	575
2016	4,007	303	410	141	4,417	444
2017	2,203	212	366	452	2,569	664
2018-2022	2,627	607	1,630	132	4,257	739
2023-2027	1,873	289	714	-	2,587	289
2028-2032	811	35	-	-	811	35
Total	<u>\$ 45,296</u>	<u>\$ 3,175</u>	<u>\$ 5,015</u>	<u>\$ 1,275</u>	<u>\$ 50,311</u>	<u>\$ 4,450</u>

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

Year Ended June 30	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 7,026	\$ 7,240	\$ 4,784	\$ 913	\$ 11,810	\$ 8,153
2014	7,312	6,930	4,760	1,028	12,072	7,958
2015	7,145	6,582	4,606	1,114	11,751	7,696
2016	7,491	6,212	4,353	1,205	11,844	7,417
2017	7,857	5,825	4,275	1,159	12,132	6,984
2018-2022	45,206	22,634	15,396	5,950	60,602	28,584
2023-2027	56,947	10,112	922	403	57,869	10,515
2028-2032	5,335	232	1,041	128	6,376	360
Total	<u>\$ 144,319</u>	<u>\$ 65,767</u>	<u>\$ 40,137</u>	<u>\$ 11,900</u>	<u>\$ 184,456</u>	<u>\$ 77,667</u>

**Primary Government
Certificates of Participation
Principal and Interest Payments
(In Thousands)**

Year Ended June 30	Governmental Activities	
	Principal	Interest
2013	\$ 8,245	\$ 2,974
2014	8,575	2,644
2015	8,920	2,301
2016	9,270	1,945
2017	9,690	1,527
2018 - 2022	20,855	1,577
Total	<u>\$ 65,555</u>	<u>\$ 12,968</u>
Premium on Certificates of Participation	5,187	-
Total	<u>\$ 70,742</u>	<u>\$ 12,968</u>

Debt Service Fund

Minnesota Statutes, Section 16A.641, provides for an annual appropriation for transfer to the Debt Service Fund. The amount of the appropriation is to be such that, when combined with the balance on hand in the Debt Service Fund on December 1 of each year for state bonds, it will be sufficient to pay all general obligation bond principal and interest due and to become due through July 1 in the second ensuing year. If the amount appropriated is insufficient when combined with the balance on hand in the Debt Service Fund, the state constitution requires the state auditor to levy a statewide property tax to cover the deficiency. No such property tax has been levied since 1969 when the law requiring the appropriation was enacted.

During fiscal year 2012, Minnesota Management and Budget made the necessary transfers to the Debt Service Fund as follows:

Primary Government Transfers to Debt Service Fund Year Ended June 30, 2012 (In Thousands)	
General Fund	\$ 221,572
Special Revenue Funds:	
Trunk Highway Fund	\$ 72,601
Natural Resources Funds	9
Miscellaneous Special Revenue Fund	<u>250</u>
Total Special Revenue Funds	\$ 72,860
Capital Projects Fund:	
Building Fund	<u>\$ 81</u>
Total Transfers to Debt Service Fund	<u>\$ 294,513</u>

General Obligation Bond Issues

In September 2011, the state issued \$769,000,000 general obligation bonds, Series 2011A through Series 2011C:

- Series 2011A for \$445,000,000 in state various purpose bonds were issued at a true interest rate of 2.82 percent.
- Series 2011B for \$320,000,000 in state trunk highway bonds were issued at a true interest rate of 2.89 percent.
- Series 2011C for \$4,000,000 in state taxable bonds were issued at a true interest rate of 1.32 percent.

The state remains contingently liable to pay its advance refunded general obligation bonds as shown in the following table.

Primary Government General Obligation Bonds Outstanding Defeased Debt (In Thousands)				
Refunding Date	Refunding Amount	Refunded Amount	June 30, 2012 Outstanding Amount	Refunded Bond Call/Maturity Date
October 23, 2009	\$ 100,395	\$ 92,225	\$ 92,225	November 1, 2012
September 29, 2010	133,962	123,025	107,850	August 1, 2012
September 29, 2010	85,125	78,175	64,350	November 1, 2012
September 29, 2010	298,435	274,070	252,245	August 1, 2013
September 29, 2010	226,002	207,550	192,725	August 1, 2014
September 29, 2010	164,261	150,850	140,075	November 1, 2014
November 29, 2011	84,851	82,355	82,355	August 1, 2012
November 29, 2011	17,150	16,645	16,645	October 1, 2012
November 29, 2011	55,709	54,070	54,070	November 1, 2012
November 29, 2011	17,232	16,725	16,725	December 1, 2012
November 29, 2011	42,444	41,195	41,195	June 1, 2013
November 29, 2011	76,804	74,545	74,545	August 1, 2013
November 29, 2011	14,574	14,145	14,145	October 1, 2013
November 29, 2011	53,705	52,125	52,125	November 1, 2013
November 29, 2011	21,868	21,225	21,225	December 1, 2013
November 29, 2011	28,586	27,745	27,745	June 1, 2014
	<u>\$ 1,421,103</u>	<u>\$ 1,326,670</u>	<u>\$ 1,250,245</u>	

The following table is a schedule of general obligation bonds authorized, but unissued, and bonds outstanding as of June 30, 2012. This schedule includes all general obligation bonds that were sold, including bonds sold for the State Operated Community Services and State Colleges and Universities funds (enterprise funds).

Primary Government General Obligation Bonds Authorized, but Unissued, and Bonds Outstanding As of June 30, 2012 (In Thousands)			
Purpose	Authorized But Unissued	Amount Outstanding	Interest Rates Range - %
State Building	\$ 698	\$ 1,080	5.00
State Operated Community Services	-	1,766	5.00
State Transportation	1,760	199,105	4.00 - 5.00
Maximum Effort School Loan	-	21,990	5.00
Rural Finance Authority	10,000	44,000	1.35 - 5.25
Refunding Bonds	-	1,454,190	1.75 - 5.00
Trunk Highway	1,236,458	1,116,170	2.00 - 5.00
Various Purpose	1,356,480	2,547,694	2.00 - 5.00
Total	<u>\$ 2,605,396</u>	<u>\$ 5,385,995</u>	

State Appropriation Bonds

The following table is a schedule of state appropriation bonds authorized, but unissued as of June 30, 2012.

Primary Government State Appropriation Bonds Authorized, but Unissued As of June 30, 2012 (In Thousands)	
Purpose	Authorized But Unissued
Professional Football Stadium	\$ 498,000
Pay-for-Performance	10,000
Total	<u>\$ 508,000</u>

During the fiscal year 2012 legislative session, the state was authorized to issue general fund appropriation bonds to finance the costs of a professional football stadium project of the Minnesota Sports Facilities Authority, a related organization. In addition, the Minnesota Pay-for-Performance Act of 2011 authorized issuance of up to \$10 million bond proceeds as incentive payments to service providers for certain financial outcomes that will result in decreased costs or increased revenues to the state.

Loans Payable and Due to Component Unit

Governmental activities loans are loans relating to the Trunk Highway Fund (special revenue fund). Loans outstanding of \$10,160,000 were from local government entities to finance certain trunk highway projects. In addition, \$16,684,000 in loans from the Public Facilities Authority (component unit – Due to Component Unit) were outstanding for transportation projects. Other governmental activities loans are internal service fund loans for equipment purchases.

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

Capital Leases

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

Certificates of Participation

In August 2009, the state issued \$74,980,000 of certificates of participation (COPs) at a true interest rate of 2.88 percent to finance the acquisition of computer software development intangible assets. The proceeds are funding two projects for developing a) the state's statewide financial and procurement system and b) the state's integrated tax accounting system. The COPs were issued under a trust agreement with U.S. Bank, NA., trustee, who will collect rental payments according to the principal and interest schedule pursuant to the Technology Systems Lease Purchase Agreement for remittance to the investors. The COPs are not general or moral obligations of the state and no revenues are pledged to repay them. If the state defaults on the debt, the trustee has the right to terminate the lease terms of either or both projects and take whatever action at law which may appear necessary to collect rental payment(s).

Revenue Bonds Payable

In July 2006, \$15,145,000 of revenue bonds were issued to provide grants to school districts located in the state's taconite assistance area (as defined in statute) and for bond administrative costs. Minnesota Laws of 2005, Chapter 152, Article 1, Section 39 as amended; Minnesota Statutes, Section 298.2211; and an order of the Commissioner of Iron Range Resources and Rehabilitation authorized the issuance of the bonds. To repay the bonds, the Iron Range Resources and Rehabilitation Board has pledged future appropriations of the annual distribution of taconite production tax revenues to the Iron Range Resources and Rehabilitation account within the General Fund and the Douglas J. Johnson Economic Protection Trust Fund (special revenue fund). These tax distributions, totaling \$27,759,000 for fiscal year 2012, have averaged approximately one third of the state's total annual taconite production tax revenues over the last five years. The debt service on the bonds is payable solely from these taconite production tax distributions. The interest rates on the bonds are 4.00 percent (7 years) and 4.50 percent (thereafter) over the 15 year term of the bonds. Bonds maturing on and after October 1, 2014, are subject to optional redemption. For fiscal year 2012, principal and interest paid by the Iron Range Resources and Rehabilitation Board on the bonds was \$1,391,000. The total principal and interest remaining to be paid as of June 30, 2012, is \$13,858,000 payable through November 2021.

The state is authorized by Minnesota Statutes, Section 403.275, and by Minnesota Statewide Radio Board resolution to issue revenue bonds for a current development phase of a public safety radio communications system. On November 1, 2006, \$35,000,000 in revenue bonds were issued at a true interest rate of 3.76 percent. On November 13, 2008, \$42,205,000 in revenue bonds were issued at a true interest rate of 4.60 percent. On October 22, 2009, \$60,510,000 in revenue bonds were issued at a true interest rate of 3.17 percent. On August 16, 2011, \$60,380,000 in revenue bonds were issued at a true interest rate of 2.96 percent. The state has pledged future 911 fee revenues to repay the debt. The debt service on these bonds is payable solely from the revenues derived from the 911 fee assessed on wireless and wire-line telephone service. Annual principal and interest payments on the bonds are expected to require less than 30 percent of the total 911 fee revenues. The total principal and interest remaining to be paid on the bonds as of June 30, 2012, is \$197,546,000, payable through June 2026. Principal and interest paid during fiscal year 2012 and total 911 fee revenues were \$21,648,000 and \$68,516,000, respectively. The bonds are accounted for in the 911 Services Fund (enterprise fund) and are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

Minnesota State Colleges and Universities (MnSCU) (enterprise fund) is authorized by Minnesota Statutes, Section 136F.98, to issue revenue bonds whose aggregate principal shall not exceed \$300,000,000 at any time. The proceeds of these bonds are used to finance the acquisition, construction, and remodeling of buildings for dormitory, residence hall, parking ramps, student union, and food service purposes at state universities. Revenue bonds currently outstanding have interest rates of 1.0 percent to 6.5 percent. Vermilion Community College and Itasca Community College issued revenue bonds through the state of Minnesota Higher Education Facility Authority and the Itasca County Housing Redevelopment Authority. The revenue bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and from student fees. These revenue bonds are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 21 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$383,458,000. Principal and interest paid for the current year and total customer net revenues were \$19,434,000 and \$111,171,000, respectively.

Itasca Community College issued revenue bonds through the Itasca County Housing Redevelopment Authority that are payable through 2025. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings. Annual principal and interest payments on the bonds are expected to require less than 49 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,036,000. Principal and interest paid and total customer net revenues during fiscal year 2012 were \$207,000 and \$431,000, respectively. These revenue bonds have a variable interest rate of 2.5 percent to 5.75 percent.

Vermilion Community College issued revenue bonds through the Minnesota Higher Education Facilities Authority that are payable through 2013. These bonds are payable solely from, and collateralized by, an irrevocable pledge of revenues to be derived from the operation of the financed buildings and guaranteed by the City of Ely. Annual principal and interest payments on the bonds are expected to require less than 33.0 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$85,000. Principal and interest paid and total customer net revenues during fiscal year 2012 were \$82,000 and \$259,000, respectively. These revenue bonds have a fixed interest rate of 6.0 percent.

In July 2011, Minnesota Statutes, Section 16A.98, created the Tobacco Securitization Authority (TSA) (blended component unit, special revenue fund) to manage securitization of the tobacco settlement payments exclusively for the state's benefit.

In November 2011, the state and TSA entered into a sales agreement. In the agreement, the state will relinquish its future tobacco settlement revenue to TSA starting in fiscal year 2014 through 2031. TSA sold revenue bonds and transferred to the state \$640 million of the proceeds and a residual certificate in exchange for the rights to receive and retain 100 percent of the state's tobacco settlement revenue starting in fiscal year 2014 through fiscal year 2031. The residual certificate represents the state's ownership interest in excess tobacco settlement revenue to be received by TSA during the terms of the sales agreement. The total tobacco settlement revenue sold, based on the projected payment schedule, is estimated to be \$2.9 billion. These tobacco revenues will be used to pay principal and interest payments totaling \$1.2 billion with the residuals expected to be approximately \$1.7 billion. The proceeds

from the sale of these revenues were used to refund a portion of the state's general obligation bonds and certificates of participation. For fiscal year 2012, principal and interest paid by Tobacco Securitization Authority Fund (blended component unit, special revenue fund) was \$9,492,000. The total principal and interest remaining to be paid as of June 30, 2012, is \$1,206,674,000. See Note 21 Subsequent Event for a Supreme Court conclusion impacting this agreement.

Claims

Municipal solid waste landfill liability of \$161,523,000 for closure and postclosure care claims are payable from the Environmental and Remediation Fund (special revenue fund) and the General Fund. The state has assumed responsibility for the long-term care of certain closed municipal solid waste facilities. Minnesota Statutes, Section 115B.39, established the landfill cleanup program to provide environmental response to qualified, state-permitted, closed landfills. The state is responsible, in perpetuity, for performing cleanup and final closure work, as well as all postclosure maintenance and monitoring, at qualifying sites. There are currently 109 landfills in the program. Funding for the state's ongoing claims at these landfills comes from the Environmental and Remediation Fund (special revenue fund). The Environmental and Remediation Fund includes revenues from insurance recovery proceeds and financial assurance from previous owners and operators. Proceeds from the sale of state general obligation bonds, accounted for in the Building Fund (capital projects fund) and repaid by the General Fund, have been used for design and construction work at the publicly-owned landfills in the program. Estimated landfill closure and postclosure liabilities include planned response actions, future unknown additional remedies which have some probability of occurring, future replacement of some remedial systems, and administrative costs. Since costs are estimated at current value, actual costs could be different because of inflation, changes in technology, inclusion of additional qualifying sites or changes in regulations, and future unanticipated response actions.

The state of Minnesota is financially responsible to remediate certain known pollution present on either state owned or non-state owned land. In most cases, the state voluntarily assumes responsibility for site assessment and clean-up activities when the responsible party cannot be found or is financially unable to perform the remediation. Pollution remediation obligation liabilities as of June 30, 2012, were \$50,288,000. Of this total, \$36,815,000 was the liability for remediation on sites designated pursuant to state or federal superfund laws. The pollution remediation amounts are estimated through an analysis of existing polluted sites. The liabilities are based on the weighted average of the pollution remediation outlays expected to be incurred to settle those liabilities. Because the liabilities are measured at their current value, they are subject to change due to inflation, technology improvements, or changes to applicable laws and regulations. Funding for the state's pollution remediation primarily comes from the Environmental and Remediation Fund (special revenue fund), which was established under Minnesota Statutes, Section 116.155, and the Petroleum Tank Cleanup Fund (special revenue fund), which was established under Minnesota Statutes, Section 115C.08.

The governmental activities and business-type activities liability for workers' compensation of \$114,874,000 and \$6,937,000, respectively, are based on claims filed for injuries to state employees occurring prior to June 30, 2012, and is an undiscounted estimate of future payments. The liability will be liquidated using future resources at unspecified times.

Claims of \$32,300,000 are for workers' compensation claims of employees of uninsured and bankrupt firms. These claims are funded by an assessment on insurers and are payable from the Special Compensation Fund (special revenue fund).

Claims of \$420,700,000 are for reimbursements of supplementary and second injury benefits for old workers' compensation injuries. Legislative action ended both the supplementary and second injury programs. The claim amount represents the estimated discounted (5.00 percent) cost of supplementary benefits for injuries prior to October 1, 1995, and second injury program benefits for injuries prior to July 1, 1992. Without alteration by settlements, the liability is expected to extend to approximately the year 2052 for supplementary benefits and 2042 for second injuries.

The remaining \$9,518,000 is for claims in the Risk Management Fund (internal service fund).

Compensated Absences

The compensated absences liability for governmental activities and business-type activities of \$279,444,000 and \$139,225,000 respectively, are primarily for vacation leave and vested sick leave, which are payable as severance pay under specific conditions. Both amounts are paid in cash only when an employee terminates state employment. This obligation will be liquidated using future resources at unspecified times.

Arbitrage Liabilities

An arbitrage rebate payable to the federal government is required by the Tax Reform Act of 1986 and U.S. Treasury regulations and penalties if there are excess earnings on tax-exempt bond proceeds and debt service reserves. For fiscal year 2012, the state did not have excess earnings on tax-exempt bond proceeds and debt service.

Revenue Bonds Payable – Fiduciary Funds

On June 1, 2000, the state of Minnesota issued revenue bonds totaling \$29,000,000 on behalf of the state's three retirement systems. Minnesota Statutes, Section 356.89, authorized the issuance of the revenue bonds for the construction of an administrative office building. The revenue bonds have a variable interest rate of 5.38 to 6.00 percent and are not general obligations of the state. The bonds are backed by the assets of the three retirement systems, excluding assets segregated for retired employees and assets of the systems' defined contribution funds. The debt service payments are allocated to each system based on the percentage interest each has in the facility. For fiscal year 2012, principal and interest paid by the State Employees Retirement Fund (SERF), Teachers Retirement Fund (TRF), and Public Employees Retirement Fund (PERF) was \$2,076,000. The total principal and interest remaining to be paid as of June 30, 2012, is \$ 37,935,000, payable through 2030.

Long-Term Debt Repayment Schedule Fiduciary Funds Revenue Bonds – SERF, TRF, and PERF (In Thousands)		
Year Ended June 30	Principal	Interest
2013	\$ 750	\$ 1,338
2014	775	1,297
2015	825	1,254
2016	875	1,208
2017	925	1,158
2018-2022	5,550	4,924
2023-2027	7,475	3,086
2028-2032	<u>5,794</u>	<u>701</u>
Total	<u>\$ 22,969</u>	<u>\$ 14,966</u>

Note 13 – Long-Term Liabilities – Component Units

Revenue and General Obligation Bonds

Housing Finance Agency (HFA) is authorized by Minnesota Statutes, Section 462A.06, to issue bonds and notes to provide funds for rehabilitation, construction, and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. The amount outstanding on these bonds at any time shall not exceed \$5,000,000,000, according to Minnesota Statutes, Section 462A.22. The principal amount of revenue bonds outstanding on June 30, 2012, net of unamortized discounts/premiums, was \$2,170,089,000.

Metropolitan Council (MC) issues general obligation bonds for parks, solid waste, sewers, and transportation, backed by the full faith and credit and taxing powers of MC. MC had \$1,362,469,000 in general obligation bonds and general obligation grant anticipation notes and \$2,700,000 of revenue bonds outstanding on December 31, 2011, both net of unamortized discounts/premiums.

University of Minnesota (U of M) issues general obligation bonds and revenue bonds for capital projects. On June 30, 2012, the principal amount of general obligation bonds and revenue bonds outstanding, net of unamortized discounts/premiums, was \$635,042,000 and \$308,369,000, respectively.

Agricultural and Economic Development Board (AEDB) issues revenue bonds to provide loans for agricultural and economic projects. On June 30, 2012, the principal amount of revenue bonds outstanding was \$1,835,000.

Office of Higher Education (OHE) is authorized by Minnesota Statutes, Sections 136A.171-.175, to issue revenue bonds and notes to finance guaranteed loans for students attending eligible post-secondary educational institutions. The amount outstanding on these bonds at any one time, not including refunded bonds or otherwise defeased or discharged bonds, shall not exceed \$850,000,000, according to Minnesota Statutes, Section 136A.171. On June 30, 2012, the outstanding principal of revenue bonds was \$547,265,000, net of unamortized discounts/premiums.

Public Facilities Authority (PFA) is authorized by Minnesota Statutes, Section 446A.04, to issue revenue bonds to make loans to municipalities for wastewater treatment facilities. The amount outstanding on these bonds at any time shall not exceed \$1,500,000,000, according to Minnesota Statutes, Section 446A.12. The principal amount of bonds outstanding on June 30, 2012, net of unamortized discounts/premiums, was \$1,167,558,000.

Loans and Notes Payable

Metropolitan Council received loans from the Minnesota Housing Finance Authority in 2002 and 2004 for \$400,000, and \$730,000, respectively. In 2004, MC received a \$275,000 loan from Hennepin County Housing and Redevelopment Authority for a total of \$1,405,000 of loans outstanding on December 31, 2011. The terms of the loan agreements are 30 years, although they may be extended indefinitely if all the terms of the loan agreement are met.

University of Minnesota issued tax-exempt commercial paper notes which are backed by U of M's self-liquidity and supported by a line of credit with a major commercial bank. On June 30, 2012, the outstanding commercial paper notes was \$246,350,000. U of M intends to hold the commercial paper notes as a long-term financing vehicle.

National Sports Center Foundation refinanced a majority of its existing debt with a new bank in 2011. On December 31, 2011, the total outstanding loans and notes payable was \$3,355,000.

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

Year Ended December 31	MC ⁽¹⁾		Year Ended June 30	U of M	
	Principal	Interest ⁽²⁾		Principal	Interest
2012	\$ 132,745	\$ 39,892	2013	\$ 31,757	\$ 28,943
2013	105,835	37,725	2014	28,358	27,477
2014	129,577	34,939	2015	32,265	26,040
2015	85,206	32,195	2016	33,955	24,550
2016	85,083	29,453	2017	35,270	22,980
2017-2021	441,871	103,192	2018-2022	160,040	90,270
2022-2026	280,487	38,096	2023-2027	113,085	57,634
2027-2031	86,079	5,209	2028-2032	113,745	25,245
2032-2036	-	-	2033-2037	43,520	4,976
Total	\$ 1,346,883	\$ 320,701	Total	\$ 591,995	\$ 308,115
Unamortized Discounts/ Premiums and Issuance Costs	15,586	-		43,047	-
Total	<u>\$ 1,362,469</u>	<u>\$ 320,701</u>	Total	<u>\$ 635,042</u>	<u>\$ 308,115</u>

⁽¹⁾ MC general obligation bonds include general obligation grant anticipation notes of \$90 million issued in fiscal year 2012.

⁽²⁾ MC interest is net of Build America Bonds federal subsidy.

**Component Units
Revenue Bonds
Major Component Units
(In Thousands)**

Year Ended June 30	HFA		U of M		Year Ended December 31	MC	
	Principal	Interest	Principal	Interest		Principal	Interest
2013	\$ 62,765	\$ 73,849	\$ 9,418	\$ 14,415	2012	\$ 1,305	\$ 81
2014	47,165	73,917	7,942	13,246	2013	1,365	27
2015	54,940	72,530	8,920	12,816	2014	-	-
2016	50,690	70,968	9,350	12,385	2015	-	-
2017	53,210	69,381	9,830	11,911	2016	-	-
2018-2022	276,940	318,935	57,150	51,545	2017-2021	-	-
2023-2027	351,315	264,067	73,130	35,557	2022-2026	-	-
2028-2032	451,705	191,807	62,730	17,654	2027-2031	-	-
2033-2037	496,915	105,965	44,630	5,044	2032-2036	-	-
2038-2042	293,335	22,741	-	-	2037-2041	-	-
2043-2047	19,600	1,858	-	-	2042-2046	-	-
2048-2052	5,830	221	-	-	2047-2051	-	-
Total	\$2,164,410	\$ 1,266,239	\$ 283,100	\$ 174,573	Total	\$ 2,670	\$ 108
Unamortized Discounts/ Premiums and Issuance Costs							
Total	<u>\$2,170,089</u>	<u>\$ 1,266,239</u>	<u>\$ 308,369</u>	<u>\$ 174,573</u>	Total	<u>\$ 2,700</u>	<u>\$ 108</u>

Component Units Revenue Bonds Nonmajor Component Units (In Thousands)						
Year Ended June 30	AEDB		OHE		PFA	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 375	\$ 76	\$ -	\$ 4,692	\$ 70,550	\$ 54,308
2014	385	59	360	4,692	73,825	50,939
2015	400	42	1,135	4,685	77,620	47,293
2016	120	31	1,090	4,651	83,835	43,426
2017	130	24	3,045	4,618	78,475	39,282
2018-2022	425	33	68,370	20,275	424,155	134,081
2023-2027	-	-	18,150	14,616	221,960	49,778
2028-2032	-	-	8,050	11,637	85,015	8,378
2033-2037	-	-	72,400	9,418	-	-
2038-2042	-	-	188,425	3,852	-	-
2043-2047	-	-	185,000	1,027	-	-
	<u>\$ 1,835</u>	<u>\$ 265</u>	<u>\$ 546,025</u>	<u>\$ 84,163</u>	<u>\$1,115,435</u>	<u>\$ 427,485</u>
Unamortized Discounts/Premiums and Issuance Costs	-	-	1,240	-	52,123	-
Total	<u>\$ 1,835</u>	<u>\$ 265</u>	<u>\$ 547,265</u>	<u>\$ 84,163</u>	<u>\$1,167,558</u>	<u>\$ 427,485</u>

Variable Rate Debt

University of Minnesota

To protect against future interest rate fluctuations on U of M's general obligation bonds and for budgeting purposes, U of M had entered into three separate interest rate swaps. All of these were pay-fixed, receive-variable interest rate swaps which changed the variable interest rate bonds to synthetic fixed-rate bonds. On February 1, 2011, U of M terminated these interest rate swap agreements related to the Series 1999A, 2001C, and 2003A bonds at a cost of \$17,195,000, which included a net realized loss of \$4,695,000.

As of June 30, 2012, U of M has three freestanding pay-fixed, receive-variable interest rate swaps that are considered ineffective hedges, where the changes in fair value are included in investment income reported in the Statements of Activities. See Note 2 – Cash, Investments, and Derivative Instruments for more information.

Office of Higher Education

The interest rates on all of the bonds are reset periodically. The rates on all of the bonds, except the taxable Series 2008A bonds, the tax-exempt Series 2008B bonds, and the tax-exempt series 2010 and 2011 bonds, are based on a determination by the auction agent through auction proceedings. The rates on the taxable bonds cannot exceed the lesser of one-month LIBOR plus 1.0 percent; 17.0 percent; or the 91 day average of the three-month T-Bill plus an applicable spread of 1.25 percent. The rates on the tax-exempt bonds cannot exceed the lesser of the applicable percentage of the Kenny index or the after-tax equivalent rate; 14.0 percent; or the three month average of the three-month T-Bill plus an applicable spread of 1.25 percent. The interest on the auction rate bonds is payable each time the rates are reset and no principal payments are required until final maturity.

The rates on the taxable Series 2008A bonds and tax-exempt Series 2008B bonds are determined by a remarketing agent. The rates on Series 2008A bonds and Series 2008B bonds cannot exceed 15.0 percent and 12.0 percent, respectively. The interest on the Series 2008A and Series 2008B bonds is payable monthly and semi-annually, respectively, and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2011A and 2011B bonds are determined by a remarketing agent. The rates on the Series 2011A and 2011B bonds cannot exceed 12.0 percent. The interest on the Series 2011A and 2011B bonds is payable monthly and no principal payments are required until final maturity.

The rates on the tax-exempt Series 2010 bonds are fixed and range from 2.0 percent to 5.0 percent. The interest on the 2010 bonds is paid semi-annually. The annual effective interest rate was 4.62 percent for the year ended June 30, 2012.

Housing Finance Agency

As of June 30, 2012, all of the HFA interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed as an interest rate swap agreement liability, whereas the inception-to-date change in fair value as of June 30, 2012, is included in the deferred loss on interest rate swap agreements asset on the Statement of Net Assets. See Note 2 – Cash, Investment, and Derivative Instruments for more information.

Bond Defeasances

In prior years, University of Minnesota defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The amount defeased for general obligation bonds 1982 and 1996 Series A was \$271,635,000 with \$153,600,000 outstanding as of June 30, 2012. Neither the outstanding indebtedness nor the related trust account assets for these bonds are included in the U of M's financial statements as of June 30, 2012.

Public Facilities Authority had \$260,500,000 of various refunding series bonds that were defeased but not yet redeemed as of June 30, 2012. These amounts are not reflected in the financial statements as of June 30, 2012.

Housing Finance Agency defeased all outstanding Single Family Mortgage Bonds totaling \$81,085,000 on April 26, 2012. On that date, HFA issued \$150,750,000 of Residential Housing Finance Bonds, a portion of which defeased \$45,720,000 of the Single Family Mortgage Bonds. The reacquisition price of the refunded bonds exceeded the net carrying amount by \$447,000, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately \$3,969,000 and resulted in a present value savings of approximately \$5,786,000 for HFA with refunding bond proceeds and available cash.

On April 26, 2012, HFA defeased \$35,365,000 of Single Family Mortgage Bonds. The reacquisition price exceeded the net carrying amount by \$754,000, which is included in interest expense.

The trust account assets and the liability for the defeased bonds were not included in HFA's statement of net assets after April 26, 2012. At June 30, 2012, the outstanding principal of the defeased bonds was \$12,380,000.

Note 14 – Segment Information

Primary Government Segment Information Financial Data Year Ended June 30, 2012 (In Thousands)				
Minnesota State Colleges and Universities				
	Revenue Fund	Vermilion Modular Housing	Itasca Residence Halls	911 Services
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 80,419	\$ 116	\$ 12	\$ 99,753
Restricted Assets	149,568	143	397	-
Notes Receivable	1,200	-	-	-
Capital Assets	277,628	760	3,308	98,948
Total Assets	<u>\$ 508,815</u>	<u>\$ 1,019</u>	<u>\$ 3,717</u>	<u>\$ 198,701</u>
Liabilities:				
Current Liabilities	\$ 33,979	\$ 91	\$ 116	\$ 17,325
Noncurrent Liabilities	263,186	-	1,946	151,903
Total Liabilities	<u>\$ 297,165</u>	<u>\$ 91</u>	<u>\$ 2,062</u>	<u>\$ 169,228</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 109,444	\$ 760	\$ 1,267	\$ -
Restricted	102,206	60	312	29,473
Unrestricted	-	108	76	-
Total Net Assets	<u>\$ 211,650</u>	<u>\$ 928</u>	<u>\$ 1,655</u>	<u>\$ 29,473</u>
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Operating Revenues - Customer Charges	\$ 111,168	\$ 259	\$ 430	\$ 68,516
Depreciation Expense	(13,925)	(34)	(119)	(8,170)
Other Operating Expenses	(74,432)	(139)	(209)	(36,356)
Operating Income (Loss)	<u>\$ 22,811</u>	<u>\$ 86</u>	<u>\$ 102</u>	<u>\$ 23,990</u>
Nonoperating Revenues (Expenses):				
Interest Income	\$ 741	\$ -	\$ 8	\$ 1
Private Grants	9,082	-	-	-
Interest Expense	(10,412)	(7)	(116)	(7,245)
Other	(78)	-	-	(20,960)
Transfers-In (Out)	-	-	-	(682)
Change in Net Assets	<u>\$ 22,144</u>	<u>\$ 79</u>	<u>\$ (6)</u>	<u>\$ (4,896)</u>
Beginning Net Assets	189,506	849	1,661	34,369
Ending Net Assets	<u>\$ 211,650</u>	<u>\$ 928</u>	<u>\$ 1,655</u>	<u>\$ 29,473</u>
Condensed Statement of Cash Flows				
Net Cash Provided (Used) By:				
Operating Activities	\$ 37,192	\$ 109	\$ 243	\$ 30,876
Net Cash Provided Noncapital Activities	9,082	-	-	-
Noncapital Financing Activities	-	-	-	23,744
Capital and Related Financing Activities	(89,898)	(84)	(206)	(18,040)
Investing Activities	595	-	8	1
Net Increase (Decrease)	<u>\$ (43,029)</u>	<u>\$ 25</u>	<u>\$ 45</u>	<u>\$ 36,581</u>
Beginning Cash and Cash Equivalents	\$ 203,093	\$ 203	\$ 264	\$ 58,512
Ending Cash and Cash Equivalents	<u>\$ 160,064</u>	<u>\$ 228</u>	<u>\$ 309</u>	<u>\$ 95,093</u>

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

- MnSCU Revenue Fund constructs, maintains, and operates college buildings for residence hall, student union, or food service purposes.
- MnSCU Vermilion segment accounts for the construction and operation of student housing at Vermilion Community College.
- MnSCU Itasca Residence Hall accounts for the construction of student housing at Itasca Community College.
- 911 Services Fund accounts for activities related to the enhancement of the state's 911 emergency response system.

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

Note 15 – Contingent Liabilities

Public Employee Pension Funds

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

Primary Government Contingent Liabilities (In Thousands)		
<u>Fund</u>	<u>Liability as of</u>	<u>Unfunded Liability</u>
St. Paul Teachers Retirement Fund	July 01, 2011	\$ 417,157
Duluth Teachers Retirement Fund	June 30, 2011	\$ 85,993

University of Minnesota

The University of Minnesota (U of M) issued revenue bonds to finance a football stadium on campus. In 2006, the Minnesota Legislature appropriated from the General Fund \$10.25 million per year not to exceed 25 years starting in 2008. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M.

The U of M issued revenue bonds to finance Biomedical Science Research facilities. In 2008, the Minnesota Legislature appropriated from the General Fund amounts ranging from \$850,000 to \$15.55 million per year not to exceed 25 years starting in 2010. Grants from the General Fund are conditioned upon satisfaction of certain requirements by the U of M.

Housing Finance Agency

The Housing Finance Agency (HFA) issued appropriation bonds to provide funds for rehabilitation, construction and mortgage loans, or to refund bonds to sponsors of residential housing for families of low and moderate income. In 2008, the Minnesota Legislature appropriated from the General Fund up to \$2.4 million per year for 20 years starting in 2009.

School District Credit Enhancement Program

Minnesota Statutes established a school district credit enhancement program. If a school district is unable to pay its debt service due on school district and intermediate school district certificates of indebtedness, capital notes, certificate of participation, and general obligation bonds enrolled in the program, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the school district or intermediate school district, or the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education. The total amount of debt rolled in the program at June 30, 2012 is \$13.2 billion. The state has not had to make any debt service payments on behalf of school districts or intermediate school districts under this program.

City and County Credit Enhancement Program

Minnesota Statutes established a city and county credit enhancement program. If a city or county is unable to pay its debt service due on general obligation bonds enrolled in the program issued for the construction, improvement, or rehabilitation of certain projects or certain redevelopment, contaminated site cleanup, the legislature appropriates annually from the General Fund the amounts necessary to make the debt service payments. This amount is repaid to the General Fund through a reduction in state aid payable to the city or county, or the levy of an ad valorem tax which may be made with the approval of Public Facility Authority. The total general obligation bonds enrolled into the program on June 30, 2012 is \$503 million. The state has not had to make any debt service payments on behalf of cities or counties under this program.

Note 16 – Equity

Restricted Net Assets – Government-wide Statement of Net Assets

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

Primary Government Restricted Net Asset Balances As of June 30, 2012 (In Thousands)				
Restricted For:	<u>Restricted by Constitution</u>	<u>Restricted by Enabling Legislation</u>	<u>Restricted by Other</u>	<u>Total</u>
Agricultural, Environmental and Energy Resources	\$ 260,737	\$ 807,257	\$ 11,859	\$ 1,079,853
Arts and Cultural Heritage	21,542	-	-	21,542
Capital Projects	-	-	9,320	9,320
Debt Service	-	-	119,469	119,469
Economic and Workforce Development	-	126,739	1,731	128,470
General Education	-	59,374	3,268	62,642
General Government	-	40,641	808	41,449
Health and Human Services	-	5,278	15,305	20,583
Higher Education	-	-	506,964	506,964
Public Safety and Corrections	-	29,693	56,194	85,887
School Aid - Expendable	6,064	-	-	6,064
School Aid - Nonexpendable	856,747	-	-	856,747
Transportation	1,298,649	15,959	-	1,314,608
Unemployment Benefits	-	-	518,666	518,666
Other Purposes	-	-	26,208	26,208
Total Restricted Net Assets	<u>\$ 2,443,739</u>	<u>\$ 1,084,941</u>	<u>\$ 1,269,792</u>	<u>\$ 4,798,472</u>

Fund Balances – Primary Government

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

Governmental Funds Fund Balances As of June 30, 2012 (In Thousands)				
	<u>General Fund</u>	<u>Major Special Revenue Fund Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Fund Balances:				
Nonspendable:				
Inventory	\$ -	\$ -	\$ 35,731	\$ 35,731
Trust or Permanent Fund Principal	625,689	-	856,747	1,482,436
Restricted for:				
Agricultural, Environmental and Energy Resources	22,395	123	470,789	493,307
Arts and Cultural Heritage	-	-	21,542	21,542
Capital Projects	-	-	181,208	181,208
Debt Service	-	-	129,441	129,441
Economic and Workforce Development	69,065	-	84,586	153,651
General Education	57,023	-	11,558	68,581
General Government	-	-	39,307	39,307
Health and Human Services	-	-	6,288	6,288
Public Safety	-	-	28,470	28,470
Transportation	-	-	1,326,731	1,326,731
Committed to:				
Agricultural, Environmental and Energy Resources	-	-	51,506	51,506
Economic and Workforce Development	-	-	201,134	201,134
General Education	-	-	1,414	1,414
General Government	-	-	14,594	14,594
Health and Human Services	-	-	178,305	178,305
Public Safety	-	-	79,406	79,406
Transportation	-	-	35,269	35,269
Assigned to:				
Capital Projects	-	-	2,158	2,158
General Government	-	-	640,000	640,000
Unassigned:				
	<u>(887,037)</u>	<u>-</u>	<u>(97,404)</u>	<u>(984,441)</u>
Total Fund Balances	<u>\$ (112,865)</u>	<u>\$ 123</u>	<u>\$ 4,298,780</u>	<u>\$ 4,186,038</u>

Deficit Equity Balances

A \$3,749,000 deficit total net asset balance was reported in the Behavioral Services Fund (enterprise fund) as of June 30, 2012. Repayment schedules have been established. This fund's operations continue to be evaluated for future operations.

A \$97,404,000 deficit fund balance in the Debt Service Fund (debt service) resulted from the state's Debt Service Fund receiving the proceeds of the revenue bonds reported in the Tobacco Securitization Authority Fund (blended component unit, special revenue fund) that were used to refund certain general obligation bonds and certificates of participation. These proceeds are recorded as an advance from other funds in the Debt Service Fund. See Note 12 – Long-Term Liabilities – Primary Government and Note 21 – Subsequent Events for further information on the advance from the Tobacco Securitization Authority Fund and the sale of the state's tobacco settlement revenue.

Note 17 – Risk Management

Primary Government

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

Risk Management Fund

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

The property coverage offers an agency a range of deductibles from \$1,000 through \$250,000 per loss. The fund covers the balance of the claim up to \$1,000,000. The reinsurance program provides coverage up to \$1,000,000,000. Once annual aggregate losses paid by the Risk Management Fund reach \$2,500,000 in any one fiscal year, the reinsurer will provide coverage in excess of a \$25,000 maintenance deductible for each claim. Agencies electing not to participate in the Risk Management Fund, and not able to cover the losses from their operating budget, must seek other reimbursements or additional appropriations from the legislature.

The liability coverage is up to the statutory limit (tort claims cap) of \$500,000 bodily injury and property damage per person, and \$1,500,000 bodily injury and property damage per occurrence. The casualty reinsurance program provides \$10,000,000 excess of a \$1,000,000 retention to protect the state from auto and general liability claims that are extra-territorial, as well as for suits brought in federal court which would be outside the state's jurisdiction.

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

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

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

Tort Claims

State agencies may elect to participate in the Risk Management Fund and obtain coverage for selected exposures, subject to the tort claims limits. Agencies not electing to participate in the Risk Management Fund are responsible for paying the cost of claims from their operating budget. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature. Tort claims brought outside Minnesota state jurisdiction and in Federal court have unlimited liability exposure.

Workers' Compensation

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including work place safety and loss control, rehabilitative and return to work services, claim services, and legal services.

The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of \$1,840,000.

The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a 'pay-as-you-go' revolving fund or a premium pool cost allocation fund. These costs are paid from each agency's operating budget.

The state estimates the liability for reported claims that have not yet been settled. These costs include anticipated indemnity and medical benefits related to the reported claim.

State Employee Group Insurance Program

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

SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the state. SEGIP had settlements of \$2,096,216 greater than coverage during the fiscal year ended June 30, 2012.

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

Public Employees Insurance Program

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

PEIP's membership as of June 30, 2012, was 4,966 members and their dependents. The members of the pool include 46 school districts, 25 cities/townships, 3 counties, and 10 other public employers. PEIP provides medical benefits coverage to public employees through a self-insured statewide program administered through several private-sector claims administrators/managed care organizations, as well as fully insured life and dental coverage. The pool will be self-sustaining through member premiums and will reinsure for claims through its administrators/managed care organizations for stop-loss coverage for claims in excess of \$100,000.

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

Primary Government Self-Insured Claim Liabilities (In Thousands)					
	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability	
Risk Management Fund					
Fiscal Year Ended 6/30/11	\$ 14,649	\$ (3,349)	\$ 2,091	\$	9,209
Fiscal Year Ended 6/30/12	\$ 9,209	\$ 2,448	\$ 2,598	\$	9,059
Tort Claims					
Fiscal Year Ended 6/30/11	\$ -	\$ 818	\$ 818	\$	-
Fiscal Year Ended 6/30/12	\$ -	\$ 1,381	\$ 1,381	\$	-
Workers' Compensation					
Fiscal Year Ended 6/30/11	\$ 111,772	\$ 39,901	\$ 22,295	\$	129,378
Fiscal Year Ended 6/30/12	\$ 129,378	\$ 15,030	\$ 22,596	\$	121,812
State Employee Insurance Plans					
Fiscal Year Ended 6/30/11	\$ 44,816	\$ 614,842	\$ 612,034	\$	47,624
Fiscal Year Ended 6/30/12	\$ 47,624	\$ 645,863	\$ 636,351	\$	57,136

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

	Year Ended June 30	
	2012	2011
Unpaid Claims and Claim Adjustment Expenses, Beginning	\$ 1,943	\$ 1,960
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of Current Year	\$ 36,024	\$ 22,643
Increases (Decreases) in Provision for Insured Events of Prior Years	585	12
Total Incurred Claims and Claim Adjustment Expenses	<u>\$ 36,609</u>	<u>\$ 22,655</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to Insured Events of Current Year	\$ 32,716	\$ 20,720
Claims and Claims Adjustment Expenses Attributable to Insured Events of Prior Years	2,498	1,952
Total Payments	<u>\$ 35,214</u>	<u>\$ 22,672</u>
Total Unpaid Claims and Claim Adjustment Expenses, Ending	<u>\$ 3,338</u>	<u>\$ 1,943</u>

Component Units

Housing Finance Agency

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

Metropolitan Council

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

MC purchases general liability insurance to protect all divisions of MC and recognizes a current liability for incurred, reported claims, and a long-term liability for claims incurred but not reported. Claims liabilities are calculated considering recent claim settlement trends including frequency and amount of payouts. Minnesota Statutes, Section 466.04, generally limits the MC's tort exposure to \$500,000 per claim and \$1,500,000 per occurrence for a claim arising on or after July 1, 2009. For claims arising earlier, the limits are \$400,000 per claim and \$1,200,000 per occurrence. In addition, an amount equal to twice these limits applies if the claim arises out of the release or threatened release of a hazardous substance.

MC has self-administered workers' compensation claims for all divisions. Liabilities are reported when information is available that suggests there has been an occurrence with probable loss incurred. Liabilities include an amount for claims that have been incurred but not reported. Claims liabilities are re-evaluated periodically to consider recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a discount rate of 2.89 percent. The self-insurance retention limit for workers' compensation is \$1,840,000 per single loss. For claims above the retention limit, the Workers' Compensation Reinsurance Association reimburses MC.

University of Minnesota

University of Minnesota (U of M) is self-insured for medical malpractice, general liability, directors' and officers' liability, and automobile liability through RUMINCO, Ltd., a wholly-owned single parent captive insurance company. Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported claims using a discount rate of 1.5 percent.

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

U of M's medical (health) and dental coverage for faculty and staff is a self-insured program. Under the plan, U of M pays claims, while the administration of the program is handled by independent administrators. U of M's graduate assistant medical plan and student health plan are also self-insured. Each year, an actuarial estimate of the U of M's liability for medical claims, including incurred but not reported claims, is recorded.

Component Units Claims Liabilities (In Thousands)				
	Beginning Claims Liability	Net Additions and Changes in Claims	Payment of Claims	Ending Claims Liability
Metropolitan Council - Workers' Compensation				
Fiscal Year Ended 12/31/10	\$ 15,809	\$ 10,106	\$ 7,169	\$ 18,746
Fiscal Year Ended 12/31/11	\$ 18,746	\$ 5,572	\$ 6,470	\$ 17,848
University of Minnesota – RUMINCO, Ltd.				
Fiscal Year Ended 6/30/11	\$ 7,818	\$ 2,345	\$ 2,300	\$ 7,863
Fiscal Year Ended 6/30/12	\$ 7,863	\$ 2,110	\$ 1,831	\$ 8,142
University of Minnesota – Workers' Compensation				
Fiscal Year Ended 6/30/11	\$ 12,683	\$ 3,517	\$ 4,235	\$ 11,965
Fiscal Year Ended 6/30/12	\$ 11,965	\$ 2,969	\$ 3,360	\$ 11,574
University of Minnesota – Medical/Dental				
Fiscal Year Ended 6/30/11	\$ 18,644	\$ 246,634	\$ 241,117	\$ 24,161
Fiscal Year Ended 6/30/12	\$ 24,161	\$ 246,924	\$ 242,692	\$ 28,393

Note 18 – Budgetary Basis vs. GAAP

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

General Fund Reconciliation of GAAP Basis Fund Balance to Budgetary Fund Balance As of June 30, 2012 (In Thousands)	
GAAP Basis Fund Balance:	\$ (112,865)
Less: Encumbrances	116,608
Unassigned Fund Balance	<u>\$ (229,473)</u>
Basis of Accounting Differences:	
Revenue Accruals/Adjustments:	
Taxes Receivable	\$ (513,868)
Tax Refunds Payable	484,940
Human Services Receivable	(23,821)
Unearned Revenue	11,160
Escheat Asset	(10,337)
Other Receivables	(20,127)
Permanent School Fund Reimbursement	(4,893)
Investments at Market	8,532
Expenditure Accruals/Adjustments:	
Medical Care Programs	479,717
Human Services Grants Payable	60,303
Education Aids	2,535,355
Police and Fire Aid	77,331
Other Payables	2,918
Other Financial Sources (Uses):	
Transfers-In	(12,726)
Fund Structure Differences:	
Terminally Funded Pension Plans	64
Perspective Differences:	
Account with no Legally Adopted Budget	(954,489)
Long-Term Receivables	(38,883)
Appropriation Carryover	(164,067)
Budgetary Reserve	<u>(1,007,618)</u>
Budgetary Basis:	
Undesignated Fund Balance	<u><u>\$ 680,018</u></u>

Note 19 – Litigation Note

- 1) Payment of tort claims against the state is made from funds appropriated by the Minnesota Legislature to agencies for their general operations to the extent such funds are available without unduly hindering the operation of the agency, from appropriations of dedicated receipts if practicable, or from funds appropriated for the payment of tort claims. The Tort Claims appropriations for each of the fiscal years ending June 30, 2011, and June 30, 2012, are \$761,000. The maximum limit of liability for tort claims arising out of a single occurrence in Minnesota on or before January 1, 2000, and before January 1, 2008, is \$1,000,000. The maximum limited liability for any one claim is \$300,000 for claims arising before August 1, 2007, and \$400,000 for claims arising on or after August 1, 2007, and before July 1, 2009, for any one claim and the maximum limits of liability for tort claims arising in Minnesota on or after January 1, 2008, and prior to July 1, 2009, is \$1,200,000 for any number of claims arising out of a single occurrence. For tort claims arising in Minnesota on or after July 1, 2009, the maximum limits are \$500,000 for any one claim and \$1,500,000 for any number of claims arising out of a single occurrence.
- 2) Lawsuits based on non-tort theories furnish another basis for potential liability. The following cases, or categories of cases, in which the state, its officers or employees, are defendants have been noted because an adverse decision in each case or category of case could result in an expenditure of state moneys of over \$15 million in excess of current levels.
 - a. At any one time, there are hundreds of Minnesota Department of Transportation (MnDOT) eminent domain actions being litigated in district courts throughout the state. There is a continuous flow of such cases, with the actual number depending on many factors such as the number of parcels of land that can be acquired by direct purchase, the construction needs of the department, and revenues available for highway projects. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds \$15 million. Liability arising out of decisions unfavorable to the state may impact the state's Trunk Highway Fund (special revenue fund). MnDOT has agreed to acquire properties for Metropolitan Council's (component unit) Central Corridor light rail transit project. This project is likely to involve eminent domain actions. In the aggregate, the potential cost to the state for property which has been, or will be, acquired exceeds \$15 million. Liability arising out of decisions unfavorable to the state may impact funding to be provided to MnDOT by Metropolitan Council.
 - b. *Alliance Pipeline, L.P. v. Commissioner of Revenue, et al.* (Minnesota Tax Court). Alliance operates a natural gas pipeline company and owns and operates property throughout 13 Minnesota counties. In October 2009, Alliance filed an appeal in Minnesota Tax Court challenging the Commissioner's 2009 assessment of Alliance's natural gas pipeline property in Minnesota. Subsequently, Alliance appealed the Commissioner's assessment for tax years 2010 and 2011. The legal issues in this appeal are very similar to the legal challenges raised in the *Minnesota Energy Resources Corp. v. Commissioner* appeals listed below. Alliance argues: (1) that the Commissioner has failed to correctly determine the market value of the property as defined by Minnesota Statutes, Section 272.03, Subdivision 8; (2) that Minnesota Rule 8100 exceeds the Commissioner's statutory authority to the extent it creates a valuation process which does not value utility property at its fair market value; and (3) that the assessment is unconstitutional in violation of the Equal Protection Clause, the Uniformity Clause and the Due Process Clause of the Minnesota Constitution and the Equal Protection and Due Process and Commerce Clauses of the U.S. Constitution.

- c. *Electric Cooperative Assessment Cases* (Minnesota Tax Court). Electric cooperatives filed a series of 16 separate appeals in Tax Court of the Commissioner of Revenue's assessment of sales tax for varying periods generally ranging from 2003 through 2006. Each electric cooperative estimates costs for its members as it bills those members throughout the year and collects sales tax based on those estimates. At year's end, if the cooperative has charged members in excess of the actual costs, it issues patronage adjustments in the form of "capital credits" to the members for the difference in cost. After doing so, the appellants filed for a refund in the sales tax paid on the difference between the actual and estimated costs. The Department initially paid the refunds to each appellant, but later issued assessments for the amounts that had been refunded. Citing Minnesota Rule 8130.1100, Subpart 5 (stating that when part of contribution is credited back to member's capital account after sale, credited amount is included in taxable sales price), the Department denied each appellant's administrative appeal. There are an estimated 44 electric cooperatives in the state that are similarly situated. The Department estimates total financial potential impact to the state of the Commissioner losing the legal issue in these cases is approximately \$20.9 million in one-time refunds with an on-going annual impact of \$4.2 million. The electric cooperatives filed a motion for partial summary claiming some of the assignment periods at issue are time barred.
- d. *Minnesota Energy Resources Corp. v. Commissioner of Revenue* (Minnesota Tax Court). The plaintiff, a natural gas pipeline corporation, appeals the market valuations made of the pipeline corporation's real, personal and operating property subject to assessment in 53 counties in Minnesota. The separate appeals for tax years 2008, 2009, 2010, and 2011 are consolidated. The pipeline corporation argues: (1) that the Commissioner has failed to correctly determine the market value (as defined in Minnesota Statutes, Section 272.03, Subdivision 8) of the pipeline's property in Minnesota and in its determination has employed methods which overstate the market value and arrived at a value in excess of market value; and (2) that the pipeline's property in Minnesota was unfairly and unequally assessed compared to property in the same class and the property of similarly situated taxpayers in violation of Minnesota Statutes, Section 273.11, the Equal Protection Clause; the Uniformity of Taxation Clause (Art. X, Sec. 1) and the Due Process clause of the Minnesota Constitution and the Equal Protection and Due Process Clause of U.S. Constitution. The apportionable 2008 market value for this property is \$126 million under the Minnesota rule in effect for 2008. A new Minnesota rule governs calculation for the 2009-2011 tax years. Minnesota Energy Resources Corp. objects to both the old and new rules. Specifically, Minnesota Energy Resources Corp. disagrees with how the capitalization rate is calculated, the fact that external obsolescence is not included in depreciation, the weighting of cost factors and claim that the property tax assessments are not applied evenly throughout Minnesota.
- e. *Skaja v. Minnesota Department of Health and Bearder, et al. v. State of Minnesota, et al. Anderson v. State of Minnesota*. (Hennepin County District Court). On November 16, 2011, the Minnesota Supreme Court issued an opinion in the *Bearder* case, holding that blood specimens collected under the newborn screening program are "genetic information" and that statutes governing the newborn screening program provide a limited exception to the requirements of the Genetic Privacy Act. The *Bearder* case was remanded to district court for further proceedings. Twelve families subsequently served the *Skaja* complaint and seek class action status, declaratory relief, injunctive relief and damages for alleged violation of the Genetic Privacy Act. The purported class includes all parents and children whose blood specimens were stored or used after newborn screening testing was complete. The *Anderson* plaintiffs (additional parents of minor children) commenced their action on January 13, 2012, alleging that the Department's collection, storage and use of blood samples pursuant to the Screening Program violated Minnesota Statutes, Section 13.386, the genetic privacy law. The complaint is styled as a class action. Plaintiffs seek damages, injunctive relief and an award of attorney's fees and torts. On April 16, 2012, the district court consolidated the three cases for all purposes. Motions for class certification have been filed.

Note 20 – Prior Period Adjustment and Extraordinary Item

Primary Government – Prior Period Adjustment

During fiscal year 2012, the Department of Human Services recognized that the federal government owed the state reimbursement for the federal share of Medicaid expenditures incurred by the state in prior years that were not submitted for reimbursement. A prior period adjustment of \$138.6 million was made in the General Fund to reflect the federal revenue due to the state.

During fiscal year 2012, the Department of Human Services recognized additional unbilled revenue related to HMO Provider Surcharges that should have been recognized in the prior year. A prior period adjustment of \$44.3 million was made in the government-wide financial statements to reflect the revenue.

During fiscal year 2012, the Minnesota Department of Transportation changed the method of depreciation to align with the method used for federal reporting. This change resulted in a prior period adjustment of \$18.9 million reflected in the government-wide financial statements. See Note 6 – Capital Assets for additional information.

Discretely Presented Component Unit (University of Minnesota) – Prior Period Adjustment

During fiscal year 2012, the University of Minnesota identified an overstatement of Investments that was recorded as a prior period adjustment of \$12.6 million.

Discretely Presented Component Unit (Metropolitan Council) – Extraordinary Item

On December 12, 2010, a combination of record snowfall and high winds led to the accumulation of large amounts of snow and ice on Metrodome roof causing it to collapse. Almost all events scheduled between December 12, 2010, and August 2011 were canceled as the Metrodome roof was replaced. The Metropolitan Sports Facilities Commission, a component unit of the Metropolitan Council (discretely presented component unit), received \$22.8 million in insurance proceeds for property damage and business interruption coverage.

Note 21 – Subsequent Events

Primary Government

On August 9, 2012, the state sold \$21.9 million of Retirement System Building Revenue Refunding bonds at a true interest rate of 1.63 percent. These bonds will provide funding for a current refunding of the Retirement System Building Revenue bonds, Series 2000 which were issued to finance the acquisition design, construction and equipping of a building and related facilities jointly occupied by the Minnesota State Retirement System, the Teachers Retirement Association and the Public Employees Retirement Association. The revenue bonds are secured by certain pledged assets of each of the retirement systems.

On August 16, 2012, the state sold \$422.0 million of general obligation state various purpose bonds Series 2012A at a true interest rate of 2.05 percent, \$234.0 million of general obligation state trunk highway bonds Series 2012B at a true interest rate of 2.38 percent, and \$2.5 million general obligation state taxable state bonds Series 2012C at a true interest rate of 1.03 percent. These bonds are backed by the full faith and credit and taxing power of the state.

On December 18, 2012, the state defeased \$13.0 million of certain maturities of certificates of participation Series 2009. These certificates were issued to provide funding for the development, acquisition, installation, and implementation of a new statewide accounting and procurement system and integrated tax software.

In August 2012, a special legislative session was held to provide disaster assistance of \$167.5 million for flood relief. The primary sources of funds are \$71.9 million from the General Fund and \$82.5 million from general obligation bonds.

On October 31, 2012, the Minnesota Supreme Court concluded that the Appropriation Refunding Bonds do not constitute public debt for which the State has pledged its full faith, credit and taxing powers. The Minnesota Supreme Court held that, accordingly, the bonds are not subject to the Minnesota Constitution's Article XI, Section 5, restrictions on the use of the proceeds of "public debt." Resulting from the decision of this court case, on November 21, 2012, the state sold \$54.7 million of state General Fund appropriation refunding bonds taxable Series 2012A at a true interest rate of 0.61 percent, and \$601.6 million of state general fund appropriation refunding bonds tax-exempt Series 2012B at a true interest rate of 2.46 percent. The bonds were issued for the purpose of refunding tobacco settlement revenue bonds Series 2011A and Series 2011B of the Tobacco Securitization Authority. These appropriation bonds are payable only from amounts appropriated by the legislature of the state.

Blended Component Unit

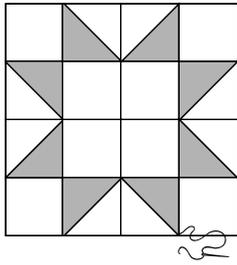
As a result of the sale of the state general fund appropriation refunding bonds, as stated above, the Tobacco Securitization Authority (Authority, blended component unit), by resolution dated November 5, 2012, has authorized and directed the trustee for the Authority bonds to give notice of the extraordinary optional redemption of the Series 2011B Authority bonds and notice of defeasance of both series of the Authority. Subsequently, the Series 2011 bonds were defeased and the Sale Agreement between the Authority and the state terminated and released the lien of the Authority Indenture on the state's tobacco settlement revenues.



State of Minnesota

Required Supplementary Information

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2012 Comprehensive Annual Financial Report Required Supplementary Information

Modified Approach for Infrastructure

The state uses the modified approach for reporting selected infrastructure assets. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 29,000 lane miles of pavement and approximately 3,000 bridges and tunnels maintained by the state.

To utilize the modified approach, the state is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the state.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Lane Miles of Pavement

Measurement Scale

The Minnesota Department of Transportation (MnDOT) uses three pavement condition indices to determine the condition of the trunk highway system: Present Serviceability Rating (PSR), Surface Rating (SR), and Pavement Quality Index (PQI). The PSR is a measure of pavement smoothness, the SR measures pavement distress (cracking) and the PQI is a composite index equal to the square root of the PSR multiplied by the SR.

The five qualitative categories used to describe pavement condition are shown in the table below.

<u>Description</u>	<u>PQI Range</u>	<u>PSR Range</u>	<u>SR Range</u>
Very Good	3.7 - 4.5	4.1 - 5.0	3.3 - 4.0
Good	2.8 - 3.6	3.1 - 4.0	2.5 - 3.2
Fair	1.9 - 2.7	2.1 - 3.0	1.7 - 2.4
Poor	1.0 - 1.8	1.1 - 2.0	0.9 - 1.6
Very Poor	0.0 - 0.9	0.0 - 1.0	0.0 - 0.8

The PQI will be used as the index for determining whether the pavement infrastructure is being maintained in a serviceable level. The PQI is an overall index, combining both pavement smoothness (PSR) and cracking (SR).

Established Condition Level

Principal arterial pavements will be maintained at 3.0 PQI (good) or higher and all other pavements will be maintained at 2.8 PQI (good) or higher.

Assessed Conditions

The state assesses condition on 100 percent of the pavement surfaces at least once every two years.

	<u>Principal Arterial Average PQI</u>	<u>Non-Principal Arterial Average PQI</u>
2011	3.30	3.20
2010	3.33	3.17
2009	3.25	3.12

Bridges and Tunnels

Measurement Scale

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

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

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

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

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

<u>Rating</u>	<u>Description</u>
Good	If all of the condition codes are 7 or greater, and if both of the appraisal ratings are 6 or greater.
Fair	If any of the condition codes are 5 or 6, or if either of the appraisal ratings are 3, 4, or 5.
Poor	If any of the condition codes are 4 or less, or if either of the appraisal ratings are 2 or less. This is also defined as structurally deficient.

Established Condition Level

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

Assessed Conditions

<u>Principal Arterial</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Fair to Good	94.5%	94.4%	94.0%

<u>All Other Systems</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Fair to Good	91.4%	91.3%	90.4%

Budgeted and Estimated Costs to Maintain

The following table presents the state's estimate of spending necessary to preserve and maintain the roads and bridges at, or above, the Established Condition Levels cited above, and the actual amount spent (in thousands):

		<u>Costs to be Capitalized</u>			<u>Maintenance of System</u>			<u>Total Construction Program</u>
		<u>Bridges</u>	<u>Pavement</u>	<u>Total Costs</u>	<u>Bridges</u>	<u>Pavement</u>	<u>Total Costs</u>	
Budget	2012	\$ 257,442	\$ 288,138	\$ 545,580	\$ 23,111	\$ 504,601	\$ 527,712	\$ 1,073,292
	2011	241,801	270,378	512,179	25,390	356,957	382,347	894,526
	2010	128,668	391,274	519,942	14,172	328,573	342,745	862,687
	2009	153,692	357,479	511,171	12,312	250,415	262,727	773,898
	2008	183,449	308,443	491,892	10,836	223,926	234,762	726,654
Actual	2012	\$ 105,736	\$ 158,438	\$ 264,174	\$ 64,810	\$ 571,693	\$ 636,503	\$ 900,677
	2011	153,245	156,672	309,917	60,898	566,820	627,718	937,635
	2010	142,295	188,096	330,391	71,361	531,980	603,341	933,732
	2009	175,274	257,489	432,763	37,994	408,090	446,084	878,847
	2008	252,306	279,664	531,970	35,341	364,939	400,280	932,250

Actuarial Measures of Pension Funding Progress

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

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

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

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

Required Supplementary Information Schedule of Funding Progress (In Thousands)					
		<u>CERF</u>	<u>JRF</u>	<u>LRF</u>	<u>SPRF</u>
Actuarial Valuation Date	2011	7/1/2011	7/1/2011	7/1/2011	7/1/2011
	2010	7/1/2010	7/1/2010	7/1/2010	7/1/2010
	2009	7/1/2009	7/1/2009	7/1/2009	7/1/2009
Actuarial Value of Plan Assets	2011	\$ 637,027	\$ 145,996	\$ 19,140	\$563,046
	2010	\$ 603,863	\$ 144,728	\$ 26,821	\$567,211
	2009	\$ 590,339	\$ 147,120	\$ 28,663	\$584,501
Actuarial Accrued Liability	2011	\$ 907,012	\$ 248,630	\$ 216,559	\$700,898
	2010	\$ 851,086	\$ 240,579	\$ 86,236	\$683,360
	2009	\$ 821,250	\$ 241,815	\$ 90,431	\$725,334
Total Unfunded Actuarial Liability	2011	\$ 269,985	\$ 102,634	\$ 197,419	\$137,852
	2010	\$ 247,223	\$ 95,851	\$ 59,415	\$116,149
	2009	\$ 230,911	\$ 94,695	\$ 61,768	\$140,833
Funded Ratio ⁽¹⁾	2011	70%	59%	9%	80%
	2010	71%	60%	31%	83%
	2009	72%	61%	32%	81%
Annual Covered Payroll	2011	\$ 197,702	\$ 40,473	\$ 1,774	\$ 63,250
	2010	\$ 192,450	\$ 39,291	\$ 1,877	\$ 63,250
	2009	\$ 193,445	\$ 39,444	\$ 1,963	\$ 61,511
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	2011	137%	254%	11,128%	218%
	2010	128%	244%	3,165%	184%
	2009	119%	240%	3,147%	229%

⁽¹⁾Actuarial value of assets as a percent of actuarial accrued liability.

Actuarial Measures of Other Postemployment Benefits Funding Progress

The state of Minnesota offers other postemployment benefits to state employees and their dependents through a single-employer defined benefit health care plan.

Required Supplementary Information Schedule of Funding Progress (In Thousands)		
Actuarial Valuation Date		7/1/2010 ⁽¹⁾ 7/1/2008 7/1/2006
Actuarial Value of Plan Assets	7/1/2010	\$ -
	7/1/2008	\$ -
	7/1/2006	\$ -
Actuarial Accrued Liability	7/1/2010	\$ 799,321
	7/1/2008	\$ 754,801
	7/1/2006	\$ 659,044
Total Unfunded Actuarial Liability	7/1/2010	\$ 799,321
	7/1/2008	\$ 754,801
	7/1/2006	\$ 659,044
Funded Ratio ⁽²⁾	7/1/2010	0%
	7/1/2008	0%
	7/1/2006	0%
Annual Covered Payroll	7/1/2010	\$ 3,027,241
	7/1/2008	\$ 2,785,335
	7/1/2006	\$ 2,838,228
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	7/1/2010	26%
	7/1/2008	27%
	7/1/2006	23%
<p>⁽¹⁾The July 1, 2010, Actuarial Valuation Report is the most recently issued report available. The Actuarial Valuation Report is prepared every two years.</p> <p>⁽²⁾Actuarial value of assets as a percent of actuarial accrued liability.</p>		

Public Employees Insurance Program Development Information

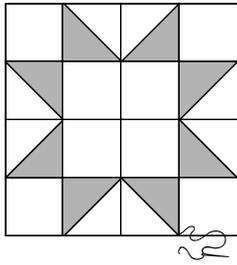
During fiscal year 1998, the Public Employees Insurance Program's medical claims became a self-funded program. The following table illustrates how the fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the past ten years.

	Fiscal Year Ended (In Thousands)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Required Contribution and Investment Revenue:										
Earned	\$ 23,458	\$ 22,764	\$ 19,177	\$ 14,942	\$ 13,219	\$ 13,439	\$ 12,286	\$ 25,031	\$ 34,161	\$ 45,413
Ceded	2,321	2,231	1,736	1,491	1,347	1,298	1,218	2,684	2,660	3,502
Net Earned	\$ 21,137	\$ 20,533	\$ 17,441	\$ 13,451	\$ 11,872	\$ 12,141	\$ 11,068	\$ 22,347	\$ 31,501	\$ 41,911
2. Unallocated Expenses	\$ 2,528	\$ 2,296	\$ 1,904	\$ 1,638	\$ 1,547	\$ 1,505	\$ 1,534	\$ 2,037	\$ 2,411	\$ 3,018
3. Estimated Claims and Expenses End of Policy Year:										
Incurred	\$ 19,715	\$ 19,466	\$ 16,499	\$ 12,551	\$ 11,206	\$ 10,748	\$ 9,473	\$ 19,350	\$ 24,134	\$ 38,173
Ceded	1,570	1,980	1,913	1,382	1,782	380	667	562	1,491	2,149
Net Incurred	\$ 18,145	\$ 17,486	\$ 14,586	\$ 11,169	\$ 9,424	\$ 10,368	\$ 8,806	\$ 18,788	\$ 22,643	\$ 36,024
4. Net Paid (Cumulative) as of:										
End of Policy Year	\$ 15,847	\$ 15,699	\$ 12,909	\$ 10,055	\$ 8,226	\$ 9,403	\$ 7,921	\$ 16,848	\$ 20,720	\$ 32,716
One Year Latter	17,572	17,367	14,141	11,282	9,352	10,415	8,482	18,828	23,219	
Two Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454	18,826		
Three Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454			
Four Years Latter	17,579	17,764	14,139	11,301	9,358	10,413				
Five Years Latter	17,579	17,696	14,139	11,301	9,358					
Six Years Latter	17,579	17,696	14,139	11,301						
Seven Years Latter	17,579	17,696	14,139							
Eight Years Latter	17,579	17,969								
Nine Years Latter	17,579									
5. Re-estimated Ceded Claims and Expenses	\$ 1,570	\$ 1,980	\$ 1,913	\$ 1,382	\$ 1,782	\$ 380	\$ 667	\$ 562	\$ 1,491	\$ 2,149
6. Re-estimated Net Incurred Claims and Expenses:										
End of Policy Year	\$ 18,145	\$ 17,486	\$ 14,586	\$ 11,169	\$ 9,424	\$ 10,368	\$ 8,806	\$ 18,788	\$ 22,643	\$ 36,024
One Year Latter	17,595	17,385	14,152	11,294	9,362	10,425	8,502	18,848	23,249	
Two Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454	18,826		
Three Years Latter	17,579	17,764	14,139	11,301	9,358	10,413	8,454			
Four Years Latter	17,579	17,764	14,139	11,301	9,358	10,413				
Five Years Latter	17,579	17,696	14,139	11,301	9,358					
Six Years Latter	17,579	17,696	14,139	11,301						
Seven Years Latter	17,579	17,696	14,139							
Eight Years Latter	17,579	17,696								
Nine Years Latter	17,579									
7. Increase (Decrease) in Estimated Net Incurred Claims and Expenses										
From End of Policy Year	\$ (566)	\$ 210	\$ (447)	\$ 132	\$ (66)	\$ 45	\$ (352)	\$ 38	\$ 606	\$ -

The rows of the table are defined as follows:

1. This section shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims.

3. This section shows the fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
4. This section shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.)
7. This line compares the latest re-estimated net incurred claims amount to the amount originally established (section 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

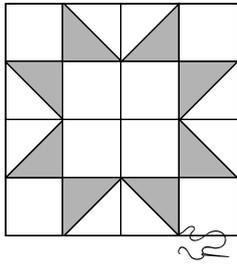




State of Minnesota

Combining and Individual Fund Statements – Nonmajor Funds

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Nonmajor Special Revenue, Debt Service, Permanent and Capital Projects Funds

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 as well as lease-purchase financing for technology improvement.

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.

STATE OF MINNESOTA

**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
COMBINING BALANCE SHEET
JUNE 30, 2012
(IN THOUSANDS)**

	SPECIAL REVENUE	DEBT SERVICE	PERMANENT PERMANENT SCHOOL	CAPITAL PROJECTS	TOTAL
ASSETS					
Cash and Cash Equivalents.....	\$ 2,373,534	\$ 292,406	\$ 170,293	\$ 259,365	\$ 3,095,598
Investments.....	143,170	173,671	673,454	-	990,295
Accounts Receivable.....	354,669	-	5,072	-	359,741
Interfund Receivables.....	244,987	-	5,091	-	250,078
Due from Component Unit.....	-	100,685	-	-	100,685
Accrued Investment/Interest Income.....	423	2,040	3,120	-	5,583
Federal Aid Receivable.....	90,032	-	-	-	90,032
Inventories.....	35,731	-	-	-	35,731
Loans and Notes Receivable.....	136,469	-	-	163	136,632
Advances to Other Funds.....	640,000	-	-	-	640,000
Prepaid Expense.....	1	-	-	-	1
Investment in Land.....	-	-	16,010	-	16,010
Total Assets.....	\$ 4,019,016	\$ 568,802	\$ 873,040	\$ 259,528	\$ 5,720,386
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable.....	\$ 366,950	\$ -	\$ 32	\$ 73,298	\$ 440,280
Interfund Payables.....	158,372	26,206	9,893	759	195,230
Due to Component Unit.....	3,916	-	-	2,105	6,021
Deferred Revenue.....	139,771	-	304	-	140,075
Advances from Other Funds.....	-	640,000	-	-	640,000
Total Liabilities.....	\$ 669,009	\$ 666,206	\$ 10,229	\$ 76,162	\$ 1,421,606
Fund Balances:					
Nonspendable.....	\$ 35,731	\$ -	\$ 856,747	\$ -	\$ 892,478
Restricted.....	2,112,648	-	6,064	181,208	2,299,920
Committed.....	561,628	-	-	-	561,628
Assigned.....	640,000	-	-	2,158	642,158
Unassigned.....	-	(97,404)	-	-	(97,404)
Total Fund Balances.....	\$ 3,350,007	\$ (97,404)	\$ 862,811	\$ 183,366	\$ 4,298,780
Total Liabilities and Fund Balances.....	\$ 4,019,016	\$ 568,802	\$ 873,040	\$ 259,528	\$ 5,720,386

STATE OF MINNESOTA

**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	SPECIAL REVENUE	DEBT SERVICE	PERMANENT PERMANENT SCHOOL	CAPITAL PROJECTS	TOTAL
Net Revenues:					
Sales Taxes.....	\$ 296,270	\$ -	\$ -	\$ -	\$ 296,270
Motor Vehicle Taxes.....	930,278	-	-	-	930,278
Fuel Taxes.....	851,410	-	-	-	851,410
Other Taxes.....	768,632	-	-	-	768,632
Federal Revenues.....	483,968	-	-	-	483,968
Licenses and Fees.....	322,733	-	97	-	322,830
Departmental Services.....	185,101	-	34,192	-	219,293
Investment/Interest Income.....	27,606	20,973	49,258	7	97,844
Other Revenues.....	209,958	800	18	15	210,791
Net Revenues.....	<u>\$ 4,075,956</u>	<u>\$ 21,773</u>	<u>\$ 83,565</u>	<u>\$ 22</u>	<u>\$ 4,181,316</u>
Expenditures:					
Current:					
Agricultural, Environmental and Energy Resources...	\$ 410,750	\$ -	\$ 9,320	\$ 85,936	\$ 506,006
Economic and Workforce Development.....	174,607	-	-	58,092	232,699
General Education.....	37,625	-	24,294	10,154	72,073
General Government.....	76,461	130	-	24,161	100,752
Health and Human Services.....	580,556	-	-	10	580,566
Higher Education.....	22,543	-	-	42,735	65,278
Intergovernmental Aid.....	378	-	-	-	378
Public Safety and Corrections.....	177,641	-	-	5,676	183,317
Transportation.....	1,525,185	-	-	201,608	1,726,793
Total Current Expenditures.....	<u>\$ 3,005,746</u>	<u>\$ 130</u>	<u>\$ 33,614</u>	<u>\$ 428,372</u>	<u>\$ 3,467,862</u>
Capital Outlay.....	259,236	-	-	238,668	497,904
Debt Service.....	32,186	950,464	-	-	982,650
Total Expenditures.....	<u>\$ 3,297,168</u>	<u>\$ 950,594</u>	<u>\$ 33,614</u>	<u>\$ 667,040</u>	<u>\$ 4,948,416</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 778,788</u>	<u>\$ (928,821)</u>	<u>\$ 49,951</u>	<u>\$ (667,018)</u>	<u>\$ (767,100)</u>
Other Financing Sources (Uses):					
General Obligation Bond Issuance.....	\$ -	\$ 8,500	\$ -	\$ 752,394	\$ 760,894
Revenue Bond Issuance.....	756,955	-	-	-	756,955
Payment to Refunded Bonds Escrow Agent.....	-	(400,775)	-	-	(400,775)
Bond Issue Premium.....	27,200	115,073	-	-	142,273
Transfers-In.....	359,336	294,513	5,091	-	658,940
Transfers-Out.....	(439,394)	-	-	(62,245)	(501,639)
Net Other Financing Sources (Uses).....	<u>\$ 704,097</u>	<u>\$ 17,311</u>	<u>\$ 5,091</u>	<u>\$ 690,149</u>	<u>\$ 1,416,648</u>
Net Change in Fund Balances.....	<u>\$ 1,482,885</u>	<u>\$ (911,510)</u>	<u>\$ 55,042</u>	<u>\$ 23,131</u>	<u>\$ 649,548</u>
Fund Balances, Beginning, as Reported.....	<u>\$ 1,867,122</u>	<u>\$ 814,106</u>	<u>\$ 807,769</u>	<u>\$ 160,235</u>	<u>\$ 3,649,232</u>
Fund Balances, Ending.....	<u>\$ 3,350,007</u>	<u>\$ (97,404)</u>	<u>\$ 862,811</u>	<u>\$ 183,366</u>	<u>\$ 4,298,780</u>



State of Minnesota

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Nonmajor Special Revenue Funds

Trunk Highway Fund

The fund receives a portion of the revenue from taxes on motor vehicles and motor fuels and federal grants to plan, design, construct, and maintain the state trunk highway system.

Highway User Tax Distribution Fund

The fund receives a portion of the revenue from taxes on motor vehicles and motor fuels to administer vehicle licensing services.

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 a portion of the revenue from taxes on motor vehicles and motor fuels primarily for distribution to municipalities for improvement of streets.

County State-Aid Highway Fund

The fund receives a portion of the revenue from taxes on motor vehicles and motor fuels 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.

Nonmajor Special Revenue Funds – Continued

Natural Resources Fund

The fund receives taxes from fuel used in recreational vehicles, and fees and donations that 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.

Environmental and Remediation Fund

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

Douglas J. Johnson Economic Protection Trust 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.

Heritage Fund

The fund receives a portion of sales and use taxes to restore, protect, and enhance the outdoors, water quality, parks and trails, and arts and cultural heritage.

Endowment Fund

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

Special Compensation Fund

The fund receives assessments on all insurers for administration of the state workers' compensation program, including enforcement, reimbursement of certain supplemental benefits, and 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.

Workforce Development Fund

The fund receives special assessments levied on employers for employment and training programs.

Tobacco Securitization Authority Fund (Blended Component Unit)

The fund manages the securitization of the tobacco settlement revenue.

Miscellaneous Special Revenue Fund

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

STATE OF MINNESOTA

**NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012
(IN THOUSANDS)**

	TRUNK HIGHWAY	HIGHWAY USER TAX DISTRIBUTION	STATE AIRPORTS	MUNICIPAL STATE-AID STREET
ASSETS				
Cash and Cash Equivalents.....	\$ 729,259	\$ 18,656	\$ 12,892	\$ 145,359
Investments.....	-	-	-	-
Accounts Receivable.....	7,064	71,581	422	42
Interfund Receivables.....	69,150	46,398	-	10,038
Accrued Investment/Interest Income.....	-	-	-	-
Federal Aid Receivable.....	87,205	-	-	32
Inventories.....	35,722	-	-	-
Loans and Notes Receivable.....	-	-	2,576	-
Advances to Other Funds.....	-	-	-	-
Prepaid Expenses.....	-	-	-	-
Total Assets.....	<u>\$ 928,400</u>	<u>\$ 136,635</u>	<u>\$ 15,890</u>	<u>\$ 155,471</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable.....	\$ 116,246	\$ 2,351	\$ 1,982	\$ 15,649
Interfund Payables.....	5,129	127,406	-	744
Due to Component Unit.....	-	-	-	-
Deferred Revenue.....	-	2,571	-	-
Total Liabilities.....	<u>\$ 121,375</u>	<u>\$ 132,328</u>	<u>\$ 1,982</u>	<u>\$ 16,393</u>
Fund Balances:				
Nonspendable.....	\$ 35,722	\$ -	\$ -	\$ -
Restricted.....	771,303	4,307	13,908	139,078
Committed.....	-	-	-	-
Assigned.....	-	-	-	-
Total Fund Balances.....	<u>\$ 807,025</u>	<u>\$ 4,307</u>	<u>\$ 13,908</u>	<u>\$ 139,078</u>
Total Liabilities and Fund Balances....	<u>\$ 928,400</u>	<u>\$ 136,635</u>	<u>\$ 15,890</u>	<u>\$ 155,471</u>

COUNTY STATE-AID HIGHWAY	PETROLEUM TANK CLEANUP	NATURAL RESOURCES	GAME AND FISH	ENVIRONMENTAL AND REMEDATION
\$ 430,894	\$ 22,130	\$ 43,863	\$ 28,195	\$ 43,647
-	-	-	16,572	702
151	10	3,021	3,543	13,775
47,514	-	16,034	1,030	11,439
-	-	-	75	1
32	-	-	2,616	6
-	-	-	-	-
-	-	-	-	638
-	-	-	-	-
-	-	-	1	-
<u>\$ 478,591</u>	<u>\$ 22,140</u>	<u>\$ 62,918</u>	<u>\$ 52,032</u>	<u>\$ 70,208</u>
\$ 75,258	\$ 2,234	\$ 5,437	\$ 7,125	\$ 3,735
2,834	3,616	5,091	-	-
-	-	2,379	-	-
-	10	-	-	4,050
<u>\$ 78,092</u>	<u>\$ 5,860</u>	<u>\$ 12,907</u>	<u>\$ 7,125</u>	<u>\$ 7,785</u>
\$ -	\$ -	\$ -	\$ -	\$ -
400,499	16,280	-	44,907	62,423
-	-	50,011	-	-
-	-	-	-	-
<u>\$ 400,499</u>	<u>\$ 16,280</u>	<u>\$ 50,011</u>	<u>\$ 44,907</u>	<u>\$ 62,423</u>
<u>\$ 478,591</u>	<u>\$ 22,140</u>	<u>\$ 62,918</u>	<u>\$ 52,032</u>	<u>\$ 70,208</u>

CONTINUED

STATE OF MINNESOTA

**NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 COMBINING BALANCE SHEET
 JUNE 30, 2012
 (IN THOUSANDS)**

	D J JOHNSON ECONOMIC PROTECTION TRUST	HERITAGE	ENDOWMENT	SPECIAL COMPENSATION
ASSETS				
Cash and Cash Equivalents.....	\$ 65,724	\$ 243,909	\$ 17,392	\$ 37,456
Investments.....	69,655	-	939	-
Accounts Receivable.....	1,217	21,087	300	105,298
Interfund Receivables.....	-	28,140	-	1,419
Accrued Investment/Interest Income.....	343	-	4	-
Federal Aid Receivable.....	-	-	-	7
Inventories.....	-	-	-	-
Loans and Notes Receivable.....	39,494	-	-	-
Advances to Other Funds.....	-	-	-	-
Prepaid Expenses.....	-	-	-	-
Total Assets.....	<u>\$ 176,433</u>	<u>\$ 293,136</u>	<u>\$ 18,635</u>	<u>\$ 144,180</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable.....	\$ 96	\$ 10,773	\$ 916	\$ 15,505
Interfund Payables.....	-	-	-	-
Due to Component Unit.....	-	84	-	-
Deferred Revenue.....	1,208	-	-	105,607
Total Liabilities.....	<u>\$ 1,304</u>	<u>\$ 10,857</u>	<u>\$ 916</u>	<u>\$ 121,112</u>
Fund Balances:				
Nonspendable.....	\$ -	\$ -	\$ -	\$ -
Restricted.....	-	282,279	17,719	23,068
Committed.....	175,129	-	-	-
Assigned.....	-	-	-	-
Total Fund Balances.....	<u>\$ 175,129</u>	<u>\$ 282,279</u>	<u>\$ 17,719</u>	<u>\$ 23,068</u>
Total Liabilities and Fund Balances....	<u>\$ 176,433</u>	<u>\$ 293,136</u>	<u>\$ 18,635</u>	<u>\$ 144,180</u>

<u>HEALTH CARE ACCESS</u>	<u>WORKFORCE DEVELOPMENT</u>	<u>TOBACCO SECURITIZATION AUTHORITY</u>	<u>MISCELLANEOUS SPECIAL REVENUE</u>	<u>TOTAL</u>
\$ 116,299	\$ 30,484	\$ 74,139	\$ 313,236	\$ 2,373,534
-	-	55,302	-	143,170
87,067	13,405	-	26,686	354,669
-	28	-	13,797	244,987
-	-	-	-	423
-	-	-	134	90,032
-	-	-	9	35,731
-	-	-	93,761	136,469
-	-	640,000	-	640,000
-	-	-	-	1
<u>\$ 203,366</u>	<u>\$ 43,917</u>	<u>\$ 769,441</u>	<u>\$ 447,623</u>	<u>\$ 4,019,016</u>
\$ 48,599	\$ 1,938	\$ -	\$ 59,106	\$ 366,950
679	-	-	12,873	158,372
-	-	-	1,453	3,916
2,870	1,220	-	22,235	139,771
<u>\$ 52,148</u>	<u>\$ 3,158</u>	<u>\$ -</u>	<u>\$ 95,667</u>	<u>\$ 669,009</u>
\$ -	\$ -	\$ -	\$ 9	\$ 35,731
-	40,759	129,441	166,677	2,112,648
151,218	-	-	185,270	561,628
-	-	640,000	-	640,000
<u>\$ 151,218</u>	<u>\$ 40,759</u>	<u>\$ 769,441</u>	<u>\$ 351,956</u>	<u>\$ 3,350,007</u>
<u>\$ 203,366</u>	<u>\$ 43,917</u>	<u>\$ 769,441</u>	<u>\$ 447,623</u>	<u>\$ 4,019,016</u>

STATE OF MINNESOTA

**NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	TRUNK HIGHWAY	HIGHWAY USER TAX DISTRIBUTION	STATE AIRPORTS	MUNICIPAL STATE-AID STREET
Net Revenues:				
Sales Taxes.....	\$ -	\$ -	\$ -	\$ -
Motor Vehicle Taxes.....	532,847	11,672	13,945	77,348
Fuel Taxes.....	483,029	4,588	3,026	70,118
Other Taxes.....	-	-	-	-
Federal Revenues.....	446,903	-	-	294
Licenses and Fees.....	8,191	-	610	-
Departmental Services.....	9,405	176	-	-
Investment/Interest Income.....	3,229	120	56	762
Other Revenues.....	22,985	-	-	-
Net Revenues.....	<u>\$ 1,506,589</u>	<u>\$ 16,556</u>	<u>\$ 17,637</u>	<u>\$ 148,522</u>
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources....	\$ -	\$ -	\$ -	\$ -
Economic and Workforce Development.....	-	-	-	-
General Education.....	-	-	-	-
General Government.....	26	1,656	-	-
Health and Human Services.....	-	-	-	-
Higher Education.....	-	-	-	-
Intergovernmental Aid.....	-	-	-	-
Public Safety and Corrections.....	85,478	8,865	-	-
Transportation.....	902,578	153	17,999	130,030
Total Current Expenditures.....	<u>\$ 988,082</u>	<u>\$ 10,674</u>	<u>\$ 17,999</u>	<u>\$ 130,030</u>
Capital Outlay.....	231,938	-	-	-
Debt Service.....	5,393	7	-	-
Total Expenditures.....	<u>\$ 1,225,413</u>	<u>\$ 10,681</u>	<u>\$ 17,999</u>	<u>\$ 130,030</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 281,176</u>	<u>\$ 5,875</u>	<u>\$ (362)</u>	<u>\$ 18,492</u>
Other Financing Sources (Uses):				
Revenue Bond Issuance.....	\$ -	\$ -	\$ -	\$ -
Bond Issue Premium.....	-	-	-	-
Transfers-In.....	4,611	-	-	2,219
Transfers-Out.....	(72,670)	(2,322)	-	-
Net Other Financing Sources (Uses).....	<u>\$ (68,059)</u>	<u>\$ (2,322)</u>	<u>\$ -</u>	<u>\$ 2,219</u>
Net Change in Fund Balances.....	<u>\$ 213,117</u>	<u>\$ 3,553</u>	<u>\$ (362)</u>	<u>\$ 20,711</u>
Fund Balances, Beginning, as Reported.....	<u>\$ 593,908</u>	<u>\$ 754</u>	<u>\$ 14,270</u>	<u>\$ 118,367</u>
Fund Balances, Ending.....	<u>\$ 807,025</u>	<u>\$ 4,307</u>	<u>\$ 13,908</u>	<u>\$ 139,078</u>

COUNTY STATE-AID HIGHWAY	PETROLEUM TANK CLEANUP	NATURAL RESOURCES	GAME AND FISH	ENVIRONMENTAL AND REMEDATION
\$ 9,299	\$ -	\$ -	\$ -	\$ -
294,466	-	-	-	-
266,937	-	23,712	-	-
-	-	-	-	55,586
344	-	1,005	23,787	-
-	21,023	20,848	53,431	35,327
-	5	32,861	1,651	3,730
2,135	134	94	3,091	279
-	53	1,274	168	1,862
<u>\$ 573,181</u>	<u>\$ 21,215</u>	<u>\$ 79,794</u>	<u>\$ 82,128</u>	<u>\$ 96,784</u>
\$ -	\$ 8,700	\$ 83,837	\$ 87,728	\$ 83,283
-	5,593	-	-	100
-	-	160	-	-
-	-	-	-	266
-	-	-	-	209
-	-	-	-	-
-	-	-	-	-
-	-	-	-	66
438,045	-	5,670	-	-
<u>\$ 438,045</u>	<u>\$ 14,293</u>	<u>\$ 89,667</u>	<u>\$ 87,728</u>	<u>\$ 83,924</u>
-	-	2,712	1,851	260
-	-	-	-	-
<u>\$ 438,045</u>	<u>\$ 14,293</u>	<u>\$ 92,379</u>	<u>\$ 89,579</u>	<u>\$ 84,184</u>
\$ 135,136	\$ 6,922	\$ (12,585)	\$ (7,451)	\$ 12,600
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	400	14,451	14,130	28,207
(4,118)	(8,950)	(6,386)	(582)	(19,651)
<u>\$ (4,118)</u>	<u>\$ (8,550)</u>	<u>\$ 8,065</u>	<u>\$ 13,548</u>	<u>\$ 8,556</u>
<u>\$ 131,018</u>	<u>\$ (1,628)</u>	<u>\$ (4,520)</u>	<u>\$ 6,097</u>	<u>\$ 21,156</u>
<u>\$ 269,481</u>	<u>\$ 17,908</u>	<u>\$ 54,531</u>	<u>\$ 38,810</u>	<u>\$ 41,267</u>
<u>\$ 400,499</u>	<u>\$ 16,280</u>	<u>\$ 50,011</u>	<u>\$ 44,907</u>	<u>\$ 62,423</u>

CONTINUED

STATE OF MINNESOTA

**NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 YEAR ENDED JUNE 30, 2012
 (IN THOUSANDS)**

	D J JOHNSON ECONOMIC PROTECTION			SPECIAL
	TRUST	HERITAGE	ENDOWMENT	COMPENSATION
Net Revenues:				
Sales Taxes.....	\$ -	\$ 286,971	\$ -	\$ -
Motor Vehicle Taxes.....	-	-	-	-
Fuel Taxes.....	-	-	-	-
Other Taxes.....	711	-	-	91,182
Federal Revenues.....	-	-	-	2
Licenses and Fees.....	-	-	-	1,431
Departmental Services.....	161	-	-	5,148
Investment/Interest Income.....	5,623	1,095	134	331
Other Revenues.....	557	977	11,050	-
Net Revenues.....	<u>\$ 7,052</u>	<u>\$ 289,043</u>	<u>\$ 11,184</u>	<u>\$ 98,094</u>
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources....	\$ -	\$ 84,471	\$ 3,675	\$ 511
Economic and Workforce Development.....	3,038	4,550	342	90,359
General Education.....	-	12,447	3,482	-
General Government.....	-	34,471	92	6,563
Health and Human Services.....	-	2,243	352	-
Higher Education.....	-	-	-	-
Intergovernmental Aid.....	-	-	-	-
Public Safety and Corrections.....	-	-	137	-
Transportation.....	-	16,263	-	-
Total Current Expenditures.....	<u>\$ 3,038</u>	<u>\$ 154,445</u>	<u>\$ 8,080</u>	<u>\$ 97,433</u>
Capital Outlay.....	-	12,328	2,754	130
Debt Service.....	696	-	-	-
Total Expenditures.....	<u>\$ 3,734</u>	<u>\$ 166,773</u>	<u>\$ 10,834</u>	<u>\$ 97,563</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 3,318</u>	<u>\$ 122,270</u>	<u>\$ 350</u>	<u>\$ 531</u>
Other Financing Sources (Uses):				
Revenue Bond Issuance.....	\$ -	\$ -	\$ -	\$ -
Bond Issue Premium.....	-	-	-	-
Transfers-In.....	-	-	11	-
Transfers-Out.....	-	(4,000)	-	-
Net Other Financing Sources (Uses).....	<u>\$ -</u>	<u>\$ (4,000)</u>	<u>\$ 11</u>	<u>\$ -</u>
Net Change in Fund Balances.....	<u>\$ 3,318</u>	<u>\$ 118,270</u>	<u>\$ 361</u>	<u>\$ 531</u>
Fund Balances, Beginning, as Reported.....	<u>\$ 171,811</u>	<u>\$ 164,009</u>	<u>\$ 17,358</u>	<u>\$ 22,537</u>
Fund Balances, Ending.....	<u>\$ 175,129</u>	<u>\$ 282,279</u>	<u>\$ 17,719</u>	<u>\$ 23,068</u>

HEALTH CARE ACCESS	WORKFORCE DEVELOPMENT	TOBACCO SECURITIZATION AUTHORITY	MISCELLANEOUS SPECIAL REVENUE	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 296,270
-	-	-	-	930,278
-	-	-	-	851,410
548,716	45,638	-	26,799	768,632
-	-	-	11,633	483,968
-	-	-	181,872	322,733
-	-	-	131,964	185,101
262	142	(173)	10,292	27,606
700	-	-	170,332	209,958
<u>\$ 549,678</u>	<u>\$ 45,780</u>	<u>\$ (173)</u>	<u>\$ 532,892</u>	<u>\$ 4,075,956</u>
\$ -	\$ -	\$ -	\$ 58,545	\$ 410,750
-	36,786	-	33,839	174,607
-	-	-	21,536	37,625
1,324	-	5,049	27,014	76,461
303,861	-	-	273,891	580,556
-	-	-	22,543	22,543
-	-	-	378	378
-	-	-	83,095	177,641
-	-	-	14,447	1,525,185
<u>\$ 305,185</u>	<u>\$ 36,786</u>	<u>\$ 5,049</u>	<u>\$ 535,288</u>	<u>\$ 3,005,746</u>
-	5	-	7,258	259,236
295	-	9,492	16,303	32,186
<u>\$ 305,480</u>	<u>\$ 36,791</u>	<u>\$ 14,541</u>	<u>\$ 558,849</u>	<u>\$ 3,297,168</u>
<u>\$ 244,198</u>	<u>\$ 8,989</u>	<u>\$ (14,714)</u>	<u>\$ (25,957)</u>	<u>\$ 778,788</u>
\$ -	\$ -	\$ 756,955	\$ -	\$ 756,955
-	-	27,200	-	27,200
42,800	-	-	252,507	359,336
(197,894)	(1,387)	-	(121,434)	(439,394)
<u>\$ (155,094)</u>	<u>\$ (1,387)</u>	<u>\$ 784,155</u>	<u>\$ 131,073</u>	<u>\$ 704,097</u>
<u>\$ 89,104</u>	<u>\$ 7,602</u>	<u>\$ 769,441</u>	<u>\$ 105,116</u>	<u>\$ 1,482,885</u>
<u>\$ 62,114</u>	<u>\$ 33,157</u>	<u>\$ -</u>	<u>\$ 246,840</u>	<u>\$ 1,867,122</u>
<u>\$ 151,218</u>	<u>\$ 40,759</u>	<u>\$ 769,441</u>	<u>\$ 351,956</u>	<u>\$ 3,350,007</u>

STATE OF MINNESOTA

**NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUDGETARY BASIS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	TRUNK HIGHWAY		HIGHWAY USER TAX DISTRIBUTION	
	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
Net Revenues:				
Sales Taxes.....	\$ -	\$ -	\$ -	\$ -
Motor Vehicle Taxes.....	-	-	917,466	914,969
Fuel Taxes.....	-	-	864,492	846,741
Other Taxes.....	-	-	-	-
Federal Revenue.....	532,136	393,993	-	-
Departmental Services/Licenses and Fees.....	12,066	16,510	2,500	2,315
Investment/Interest Income.....	3,088	3,078	292	376
Other Revenues.....	36,222	22,580	-	-
Net Revenues.....	\$ 583,512	\$ 436,161	\$ 1,784,750	\$ 1,764,401
Expenditures:				
Agricultural Environmental & Energy Resources.....	\$ -	\$ -	\$ -	\$ -
Economic and Workforce Development.....	-	-	-	-
General Education.....	-	-	-	-
General Government.....	600	28	2,183	1,666
Health and Human Services.....	-	-	-	-
Intergovernment Aid.....	-	-	7	7
Public Safety and Corrections.....	87,822	84,485	9,080	9,038
Transportation.....	1,452,108	1,124,582	155	155
Total Expenditures.....	\$ 1,540,530	\$ 1,209,095	\$ 11,425	\$ 10,866
Excess of Revenues Over (Under)				
Expenditures.....	\$ (957,018)	\$ (772,934)	\$ 1,773,325	\$ 1,753,535
Other Financing Sources (Uses):				
Transfers-In.....	\$ 1,039,872	\$ 1,028,336	\$ -	\$ -
Transfers-Out.....	(72,691)	(72,691)	(1,753,360)	(1,753,360)
Net Other Financing Sources (Uses).....	\$ 967,181	\$ 955,645	\$ (1,753,360)	\$ (1,753,360)
Net Change in Fund Balances.....	\$ 10,163	\$ 182,711	\$ 19,965	\$ 175
Fund Balances, Beginning, As Reported.....	\$ 221,700	\$ 221,700	\$ 1,849	\$ 1,849
Prior Period Adjustments.....	-	(3,303)	-	1
Fund Balances, Beginning, as Restated.....	\$ 221,700	\$ 218,397	\$ 1,849	\$ 1,850
Budgetary Fund Balances, Ending.....	\$ 231,863	\$ 401,108	\$ 21,814	\$ 2,025
Less: Appropriation Carryover.....	-	367,807	-	557
Less: Reserved for Long-Term Receivables.....	-	-	-	-
Undesignated Fund Balance, Ending.....	\$ 231,863	\$ 33,301	\$ 21,814	\$ 1,468

STATE AIRPORTS		PETROLEUM TANK CLEANUP		NATURAL RESOURCES	
FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
\$ -	\$ -	\$ -	\$ -	\$ 12,495	\$ 12,193
14,200	13,783	-	-	-	-
3,632	3,470	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,106	1,006
510	647	27,656	27,664	46,349	48,634
74	56	300	140	88	94
90	40	73	59	3,743	1,342
<u>\$ 18,506</u>	<u>\$ 17,996</u>	<u>\$ 28,029</u>	<u>\$ 27,863</u>	<u>\$ 63,781</u>	<u>\$ 63,269</u>
\$ -	\$ -	\$ 9,356	\$ 8,966	\$ 91,007	\$ 82,795
-	-	12,746	12,746	-	-
-	-	-	-	160	160
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
20,761	19,210	-	-	5,670	5,670
<u>\$ 20,761</u>	<u>\$ 19,210</u>	<u>\$ 22,102</u>	<u>\$ 21,712</u>	<u>\$ 96,837</u>	<u>\$ 88,625</u>
\$ (2,255)	\$ (1,214)	\$ 5,927	\$ 6,151	\$ (33,056)	\$ (25,356)
\$ -	\$ -	\$ 400	\$ 400	\$ 29,145	\$ 27,969
-	-	(10,571)	(10,571)	(4,047)	(4,047)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,171)</u>	<u>\$ (10,171)</u>	<u>\$ 25,098</u>	<u>\$ 23,922</u>
\$ (2,255)	\$ (1,214)	\$ (4,244)	\$ (4,020)	\$ (7,958)	\$ (1,434)
\$ 4,769	\$ 4,769	\$ 12,962	\$ 12,962	\$ 32,334	\$ 32,334
-	477	-	-	-	878
<u>\$ 4,769</u>	<u>\$ 5,246</u>	<u>\$ 12,962</u>	<u>\$ 12,962</u>	<u>\$ 32,334</u>	<u>\$ 33,212</u>
\$ 2,514	\$ 4,032	\$ 8,718	\$ 8,942	\$ 24,376	\$ 31,778
-	1,456	-	4,263	-	16,456
-	2,576	-	-	-	-
<u>\$ 2,514</u>	<u>\$ -</u>	<u>\$ 8,718</u>	<u>\$ 4,679</u>	<u>\$ 24,376</u>	<u>\$ 15,322</u>

CONTINUED

STATE OF MINNESOTA

**NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS (CONTINUED)
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2012
 (IN THOUSANDS)**

	GAME AND FISH		ENVIRONMENTAL & REMEDIATION	
	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
Net Revenues:				
Sales Taxes.....	\$ 12,495	\$ 12,193	\$ -	\$ -
Motor Vehicle Taxes.....	-	-	-	-
Fuel Taxes.....	-	-	-	-
Other Taxes.....	-	-	51,613	51,527
Federal Revenue.....	22,866	22,866	-	-
Departmental Services/Licenses and Fees.....	54,764	54,967	36,592	39,174
Investment/Interest Income.....	151	144	161	236
Other Revenues.....	157	346	2,037	1,886
Net Revenues.....	<u>\$ 90,433</u>	<u>\$ 90,516</u>	<u>\$ 90,403</u>	<u>\$ 92,823</u>
Expenditures:				
Agricultural Environmental & Energy Resources.....	\$ 98,893	\$ 88,682	\$ 93,712	\$ 90,640
Economic and Workforce Development.....	-	-	493	493
General Education.....	-	-	-	-
General Government.....	-	-	698	266
Health and Human Services.....	-	-	309	236
Intergovernment Aid.....	-	-	-	-
Public Safety and Corrections.....	-	-	69	66
Transportation.....	-	-	-	-
Total Expenditures.....	<u>\$ 98,893</u>	<u>\$ 88,682</u>	<u>\$ 95,281</u>	<u>\$ 91,701</u>
Excess of Revenues Over (Under)				
Expenditures.....	<u>\$ (8,460)</u>	<u>\$ 1,834</u>	<u>\$ (4,878)</u>	<u>\$ 1,122</u>
Other Financing Sources (Uses):				
Transfers-In.....	\$ 846	\$ 859	\$ 11,430	\$ 10,577
Transfers-Out.....	(657)	(657)	(411)	(411)
Net Other Financing Sources (Uses).....	<u>\$ 189</u>	<u>\$ 202</u>	<u>\$ 11,019</u>	<u>\$ 10,166</u>
Net Change in Fund Balances.....	<u>\$ (8,271)</u>	<u>\$ 2,036</u>	<u>\$ 6,141</u>	<u>\$ 11,288</u>
Fund Balances, Beginning, As Reported.....	\$ 28,030	\$ 28,030	\$ 28,016	\$ 28,016
Prior Period Adjustments.....	-	1,072	-	1,142
Fund Balances, Beginning, as Restated.....	<u>\$ 28,030</u>	<u>\$ 29,102</u>	<u>\$ 28,016</u>	<u>\$ 29,158</u>
Budgetary Fund Balances, Ending.....	\$ 19,759	\$ 31,138	\$ 34,157	\$ 40,446
Less: Appropriation Carryover.....	-	18,286	-	22,554
Less: Reserved for Long-Term Receivables.....	-	-	-	638
Undesignated Fund balance, Ending.....	<u>\$ 19,759</u>	<u>\$ 12,852</u>	<u>\$ 34,157</u>	<u>\$ 17,254</u>

HERITAGE		SPECIAL COMPENSATION		HEALTH CARE ACCESS	
FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
\$ 263,755	\$ 265,885	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	55,811	86,813	546,235	551,858
-	-	6	6	-	-
-	-	3,660	4,771	-	-
753	1,096	544	271	262	262
955	978	-	-	6,818	7,925
<u>\$ 265,463</u>	<u>\$ 267,959</u>	<u>\$ 60,021</u>	<u>\$ 91,861</u>	<u>\$ 553,315</u>	<u>\$ 560,045</u>
\$ 148,259	\$ 135,999	\$ 751	\$ 513	\$ -	\$ -
7,982	7,982	84,543	81,912	-	-
13,831	13,402	-	-	-	-
33,194	33,140	7,950	6,599	1,749	1,328
2,988	2,268	-	-	343,950	312,681
-	-	-	-	295	295
-	-	-	-	-	-
16,263	16,263	-	-	-	-
<u>\$ 222,517</u>	<u>\$ 209,054</u>	<u>\$ 93,244</u>	<u>\$ 89,024</u>	<u>\$ 345,994</u>	<u>\$ 314,304</u>
\$ 42,946	\$ 58,905	\$ (33,223)	\$ 2,837	\$ 207,321	\$ 245,741
\$ -	\$ -	\$ -	\$ -	\$ 42,800	\$ 42,800
(3,998)	(3,998)	-	-	(199,371)	(199,371)
<u>\$ (3,998)</u>	<u>\$ (3,998)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (156,571)</u>	<u>\$ (156,571)</u>
\$ 38,948	\$ 54,907	\$ (33,223)	\$ 2,837	\$ 50,750	\$ 89,170
\$ 85,310	\$ 85,310	\$ 69,591	\$ 69,591	\$ 21,864	\$ 21,864
-	5,953	-	3,312	-	925
<u>\$ 85,310</u>	<u>\$ 91,263</u>	<u>\$ 69,591</u>	<u>\$ 72,903</u>	<u>\$ 21,864</u>	<u>\$ 22,789</u>
\$ 124,258	\$ 146,170	\$ 36,368	\$ 75,740	\$ 72,614	\$ 111,959
-	113,293	-	8,556	-	34,878
-	-	-	-	-	-
<u>\$ 124,258</u>	<u>\$ 32,877</u>	<u>\$ 36,368</u>	<u>\$ 67,184</u>	<u>\$ 72,614</u>	<u>\$ 77,081</u>

CONTINUED

STATE OF MINNESOTA

**NONMAJOR APPROPRIATED SPECIAL REVENUE FUNDS (CONTINUED)
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 BUDGETARY BASIS
 YEAR ENDED JUNE 30, 2012
 (IN THOUSANDS)**

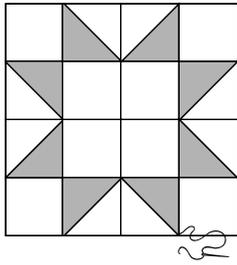
	WORKFORCE DEVELOPMENT		COMBINED TOTALS	
	FINAL BUDGET	ACTUAL	FINAL BUDGET	ACTUAL
Net Revenues:				
Sales Taxes.....	\$ -	\$ -	\$ 288,745	\$ 290,271
Motor Vehicle Taxes.....	-	-	931,666	928,752
Fuel Taxes.....	-	-	868,124	850,211
Other Taxes.....	43,560	46,146	697,219	736,344
Federal Revenue.....	1	1	556,115	417,872
Departmental Services/Licenses and Fees.....	-	-	184,097	194,682
Investment/Interest Income.....	100	142	5,813	5,895
Other Revenues.....	-	-	50,095	35,156
Net Revenues.....	\$ 43,661	\$ 46,289	\$ 3,581,874	\$ 3,459,183
Expenditures:				
Agricultural Environmental & Energy Resources.....	\$ -	\$ -	\$ 441,978	\$ 407,595
Economic and Workforce Development.....	36,616	36,266	142,380	139,399
General Education.....	-	-	13,991	13,562
General Government.....	-	-	46,374	43,027
Health and Human Services.....	-	-	347,247	315,185
Intergovernment Aid.....	-	-	302	302
Public Safety and Corrections.....	-	-	96,971	93,589
Transportation.....	-	-	1,494,957	1,165,880
Total Expenditures.....	\$ 36,616	\$ 36,266	\$ 2,584,200	\$ 2,178,539
Excess of Revenues Over (Under)				
Expenditures.....	\$ 7,045	\$ 10,023	\$ 997,674	\$ 1,280,644
Other Financing Sources (Uses):				
Transfers-In.....	\$ -	\$ -	\$ 1,124,493	\$ 1,110,941
Transfers-Out.....	-	-	(2,045,106)	(2,045,106)
Net Other Financing Sources (Uses).....	\$ -	\$ -	\$ (920,613)	\$ (934,165)
Net Change in Fund Balances.....	\$ 7,045	\$ 10,023	\$ 77,061	\$ 346,479
Fund Balances, Beginning, As Reported.....	\$ 8,255	\$ 8,255	\$ 514,680	\$ 514,680
Prior Period Adjustments.....	-	5,269	-	15,726
Fund Balances, Beginning, as Restated.....	\$ 8,255	\$ 13,524	\$ 514,680	\$ 530,406
Budgetary Fund Balances, Ending.....	\$ 15,300	\$ 23,547	\$ 591,741	\$ 876,885
Less: Appropriation Carryover.....	-	891	-	588,997
Less: Reserved for Long-Term Receivables.....	-	-	-	3,214
Undesignated Fund balance, Ending.....	\$ 15,300	\$ 22,656	\$ 591,741	\$ 284,674

**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, 2012
(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, and intrafund 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	Petroleum Tank Cleanup	Natural Resources	Game and Fish	Environmental & Remediation	Heritage	Special Compensation	Health Care Access	Workforce Development
GAAP Basis Fund Balances:	\$ 807,025	\$ 4,307	\$ 13,908	\$ 16,280	\$ 50,011	\$ 44,907	\$ 62,423	\$ 282,279	\$ 23,068	\$ 151,218	\$ 40,759
Less: Nonspendable Inventory	35,722	-	-	-	-	-	-	-	-	-	-
Less: Encumbrances	646,385	238	9,527	6,716	8,132	3,540	9,311	114,825	598	13,695	4,821
Undesignated Fund Balances	\$ 124,918	\$ 4,069	\$ 4,381	\$ 9,564	\$ 41,879	\$ 41,367	\$ 53,112	\$ 167,454	\$ 22,470	\$ 137,523	\$ 35,938
Basis of Accounting Differences											
Revenue Accruals/Adjustments:											
Taxes Receivable	\$ -	\$ -	\$ (422)	\$ -	\$ -	\$ -	\$ (9,622)	\$ (21,087)	\$ (41,713)	\$ (77,033)	\$ (13,405)
Deferred Revenue	-	2,571	-	10	-	-	4,050	-	105,607	2,870	1,220
Other Receivables	(82,250)	(67,074)	-	(10)	(1,537)	(3,379)	(1,932)	-	(17,843)	-	-
Investments at Market	-	-	-	-	-	(3,171)	-	-	-	-	-
Expenditure Accruals/Adjustments:											
Health and Human Services	-	-	-	-	-	-	-	-	-	48,599	-
Other Payables	-	-	73	(622)	2,379	(2,649)	-	-	7,219	-	(178)
Other Financing Sources (Uses):											
Transfers-In	(65,535)	-	-	-	(16,034)	(1,030)	-	(197)	-	-	(28)
Transfers-Out	-	62,459	-	-	5,091	-	-	-	-	-	-
Perspective Differences:											
Acct with no Legally Adopted Budget	-	-	-	-	-	-	(5,162)	-	-	-	-
Long-Term Receivables	-	-	(2,576)	-	-	-	(638)	-	-	-	-
Long-Term Commitments	423,975	-	-	-	-	-	-	-	-	-	-
Appropriation Carryforward	(367,807)	(557)	(1,456)	(4,263)	(16,456)	(18,286)	(22,554)	(113,293)	(8,556)	(34,878)	(891)
Budgetary Basis Undesignated Fund Balances	\$ 33,301	\$ 1,468	\$ -	\$ 4,679	\$ 15,322	\$ 12,852	\$ 17,254	\$ 32,877	\$ 67,184	\$ 77,081	\$ 22,656





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Nonmajor Capital Projects Funds

Building Fund

The fund receives revenue from the sale of certificates of participation and state bonds to finance technology development and to provide funds for the acquisition, maintenance, and betterment of state and local lands 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 transportation bond proceeds, General Fund appropriations, and federal grants for the construction or reconstruction of state and locally-owned bridges.

STATE OF MINNESOTA

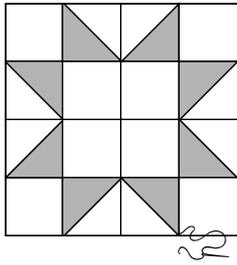
**NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012
(IN THOUSANDS)**

	BUILDING	GENERAL PROJECTS	TRANSPORTATION	TOTAL
ASSETS				
Cash and Cash Equivalents.....	\$ 175,145	\$ 2,202	\$ 82,018	\$ 259,365
Loans and Notes Receivable.....	163	-	-	163
Total Assets.....	\$ 175,308	\$ 2,202	\$ 82,018	\$ 259,528
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable.....	\$ 42,785	\$ 44	\$ 30,469	\$ 73,298
Interfund Payables.....	759	-	-	759
Due to Component Unit.....	2,105	-	-	2,105
Total Liabilities.....	\$ 45,649	\$ 44	\$ 30,469	\$ 76,162
Fund Balances:				
Restricted.....	\$ 129,659	\$ -	\$ 51,549	\$ 181,208
Assigned.....	-	2,158	-	2,158
Total Fund Balances.....	\$ 129,659	\$ 2,158	\$ 51,549	\$ 183,366
Total Liabilities and Fund Balances....	\$ 175,308	\$ 2,202	\$ 82,018	\$ 259,528

STATE OF MINNESOTA

**NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	BUILDING	GENERAL PROJECTS	TRANSPORTATION	TOTAL
Net Revenues:				
Investment/Interest Income.....	\$ 7	\$ -	\$ -	\$ 7
Other Revenues.....	15	-	-	15
Net Revenues.....	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources.....	\$ 85,832	\$ 104	\$ -	\$ 85,936
Economic and Workforce Development.....	58,092	-	-	58,092
General Education.....	10,110	44	-	10,154
General Government.....	24,148	-	13	24,161
Health and Human Services.....	10	-	-	10
Higher Education.....	42,735	-	-	42,735
Public Safety and Corrections.....	5,676	-	-	5,676
Transportation.....	66,814	-	134,794	201,608
Total Current Expenditures.....	<u>\$ 293,417</u>	<u>\$ 148</u>	<u>\$ 134,807</u>	<u>\$ 428,372</u>
Capital Outlay.....	96,629	-	142,039	238,668
Total Expenditures.....	<u>\$ 390,046</u>	<u>\$ 148</u>	<u>\$ 276,846</u>	<u>\$ 667,040</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (390,024)</u>	<u>\$ (148)</u>	<u>\$ (276,846)</u>	<u>\$ (667,018)</u>
Other Financing Sources (Uses):				
General Obligation Bond Issuance.....	\$ 404,094	\$ -	\$ 348,300	\$ 752,394
Transfers-Out.....	(62,245)	-	-	(62,245)
Net Other Financing Sources (Uses).....	<u>\$ 341,849</u>	<u>\$ -</u>	<u>\$ 348,300</u>	<u>\$ 690,149</u>
Net Change in Fund Balances.....	<u>\$ (48,175)</u>	<u>\$ (148)</u>	<u>\$ 71,454</u>	<u>\$ 23,131</u>
Fund Balances, Beginning, as Reported.....	<u>\$ 177,834</u>	<u>\$ 2,306</u>	<u>\$ (19,905)</u>	<u>\$ 160,235</u>
Fund Balances, Ending.....	<u>\$ 129,659</u>	<u>\$ 2,158</u>	<u>\$ 51,549</u>	<u>\$ 183,366</u>





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Nonmajor Enterprise Funds

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.

911 Services Fund

The fund accounts for activities related to the enhancement of the state's 911 emergency response system.

Public Employees Insurance Fund

The fund provides hospital, medical, and dental benefit coverage as well as life insurance 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 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.

STATE OF MINNESOTA

NONMAJOR ENTERPRISE FUNDS COMBINING STATEMENT OF NET ASSETS JUNE 30, 2012 (IN THOUSANDS)

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 750	\$ 15,970	\$ 154	\$ 17,066
Accounts Receivable.....	4,210	3,092	91	6,645
Interfund Receivables.....	-	-	-	-
Inventories.....	-	681	219	5,306
Prepaid Expenses.....	-	1	-	404
Other Assets.....	-	-	1,298	-
Total Current Assets.....	<u>\$ 4,960</u>	<u>\$ 19,744</u>	<u>\$ 1,762</u>	<u>\$ 29,421</u>
Noncurrent Assets:				
Depreciable Capital Assets (Net).....	\$ 1,124	\$ 822	\$ 17,883	\$ 4,850
Nondepreciable Capital Assets.....	-	3	1,489	-
Total Noncurrent Assets.....	<u>\$ 1,124</u>	<u>\$ 825</u>	<u>\$ 19,372</u>	<u>\$ 4,850</u>
Total Assets.....	<u>\$ 6,084</u>	<u>\$ 20,569</u>	<u>\$ 21,134</u>	<u>\$ 34,271</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	\$ 5,885	\$ 8,580	\$ 203	\$ 1,790
Interfund Payables.....	2,223	-	-	-
Unearned Revenue.....	-	20	-	-
Accrued Interest Payable.....	-	-	-	-
Bonds and Notes Payable.....	-	-	-	-
Capital Leases Payable.....	-	-	91	-
Compensated Absences Payable.....	199	45	33	157
Total Current Liabilities.....	<u>\$ 8,307</u>	<u>\$ 8,645</u>	<u>\$ 327</u>	<u>\$ 1,947</u>
Noncurrent Liabilities:				
Bonds and Notes Payable.....	\$ -	\$ -	\$ -	\$ -
Capital Leases Payable.....	-	-	171	-
Compensated Absences Payable.....	1,122	425	174	837
Other Postemployment Benefits.....	404	54	-	31
Total Noncurrent Liabilities.....	<u>\$ 1,526</u>	<u>\$ 479</u>	<u>\$ 345</u>	<u>\$ 868</u>
Total Liabilities.....	<u>\$ 9,833</u>	<u>\$ 9,124</u>	<u>\$ 672</u>	<u>\$ 2,815</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt.....	<u>\$ 1,124</u>	<u>\$ 825</u>	<u>\$ 19,110</u>	<u>\$ 4,850</u>
Restricted for:				
Economic and Workforce Development..	\$ -	\$ -	\$ 1,352	\$ -
Health and Human Services.....	-	-	-	-
Public Safety and Corrections.....	-	-	-	26,606
Other Purposes.....	-	10,620	-	-
Total Restricted.....	<u>\$ -</u>	<u>\$ 10,620</u>	<u>\$ 1,352</u>	<u>\$ 26,606</u>
Unrestricted	<u>\$ (4,873)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Net Assets.....	<u>\$ (3,749)</u>	<u>\$ 11,445</u>	<u>\$ 20,462</u>	<u>\$ 31,456</u>

<u>911 SERVICES</u>	<u>PUBLIC EMPLOYEES INSURANCE</u>	<u>STATE LOTTERY</u>	<u>STATE OPERATED COMMUNITY SERVICES</u>	<u>TOTAL</u>
\$ 95,093	\$ 19,660	\$ 21,768	\$ 16,032	\$ 186,493
4,660	1,681	4,709	6,032	31,120
-	-	-	2,223	2,223
-	-	785	-	6,991
-	-	379	159	943
-	-	-	-	1,298
<u>\$ 99,753</u>	<u>\$ 21,341</u>	<u>\$ 27,641</u>	<u>\$ 24,446</u>	<u>\$ 229,068</u>
\$ 84,057	\$ -	\$ 1,536	\$ 1,858	\$ 112,130
14,891	-	-	786	17,169
<u>\$ 98,948</u>	<u>\$ -</u>	<u>\$ 1,536</u>	<u>\$ 2,644</u>	<u>\$ 129,299</u>
<u>\$ 198,701</u>	<u>\$ 21,341</u>	<u>\$ 29,177</u>	<u>\$ 27,090</u>	<u>\$ 358,367</u>
\$ 5,300	\$ 4,110	\$ 8,243	\$ 3,144	\$ 37,255
-	-	18,910	-	21,133
-	1,603	487	-	2,110
577	-	-	-	577
11,380	-	-	319	11,699
-	-	-	94	185
68	5	160	781	1,448
<u>\$ 17,325</u>	<u>\$ 5,718</u>	<u>\$ 27,800</u>	<u>\$ 4,338</u>	<u>\$ 74,407</u>
\$ 151,530	\$ -	\$ -	\$ 1,447	\$ 152,977
-	-	-	221	392
373	34	1,268	5,289	9,522
-	1	109	1,318	1,917
<u>\$ 151,903</u>	<u>\$ 35</u>	<u>\$ 1,377</u>	<u>\$ 8,275</u>	<u>\$ 164,808</u>
<u>\$ 169,228</u>	<u>\$ 5,753</u>	<u>\$ 29,177</u>	<u>\$ 12,613</u>	<u>\$ 239,215</u>
\$ -	\$ -	\$ 1,536	\$ 460	\$ 27,905
\$ -	\$ -	\$ -	\$ -	\$ 1,352
-	-	-	14,017	14,017
29,473	-	-	-	56,079
-	15,588	-	-	26,208
<u>\$ 29,473</u>	<u>\$ 15,588</u>	<u>\$ -</u>	<u>\$ 14,017</u>	<u>\$ 97,656</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,536)</u>	<u>\$ -</u>	<u>\$ (6,409)</u>
<u>\$ 29,473</u>	<u>\$ 15,588</u>	<u>\$ -</u>	<u>\$ 14,477</u>	<u>\$ 119,152</u>

STATE OF MINNESOTA

NONMAJOR ENTERPRISE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
Operating Revenues:				
Net Sales.....	\$ 17,381	\$ 18,300	\$ 3,858	\$ 40,247
Insurance Premiums.....	-	-	-	-
Other Income.....	6	115	-	2,482
Total Operating Revenues.....	\$ 17,387	\$ 18,415	\$ 3,858	\$ 42,729
Less: Cost of Goods Sold.....	-	2,391	720	16,989
Gross Margin.....	\$ 17,387	\$ 16,024	\$ 3,138	\$ 25,740
Operating Expenses:				
Purchased Services.....	\$ 3,344	\$ 1,901	\$ 3,714	\$ 2,562
Salaries and Fringe Benefits.....	14,582	5,246	1,400	9,751
Claims.....	1	-	-	-
Depreciation and Amortization.....	51	108	1,205	923
Supplies and Materials.....	2,095	74	383	811
Repairs and Maintenance.....	20	17	24	280
Indirect Costs.....	143	202	-	872
Other Expenses.....	24	5	120	5,806
Total Operating Expenses.....	\$ 20,260	\$ 7,553	\$ 6,846	\$ 21,005
Operating Income (Loss).....	\$ (2,873)	\$ 8,471	\$ (3,708)	\$ 4,735
Nonoperating Revenues (Expenses):				
Investment Income.....	\$ 4	\$ 4	\$ -	\$ 81
Other Nonoperating Revenues.....	-	-	1	-
Interest and Financing Costs.....	-	-	(15)	-
Grants, Aids and Subsidies.....	(13)	-	-	(1,358)
Other Nonoperating Expenses.....	-	(7,975)	-	-
Gain (Loss) on Disposal of Capital Assets.....	(11)	-	1	11
Total Nonoperating Revenues (Expenses).....	\$ (20)	\$ (7,971)	\$ (13)	\$ (1,266)
Income (Loss) Before Transfers and Contributions....	\$ (2,893)	\$ 500	\$ (3,721)	\$ 3,469
Transfers-In.....	-	1,658	2,141	-
Transfers-Out.....	-	-	-	(600)
Change in Net Assets.....	\$ (2,893)	\$ 2,158	\$ (1,580)	\$ 2,869
Net Assets, Beginning, as Reported.....	\$ (856)	\$ 9,287	\$ 22,042	\$ 28,587
Net Assets, Ending.....	\$ (3,749)	\$ 11,445	\$ 20,462	\$ 31,456

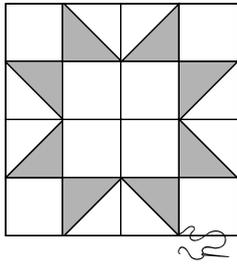
911 SERVICES	PUBLIC EMPLOYEES INSURANCE	STATE LOTTERY	STATE OPERATED COMMUNITY SERVICES	TOTAL
\$ 68,516	\$ -	\$ 520,049	\$ 78,542	\$ 746,893
-	45,021	-	-	45,021
-	354	-	3	2,960
<u>\$ 68,516</u>	<u>\$ 45,375</u>	<u>\$ 520,049</u>	<u>\$ 78,545</u>	<u>\$ 794,874</u>
-	-	370,218	-	390,318
<u>\$ 68,516</u>	<u>\$ 45,375</u>	<u>\$ 149,831</u>	<u>\$ 78,545</u>	<u>\$ 404,556</u>
\$ 18,186	\$ 6,397	\$ 13,478	\$ 5,783	\$ 55,365
5,157	150	10,264	68,347	114,897
-	36,608	-	-	36,609
8,170	-	893	107	11,457
12,769	1	948	661	17,742
199	-	-	688	1,228
39	7	-	2,985	4,248
6	26	789	132	6,908
<u>\$ 44,526</u>	<u>\$ 43,189</u>	<u>\$ 26,372</u>	<u>\$ 78,703</u>	<u>\$ 248,454</u>
<u>\$ 23,990</u>	<u>\$ 2,186</u>	<u>\$ 123,459</u>	<u>\$ (158)</u>	<u>\$ 156,102</u>
\$ 1	\$ 98	\$ 156	\$ 110	\$ 454
-	-	193	-	194
(7,245)	-	-	-	(7,260)
(21,102)	-	-	(927)	(23,400)
-	-	-	-	(7,975)
142	-	-	34	177
<u>\$ (28,204)</u>	<u>\$ 98</u>	<u>\$ 349</u>	<u>\$ (783)</u>	<u>\$ (37,810)</u>
\$ (4,214)	\$ 2,284	\$ 123,808	\$ (941)	\$ 118,292
-	-	-	-	3,799
(682)	-	(123,808)	-	(125,090)
<u>\$ (4,896)</u>	<u>\$ 2,284</u>	<u>\$ -</u>	<u>\$ (941)</u>	<u>\$ (2,999)</u>
\$ 34,369	\$ 13,304	\$ -	\$ 15,418	\$ 122,151
<u>\$ 29,473</u>	<u>\$ 15,588</u>	<u>\$ -</u>	<u>\$ 14,477</u>	<u>\$ 119,152</u>

STATE OF MINNESOTA

**NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	BEHAVIORAL SERVICES	ENTERPRISE ACTIVITIES	GIANTS RIDGE	MINNESOTA CORRECTIONAL INDUSTRIES
Cash Flows from Operating Activities:				
Receipts from Customers.....	\$ 16,951	\$ 18,495	\$ 3,757	\$ 40,247
Receipts from Other Revenues.....	-	116	-	2,482
Payments to Claimants.....	-	-	-	-
Payments to Suppliers.....	(3,114)	(3,707)	(4,815)	(28,616)
Payments to Employees.....	(15,176)	(5,380)	(1,452)	(9,751)
Payments to Others.....	-	(8,624)	-	(1,408)
Net Cash Flows from Operating Activities.....	\$ (1,339)	\$ 900	\$ (2,510)	\$ 2,954
Cash Flows from Noncapital Financing Activities:				
Grant Disbursements.....	\$ -	\$ -	\$ (5)	\$ -
Transfers-In.....	-	1,658	2,141	-
Transfers-Out.....	-	-	-	(600)
Proceeds from Bonds.....	-	-	-	-
Repayment of Bond Principal.....	-	-	-	-
Interest Paid.....	-	-	-	-
Net Cash Flows from Noncapital Financing Activities.....	\$ -	\$ 1,658	\$ 2,136	\$ (600)
Cash Flows from Capital and Related Financing Activities:				
Investment in Capital Assets.....	\$ -	\$ -	\$ (55)	\$ (530)
Proceeds from Disposal of Capital Assets.....	-	-	-	11
Capital Lease Payments.....	-	-	(87)	-
Repayment of Bond Principal.....	-	-	-	-
Interest Paid.....	-	-	(15)	-
Net Cash Flows from Capital and Related Financing Activities.....	\$ -	\$ -	\$ (157)	\$ (519)
Cash Flows from Investing Activities:				
Investment Earnings.....	\$ 4	\$ 3	\$ -	\$ 81
Net Cash Flows from Investing Activities.....	\$ 4	\$ 3	\$ -	\$ 81
Net Increase (Decrease) in Cash and Cash Equivalents.....	\$ (1,335)	\$ 2,561	\$ (531)	\$ 1,916
Cash and Cash Equivalents, Beginning, as Reported.....	\$ 2,085	\$ 13,409	\$ 685	\$ 15,150
Cash and Cash Equivalents, Ending.....	\$ 750	\$ 15,970	\$ 154	\$ 17,066
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Operating Income (Loss).....	\$ (2,873)	\$ 8,471	\$ (3,708)	\$ 4,735
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization.....	\$ 51	\$ 108	\$ 1,205	\$ 923
Miscellaneous Nonoperating Expenses.....	-	(7,870)	-	(1,408)
Change in Assets and Liabilities:				
Accounts Receivable.....	(388)	191	(4)	(1,893)
Inventories.....	-	(16)	1	457
Other Assets.....	-	1	-	(7)
Accounts Payable.....	2,444	35	33	700
Compensated Absences Payable.....	(594)	(29)	(9)	-
Unearned Revenues.....	-	10	(28)	-
Other Liabilities.....	21	(1)	-	(553)
Net Reconciling Items to be Added to (Deducted from) Operating Income.....	\$ 1,534	\$ (7,571)	\$ 1,198	\$ (1,781)
Net Cash Flows from Operating Activities.....	\$ (1,339)	\$ 900	\$ (2,510)	\$ 2,954
Noncash Investing, Capital and Financing Activities:				
Transferred/Donated Assets.....	\$ -	\$ -	\$ -	\$ 7

911 SERVICES	PUBLIC EMPLOYEES INSURANCE	STATE LOTTERY	STATE OPERATED COMMUNITY SERVICES	TOTAL
\$ 69,343	\$ 45,182	\$ 519,938	\$ 76,707	\$ 790,620
-	517	54	1,128	4,297
-	(35,757)	(317,157)	-	(352,914)
(33,047)	(6,325)	(32,238)	(12,767)	(124,629)
(5,420)	(157)	(10,695)	(70,493)	(118,524)
-	(18)	(31,469)	-	(41,519)
<u>\$ 30,876</u>	<u>\$ 3,442</u>	<u>\$ 128,433</u>	<u>\$ (5,425)</u>	<u>\$ 157,331</u>
\$ (20,729)	\$ -	\$ -	\$ -	\$ (20,734)
-	-	-	-	3,799
(682)	-	(123,128)	-	(124,410)
67,420	-	-	-	67,420
(15,005)	-	-	-	(15,005)
(7,260)	-	-	-	(7,260)
<u>\$ 23,744</u>	<u>\$ -</u>	<u>\$ (123,128)</u>	<u>\$ -</u>	<u>\$ (96,190)</u>
\$ (18,040)	\$ -	\$ (277)	\$ (3)	\$ (18,905)
-	-	38	-	49
-	-	-	(86)	(173)
-	-	-	(304)	(304)
-	-	-	(94)	(109)
<u>\$ (18,040)</u>	<u>\$ -</u>	<u>\$ (239)</u>	<u>\$ (487)</u>	<u>\$ (19,442)</u>
\$ 1	\$ 99	\$ 156	\$ 102	\$ 446
<u>\$ 1</u>	<u>\$ 99</u>	<u>\$ 156</u>	<u>\$ 102</u>	<u>\$ 446</u>
<u>\$ 36,581</u>	<u>\$ 3,541</u>	<u>\$ 5,222</u>	<u>\$ (5,810)</u>	<u>\$ 42,145</u>
<u>\$ 58,512</u>	<u>\$ 16,119</u>	<u>\$ 16,546</u>	<u>\$ 21,842</u>	<u>\$ 144,348</u>
<u>\$ 95,093</u>	<u>\$ 19,660</u>	<u>\$ 21,768</u>	<u>\$ 16,032</u>	<u>\$ 186,493</u>
<u>\$ 23,990</u>	<u>\$ 2,186</u>	<u>\$ 123,459</u>	<u>\$ (158)</u>	<u>\$ 156,102</u>
\$ 8,170	\$ -	\$ 893	\$ 107	\$ 11,457
-	-	-	-	(9,278)
518	(971)	241	(3,734)	(6,040)
-	-	(188)	-	254
-	-	137	-	131
(1,809)	1,698	4,320	348	7,769
7	(1)	(91)	(1,988)	(2,705)
-	536	(338)	-	180
-	(6)	-	-	(539)
<u>\$ 6,886</u>	<u>\$ 1,256</u>	<u>\$ 4,974</u>	<u>\$ (5,267)</u>	<u>\$ 1,229</u>
<u>\$ 30,876</u>	<u>\$ 3,442</u>	<u>\$ 128,433</u>	<u>\$ (5,425)</u>	<u>\$ 157,331</u>
\$ -	\$ -	\$ -	\$ -	\$ 7





State of Minnesota

2012
Comprehensive
Annual
Financial Report

Internal Service Funds

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.

Employee Insurance Fund

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

Enterprise Technologies Fund

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

Plant Management Fund

The fund accounts for maintenance and operation costs 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 OF MINNESOTA

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET ASSETS JUNE 30, 2012 (IN THOUSANDS)

	CENTRAL MOTOR POOL	CENTRAL SERVICES	EMPLOYEE INSURANCE	ENTERPRISE TECHNOLOGIES
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 3,380	\$ 820	\$ 249,118	\$ 11,023
Investments.....	-	-	20,672	-
Accounts Receivable.....	3,005	5,117	10,151	19,403
Accrued Investment/Interest Income.....	-	-	175	-
Inventories.....	-	9	-	-
Prepaid Expenses.....	-	377	-	6,274
Total Current Assets.....	<u>\$ 6,385</u>	<u>\$ 6,323</u>	<u>\$ 280,116</u>	<u>\$ 36,700</u>
Noncurrent Assets:				
Depreciable Capital Assets (Net).....	\$ 18,210	\$ 37	\$ -	\$ 8,184
Prepaid Expenses.....	-	-	-	1,037
Total Noncurrent Assets.....	<u>\$ 18,210</u>	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 9,221</u>
Total Assets.....	<u>\$ 24,595</u>	<u>\$ 6,360</u>	<u>\$ 280,116</u>	<u>\$ 45,921</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	\$ 1,107	\$ 3,208	\$ 73,100	\$ 6,105
Unearned Revenue.....	-	-	11,844	4,809
Accrued Interest Payable.....	18	-	-	9
Bonds and Notes Payable.....	5,174	-	-	2,412
Claims Payable.....	-	-	-	-
Compensated Absences Payable.....	11	30	42	295
Other Liabilities.....	-	-	-	37
Total Current Liabilities.....	<u>\$ 6,310</u>	<u>\$ 3,238</u>	<u>\$ 84,986</u>	<u>\$ 13,667</u>
Noncurrent Liabilities:				
Bonds and Notes Payable.....	\$ 6,974	\$ -	\$ -	\$ 3,892
Compensated Absences Payable.....	93	343	461	2,959
Other Postemployment Benefits.....	10	86	25	247
Total Noncurrent Liabilities.....	<u>\$ 7,077</u>	<u>\$ 429</u>	<u>\$ 486</u>	<u>\$ 7,098</u>
Total Liabilities.....	<u>\$ 13,387</u>	<u>\$ 3,667</u>	<u>\$ 85,472</u>	<u>\$ 20,765</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt.....	<u>\$ 5,814</u>	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 1,977</u>
Unrestricted	<u>\$ 5,394</u>	<u>\$ 2,656</u>	<u>\$ 194,644</u>	<u>\$ 23,179</u>
Total Net Assets.....	<u><u>\$ 11,208</u></u>	<u><u>\$ 2,693</u></u>	<u><u>\$ 194,644</u></u>	<u><u>\$ 25,156</u></u>

<u>PLANT MANAGEMENT</u>	<u>RISK MANAGEMENT</u>	<u>TOTAL</u>
\$ 25,523	\$ 23,241	\$ 313,105
-	-	20,672
2,645	536	40,857
-	-	175
205	-	214
-	21	6,672
<u>\$ 28,373</u>	<u>\$ 23,798</u>	<u>\$ 381,695</u>
\$ 6,147	\$ 647	\$ 33,225
-	-	1,037
<u>\$ 6,147</u>	<u>\$ 647</u>	<u>\$ 34,262</u>
<u>\$ 34,520</u>	<u>\$ 24,445</u>	<u>\$ 415,957</u>
\$ 2,273	\$ 2,224	\$ 88,017
-	192	16,845
-	-	27
-	-	7,586
-	9,518	9,518
166	18	562
-	-	37
<u>\$ 2,439</u>	<u>\$ 11,952</u>	<u>\$ 122,592</u>
\$ -	\$ -	\$ 10,866
1,203	146	5,205
193	11	572
<u>\$ 1,396</u>	<u>\$ 157</u>	<u>\$ 16,643</u>
<u>\$ 3,835</u>	<u>\$ 12,109</u>	<u>\$ 139,235</u>
\$ 6,094	\$ 607	\$ 14,529
\$ 24,591	\$ 11,729	\$ 262,193
<u>\$ 30,685</u>	<u>\$ 12,336</u>	<u>\$ 276,722</u>

STATE OF MINNESOTA

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

	CENTRAL MOTOR POOL	CENTRAL SERVICES	EMPLOYEE INSURANCE	ENTERPRISE TECHNOLOGIES
Operating Revenues:				
Net Sales.....	\$ 13,933	\$ 13,231	\$ -	\$ 86,468
Insurance Premiums.....	-	-	672,534	-
Other Income.....	-	-	7,037	-
Total Operating Revenues.....	<u>\$ 13,933</u>	<u>\$ 13,231</u>	<u>\$ 679,571</u>	<u>\$ 86,468</u>
Gross Margin.....	<u>\$ 13,933</u>	<u>\$ 13,231</u>	<u>\$ 679,571</u>	<u>\$ 86,468</u>
Operating Expenses:				
Purchased Services.....	\$ 913	\$ 9,429	\$ 76,391	\$ 47,009
Salaries and Fringe Benefits.....	712	2,972	4,188	27,547
Claims.....	-	-	645,863	-
Depreciation and Amortization.....	4,557	102	-	3,745
Supplies and Materials.....	5,559	82	27	1,626
Repairs and Maintenance.....	1,378	209	1	3,503
Indirect Costs.....	18	83	279	242
Other Expenses.....	136	2	111	4
Total Operating Expenses.....	<u>\$ 13,273</u>	<u>\$ 12,879</u>	<u>\$ 726,860</u>	<u>\$ 83,676</u>
Operating Income (Loss).....	<u>\$ 660</u>	<u>\$ 352</u>	<u>\$ (47,289)</u>	<u>\$ 2,792</u>
Nonoperating Revenues (Expenses):				
Investment Income.....	\$ 54	\$ -	\$ 1,935	\$ 25
Federal Grants.....	-	-	-	26
Interest and Financing Costs.....	(217)	-	-	(102)
Other Nonoperating Expenses.....	(265)	-	-	(6,121)
Gain (Loss) on Disposal of Capital Assets.....	571	-	-	-
Total Nonoperating Revenues (Expenses)....	<u>\$ 143</u>	<u>\$ -</u>	<u>\$ 1,935</u>	<u>\$ (6,172)</u>
Income (Loss) Before Transfers and Contributions...	\$ 803	\$ 352	\$ (45,354)	\$ (3,380)
Transfers-In.....	-	-	-	45
Transfers-Out.....	-	-	(13)	(828)
Change in Net Assets.....	<u>\$ 803</u>	<u>\$ 352</u>	<u>\$ (45,367)</u>	<u>\$ (4,163)</u>
Net Assets, Beginning, as Reported.....	<u>\$ 10,405</u>	<u>\$ 2,341</u>	<u>\$ 240,011</u>	<u>\$ 29,319</u>
Net Assets, Ending.....	<u>\$ 11,208</u>	<u>\$ 2,693</u>	<u>\$ 194,644</u>	<u>\$ 25,156</u>

PLANT MANAGEMENT	RISK MANAGEMENT	TOTAL
\$ 62,318	\$ 96	\$ 176,046
-	11,478	684,012
-	-	7,037
<u>\$ 62,318</u>	<u>\$ 11,574</u>	<u>\$ 867,095</u>
\$ 62,318	\$ 11,574	\$ 867,095
\$ 10,805	\$ 4,230	\$ 148,777
12,988	1,014	49,421
-	2,448	648,311
480	-	8,884
1,957	14	9,265
2,527	-	7,618
715	282	1,619
260	11	524
<u>\$ 29,732</u>	<u>\$ 7,999</u>	<u>\$ 874,419</u>
\$ 32,586	\$ 3,575	\$ (7,324)
\$ -	\$ 100	\$ 2,114
-	-	26
-	-	(319)
-	(1,853)	(8,239)
5	-	576
<u>\$ 5</u>	<u>\$ (1,753)</u>	<u>\$ (5,842)</u>
\$ 32,591	\$ 1,822	\$ (13,166)
-	-	45
(27,655)	-	(28,496)
<u>\$ 4,936</u>	<u>\$ 1,822</u>	<u>\$ (41,617)</u>
\$ 25,749	\$ 10,514	\$ 318,339
<u>\$ 30,685</u>	<u>\$ 12,336</u>	<u>\$ 276,722</u>

STATE OF MINNESOTA

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	CENTRAL MOTOR POOL	CENTRAL SERVICES	EMPLOYEE INSURANCE	ENTERPRISE TECHNOLOGIES
Cash Flows from Operating Activities:				
Receipts from Customers.....	\$ 12,574	\$ 9,453	\$ 672,579	\$ 82,330
Receipts from Other Revenues.....	-	-	14,050	-
Payments to Claimants.....	-	-	(634,438)	-
Payments to Suppliers.....	(7,382)	(9,398)	(75,367)	-
Payments to Employees.....	(741)	(3,029)	(4,358)	(28,509)
Payments to Others.....	(265)	-	(30)	(61,131)
Net Cash Flows from Operating Activities.....	<u>\$ 4,186</u>	<u>\$ (2,974)</u>	<u>\$ (27,564)</u>	<u>\$ (7,310)</u>
Cash Flows from Noncapital Financing Activities:				
Transfers-In.....	\$ -	\$ -	\$ -	\$ 45
Transfers-Out.....	-	-	(13)	(828)
Advances from Other Funds.....	-	2,615	-	-
Net Cash Flows from Noncapital Financing Activities.....	<u>\$ -</u>	<u>\$ 2,615</u>	<u>\$ (13)</u>	<u>\$ (783)</u>
Cash Flows from Capital and Related Financing Activities:				
Investment in Capital Assets.....	\$ (7,034)	\$ -	\$ -	\$ (4,353)
Proceeds from Disposal of Capital Assets.....	1,847	-	-	-
Proceeds from Loans.....	6,185	-	-	3,834
Repayment of Loan Principal.....	(4,804)	-	-	(2,537)
Interest Paid.....	(218)	-	-	(346)
Net Cash Flows from Capital and Related Financing Activities.....	<u>\$ (4,024)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,402)</u>
Cash Flows from Investing Activities:				
Proceeds from Sales and Maturities of Investments.....	\$ -	\$ -	\$ 5,660	\$ -
Purchase of Investments.....	-	-	(6,094)	-
Investment Earnings.....	54	-	2,008	25
Net Cash Flows from Investing Activities.....	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ 1,574</u>	<u>\$ 25</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	<u>\$ 216</u>	<u>\$ (359)</u>	<u>\$ (26,003)</u>	<u>\$ (11,470)</u>
Cash and Cash Equivalents, Beginning, as Reported.....	<u>\$ 3,164</u>	<u>\$ 1,179</u>	<u>\$ 275,121</u>	<u>\$ 22,493</u>
Cash and Cash Equivalents, Ending.....	<u><u>\$ 3,380</u></u>	<u><u>\$ 820</u></u>	<u><u>\$ 249,118</u></u>	<u><u>\$ 11,023</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:				
Operating Income (Loss).....	\$ 660	\$ 352	\$ (47,289)	\$ 2,792
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:				
Depreciation and Amortization	\$ 4,557	\$ 102	\$ -	\$ 3,745
Miscellaneous Nonoperating Expenses.....	(265)	-	-	(5,973)
Change in Assets and Liabilities:				
Accounts Receivable.....	(1,359)	(3,847)	(67)	(8,645)
Inventories.....	-	(3)	-	-
Other Assets.....	-	273	-	(2,199)
Accounts Payable.....	592	243	13,273	542
Compensated Absences Payable.....	-	(3)	(20)	-
Unearned Revenues.....	-	(22)	6,689	2,406
Other Liabilities.....	1	(69)	(150)	22
Net Reconciling Items to be Added to (Deducted from) Operating Income.....	<u>\$ 3,526</u>	<u>\$ (3,326)</u>	<u>\$ 19,725</u>	<u>\$ (10,102)</u>
Net Cash Flows from Operating Activities.....	<u><u>\$ 4,186</u></u>	<u><u>\$ (2,974)</u></u>	<u><u>\$ (27,564)</u></u>	<u><u>\$ (7,310)</u></u>
Noncash Investing, Capital and Financing Activities:				
Transferred/Donated Assets.....	\$ 228	\$ 88	\$ -	\$ -
Accrual of Computer Equipment as an Investment in Capital Assets.....	-	-	-	659

PLANT MANAGEMENT	RISK MANAGEMENT	TOTAL
\$ 61,663	\$ 11,516	\$ 850,115
-	-	14,050
-	(2,597)	(637,035)
(17,365)	(4,375)	(113,887)
(13,723)	(1,013)	(51,373)
-	-	(61,426)
<u>\$ 30,575</u>	<u>\$ 3,531</u>	<u>\$ 444</u>
\$ -	\$ -	\$ 45
(27,655)	-	(28,496)
-	-	2,615
<u>\$ (27,655)</u>	<u>\$ -</u>	<u>\$ (25,836)</u>
\$ (1,120)	\$ -	\$ (12,507)
28	-	1,875
-	-	10,019
-	-	(7,341)
-	-	(564)
<u>\$ (1,092)</u>	<u>\$ -</u>	<u>\$ (8,518)</u>
\$ -	\$ -	\$ 5,660
-	-	(6,094)
-	100	2,187
<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 1,753</u>
\$ 1,828	\$ 3,631	\$ (32,157)
\$ 23,695	\$ 19,610	\$ 345,262
<u>\$ 25,523</u>	<u>\$ 23,241</u>	<u>\$ 313,105</u>
<u>\$ 32,586</u>	<u>\$ 3,575</u>	<u>\$ (7,324)</u>
\$ 480	\$ -	\$ 8,884
-	-	(6,238)
(655)	1,520	(13,053)
22	-	19
-	(6)	(1,932)
(1,649)	(1,584)	11,417
(172)	27	(168)
-	(1)	9,072
(37)	-	(233)
<u>\$ (2,011)</u>	<u>\$ (44)</u>	<u>\$ 7,768</u>
<u>\$ 30,575</u>	<u>\$ 3,531</u>	<u>\$ 444</u>
\$ 30	\$ -	\$ 346
-	-	659



State of Minnesota

2012
Comprehensive
Annual
Financial Report

Pension Trust Funds

Minnesota State Retirement System

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.

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.

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.

Hennepin County Supplemental Retirement Fund

The fund accounts for resources administered by the Minnesota State Retirement System on behalf of the Hennepin County supplemental retirement program.

Pension Trust Funds – Continued

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.

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.

State Deferred Compensation Fund

The fund includes contributions by participants toward a voluntary retirement savings plan.

Public Employees Retirement Association

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.

Minneapolis Employees Retirement Fund

The fund includes resources accumulated to pay present and future retirement annuities to eligible employees of the City of Minneapolis.

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 correctional employees of various local units of government.

Volunteer Firefighter Retirement Fund

The fund contains the assets attributable to the voluntary statewide lump-sum volunteer firefighter retirement plan.

Defined Contribution Fund

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

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

Colleges and Universities 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.

STATE OF MINNESOTA

**PENSION TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)**

	MINNESOTA STATE RETIREMENT SYSTEM			
	STATE EMPLOYEES RETIREMENT	CORRECTIONAL EMPLOYEES RETIREMENT	ELECTIVE STATE OFFICERS	JUDICIAL RETIREMENT
ASSETS				
Cash and Cash Equivalents.....	\$ 8,216	\$ 1,625	\$ -	\$ 450
Investment Pools, at fair value:				
Cash Equivalent Investments.....	\$ 415,181	\$ 31,593	\$ -	\$ 7,056
Investments.....	8,811,414	636,634	-	139,018
Accrued Interest and Dividends.....	21,372	1,544	-	337
Securities Trades Receivables (Payables).....	(164,463)	(11,882)	-	(2,594)
Total Investment Pool Participation.....	<u>\$ 9,083,504</u>	<u>\$ 657,889</u>	<u>\$ -</u>	<u>\$ 143,817</u>
Receivables:				
Employer Contributions.....	\$ 4,113	\$ 748	\$ -	\$ -
Member Contributions.....	4,113	532	-	-
Interfund Receivables.....	4,310	7	8	6
Other Receivables.....	395	5	-	3
Accrued Interest and Dividends.....	39	3	-	1
Total Receivables.....	<u>\$ 12,970</u>	<u>\$ 1,295</u>	<u>\$ 8</u>	<u>\$ 10</u>
Securities Lending Collateral.....	\$ 826,547	\$ 59,745	\$ -	\$ 13,049
Depreciable Capital Assets (Net).....	5,946	-	-	-
Nondepreciable Capital Assets.....	88	-	-	-
Total Assets	<u>\$ 9,937,271</u>	<u>\$ 720,554</u>	<u>\$ 8</u>	<u>\$ 157,326</u>
LIABILITIES				
Accounts Payable.....	\$ 6,151	\$ 409	\$ -	\$ 96
Interfund Payables.....	16	877	8	95
Accrued Expense.....	-	-	-	-
Revenue Bonds Payable.....	5,660	-	-	-
Bond Interest.....	-	-	-	-
Compensated Absences Payable.....	733	-	-	-
Securities Lending Liabilities.....	826,547	59,745	-	13,049
Other Liabilities.....	67	-	-	-
Total Liabilities	<u>\$ 839,174</u>	<u>\$ 61,031</u>	<u>\$ 8</u>	<u>\$ 13,240</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants.....	<u>\$ 9,098,097</u>	<u>\$ 659,523</u>	<u>\$ -</u>	<u>\$ 144,086</u>



MINNESOTA STATE RETIREMENT SYSTEM

LEGISLATIVE RETIREMENT	STATE PATROL RETIREMENT	HENNEPIN COUNTY SUPPLEMENTAL RETIREMENT	POSTRETIREMENT HEALTHCARE BENEFITS	UNCLASSIFIED EMPLOYEES RETIREMENT	STATE DEFERRED COMPENSATION
\$ 1,195	\$ 739	\$ 202	\$ 1,289	\$ 454	\$ 16,616
\$ 622 13,943 34 (260)	\$ 25,344 532,482 1,292 (9,939)	\$ 20,196 104,895 332 (1,891)	\$ 190,051 319,200 614 (3,998)	\$ 20,179 255,122 651 (2,961)	\$ 66,778 4,192,872 16 (2)
\$ 14,339	\$ 549,179	\$ 123,532	\$ 505,867	\$ 272,991	\$ 4,259,664
\$ - - 57 - -	\$ 343 229 2 8 2	\$ 13 13 - 4 -	\$ - 4,192 4 214 -	\$ 149 130 1 7 -	\$ - 6,688 - 487 8
\$ 57	\$ 584	\$ 30	\$ 4,410	\$ 287	\$ 7,183
\$ 1,307 - -	\$ 49,953 - -	\$ 1,202 - -	\$ 4,923 - -	\$ 2,657 - -	\$ 41,453 - -
\$ 16,898	\$ 600,455	\$ 124,966	\$ 516,489	\$ 276,389	\$ 4,324,916
\$ 12 56 - - - - 1,307 -	\$ 315 231 - - - - 49,953 -	\$ 31 7 - - - - 1,202 -	\$ 232 1,985 - - - - 4,923 -	\$ 53 290 - - - - 2,657 -	\$ 1,086 766 - - - - 41,453 -
\$ 1,375	\$ 50,499	\$ 1,240	\$ 7,140	\$ 3,000	\$ 43,305
\$ 15,523	\$ 549,956	\$ 123,726	\$ 509,349	\$ 273,389	\$ 4,281,611

CONTINUED

STATE OF MINNESOTA

**PENSION TRUST FUNDS (CONTINUED)
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)**

	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION		
	PUBLIC EMPLOYEES RETIREMENT	MINNEAPOLIS EMPLOYEES RETIREMENT	POLICE AND FIRE
ASSETS			
Cash and Cash Equivalents.....	\$ 5,653	\$ 406	\$ 2,363
Investment Pools, at fair value:			
Cash Equivalent Investments.....	\$ 636,140	\$ 34,216	\$ 270,530
Investments.....	13,132,085	764,332	5,586,414
Accrued Interest and Dividends.....	31,852	1,854	13,550
Securities Trades Receivables (Payables).....	(245,106)	(14,266)	(104,269)
Total Investment Pool Participation.....	<u>\$ 13,554,971</u>	<u>\$ 786,136</u>	<u>\$ 5,766,225</u>
Receivables:			
Employer Contributions.....	\$ -	\$ -	\$ -
Member Contributions.....	-	-	-
Interfund Receivables.....	6,057	-	16
Other Receivables.....	13,597	56,383	11,226
Accrued Interest and Dividends.....	-	-	-
Total Receivables.....	<u>\$ 19,654</u>	<u>\$ 56,383</u>	<u>\$ 11,242</u>
Securities Lending Collateral.....	\$ 1,232,119	\$ 71,668	\$ 524,144
Depreciable Capital Assets (Net).....	8,485	-	-
Nondepreciable Capital Assets.....	170	-	-
Total Assets	<u>\$ 14,821,052</u>	<u>\$ 914,593</u>	<u>\$ 6,303,974</u>
LIABILITIES			
Accounts Payable.....	\$ 1,615	\$ 13	\$ 2,201
Interfund Payables.....	18	101	5,582
Accrued Expense.....	-	-	-
Revenue Bonds Payable.....	8,652	-	-
Bond Interest.....	-	-	-
Compensated Absences Payable.....	944	-	-
Securities Lending Liabilities.....	1,232,119	71,668	524,144
Other Liabilities.....	51	-	-
Total Liabilities	<u>\$ 1,243,399</u>	<u>\$ 71,782</u>	<u>\$ 531,927</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants.....	<u>\$ 13,577,653</u>	<u>\$ 842,811</u>	<u>\$ 5,772,047</u>

<u>PUBLIC EMPLOYEES RETIREMENT ASSOCIATION</u>					
<u>PUBLIC EMPLOYEES CORRECTIONAL</u>	<u>VOLUNTEER FIREFIGHTER RETIREMENT</u>	<u>DEFINED CONTRIBUTION</u>	<u>TEACHERS RETIREMENT</u>	<u>STATE COLLEGES AND UNIVERSITIES RETIREMENT</u>	<u>TOTAL</u>
\$ 219	\$ -	\$ 73	\$ 7,421	\$ -	\$ 46,921
\$ 15,029	\$ 551	\$ 3,750	\$ 776,142	\$ -	\$ 2,513,358
294,741	6,438	37,888	16,159,156	1,150,606	52,137,240
715	26	103	39,448	-	113,740
(5,501)	(252)	(480)	(301,606)	-	(869,470)
<u>\$ 304,984</u>	<u>\$ 6,763</u>	<u>\$ 41,261</u>	<u>\$ 16,673,140</u>	<u>\$ 1,150,606</u>	<u>\$ 53,894,868</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,366
-	-	-	-	-	15,897
2	-	-	-	-	10,470
433	59	81	14,854	-	97,756
-	-	-	-	-	53
<u>\$ 435</u>	<u>\$ 59</u>	<u>\$ 81</u>	<u>\$ 14,854</u>	<u>\$ -</u>	<u>\$ 129,542</u>
\$ 27,666	\$ 694	\$ 3,366	\$ 1,515,372	\$ -	\$ 4,375,865
-	-	-	12,610	-	27,041
-	-	-	171	-	429
<u>\$ 333,304</u>	<u>\$ 7,516</u>	<u>\$ 44,781</u>	<u>\$ 18,223,568</u>	<u>\$ 1,150,606</u>	<u>\$ 58,474,666</u>
\$ 1	\$ 1	\$ -	\$ 8,741	\$ -	\$ 20,957
229	-	145	-	-	10,406
-	-	-	3	-	3
-	-	-	8,657	-	22,969
-	-	-	41	-	41
-	-	-	768	-	2,445
27,666	694	3,366	1,515,372	-	4,375,865
-	-	-	45	-	163
<u>\$ 27,896</u>	<u>\$ 695</u>	<u>\$ 3,511</u>	<u>\$ 1,533,627</u>	<u>\$ -</u>	<u>\$ 4,432,849</u>
<u>\$ 305,408</u>	<u>\$ 6,821</u>	<u>\$ 41,270</u>	<u>\$ 16,689,941</u>	<u>\$ 1,150,606</u>	<u>\$ 54,041,817</u>

STATE OF MINNESOTA

**PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES
IN NET ASSETS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	MINNESOTA STATE RETIREMENT SYSTEM			
	STATE EMPLOYEES RETIREMENT	CORRECTIONAL EMPLOYEES RETIREMENT	ELECTIVE STATE OFFICERS	JUDICIAL RETIREMENT
Additions:				
Contributions:				
Employer.....	\$ 115,159	\$ 24,188	\$ -	\$ 7,922
Member.....	118,358	17,203	-	2,931
Contributions From Other Sources.....	-	-	-	-
Participating Plans.....	-	-	-	-
Total Contributions.....	<u>\$ 233,517</u>	<u>\$ 41,391</u>	<u>\$ -</u>	<u>\$ 10,853</u>
Net Investment Income:				
Investment Income.....	\$ 220,634	\$ 16,517	\$ -	\$ 3,470
Less: Investment Expense.....	(12,402)	(896)	-	(196)
Net Investment Income.....	<u>\$ 208,232</u>	<u>\$ 15,621</u>	<u>\$ -</u>	<u>\$ 3,274</u>
Securities Lending Revenues (Expenses):				
Securities Lending Income.....	\$ 7,244	\$ 524	\$ -	\$ 114
Securities Lending Rebates and Fees.....	(3,016)	(218)	-	(47)
Net Securities Lending Revenue.....	<u>\$ 4,228</u>	<u>\$ 306</u>	<u>\$ -</u>	<u>\$ 67</u>
Total Investment Income.....	<u>\$ 212,460</u>	<u>\$ 15,927</u>	<u>\$ -</u>	<u>\$ 3,341</u>
Transfers From Other Funds.....	\$ 24,303	\$ -	\$ 465	\$ -
Other Additions.....	374	-	-	-
Total Additions.....	<u>\$ 470,654</u>	<u>\$ 57,318</u>	<u>\$ 465</u>	<u>\$ 14,194</u>
Deductions:				
Benefits.....	\$ 552,088	\$ 42,571	\$ 458	\$ 18,539
Refunds and Withdrawals.....	11,573	1,257	-	-
Administrative Expenses.....	6,356	548	7	73
Transfers To Other Funds.....	204	-	-	-
Total Deductions.....	<u>\$ 570,221</u>	<u>\$ 44,376</u>	<u>\$ 465</u>	<u>\$ 18,612</u>
Net Increase (Decrease).....	<u>\$ (99,567)</u>	<u>\$ 12,942</u>	<u>\$ -</u>	<u>\$ (4,418)</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported.....				
Change in Reporting Entity.....	-	-	-	-
Change in Fund Structure.....	-	-	-	-
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated.....	<u>\$ 9,197,664</u>	<u>\$ 646,581</u>	<u>\$ -</u>	<u>\$ 148,504</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending.....	<u>\$ 9,098,097</u>	<u>\$ 659,523</u>	<u>\$ -</u>	<u>\$ 144,086</u>

MINNESOTA STATE RETIREMENT SYSTEM

LEGISLATIVE RETIREMENT	STATE PATROL RETIREMENT	HENNEPIN COUNTY SUPPLEMENTAL RETIREMENT	POSTRETIREMENT HEALTHCARE BENEFITS	UNCLASSIFIED EMPLOYEES RETIREMENT	STATE DEFERRED COMPENSATION
\$ -	\$ 11,620	\$ 459	\$ -	\$ 5,918	\$ -
124	7,753	458	128,375	5,586	216,010
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 124</u>	<u>\$ 19,373</u>	<u>\$ 917</u>	<u>\$ 128,375</u>	<u>\$ 11,504</u>	<u>\$ 216,010</u>
\$ 266	\$ 13,232	\$ 4,118	\$ 8,548	\$ 6,839	\$ 90,298
(20)	(750)	(130)	(2,755)	(225)	(4,872)
<u>\$ 246</u>	<u>\$ 12,482</u>	<u>\$ 3,988</u>	<u>\$ 5,793</u>	<u>\$ 6,614</u>	<u>\$ 85,426</u>
\$ 11	\$ 438	\$ 10	\$ 42	\$ 23	\$ 353
(4)	(182)	(4)	(17)	(10)	(146)
<u>\$ 7</u>	<u>\$ 256</u>	<u>\$ 6</u>	<u>\$ 25</u>	<u>\$ 13</u>	<u>\$ 207</u>
<u>\$ 253</u>	<u>\$ 12,738</u>	<u>\$ 3,994</u>	<u>\$ 5,818</u>	<u>\$ 6,627</u>	<u>\$ 85,633</u>
\$ 3,935	\$ -	\$ -	\$ -	\$ 204	\$ -
-	-	49	2,422	89	4,480
<u>\$ 4,312</u>	<u>\$ 32,111</u>	<u>\$ 4,960</u>	<u>\$ 136,615</u>	<u>\$ 18,424</u>	<u>\$ 306,123</u>
\$ 7,721	\$ 50,007	\$ 2,807	\$ 58,987	\$ -	\$ 29,615
172	275	3,933	-	5,250	170,442
36	158	50	2,151	180	4,507
-	-	-	-	24,303	-
<u>\$ 7,929</u>	<u>\$ 50,440</u>	<u>\$ 6,790</u>	<u>\$ 61,138</u>	<u>\$ 29,733</u>	<u>\$ 204,564</u>
<u>\$ (3,617)</u>	<u>\$ (18,329)</u>	<u>\$ (1,830)</u>	<u>\$ 75,477</u>	<u>\$ (11,309)</u>	<u>\$ 101,559</u>
\$ 19,140	\$ 568,285	\$ 125,556	\$ 433,872	\$ 284,698	\$ 4,180,052
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 19,140</u>	<u>\$ 568,285</u>	<u>\$ 125,556</u>	<u>\$ 433,872</u>	<u>\$ 284,698</u>	<u>\$ 4,180,052</u>
<u>\$ 15,523</u>	<u>\$ 549,956</u>	<u>\$ 123,726</u>	<u>\$ 509,349</u>	<u>\$ 273,389</u>	<u>\$ 4,281,611</u>

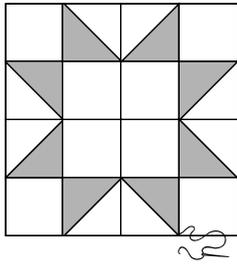
CONTINUED

STATE OF MINNESOTA

**PENSION TRUST FUNDS (CONTINUED)
 COMBINING STATEMENT OF CHANGES
 IN NET ASSETS
 YEAR ENDED JUNE 30, 2012
 (IN THOUSANDS)**

	PUBLIC EMPLOYEES RETIREMENT ASSOCIATION		
	PUBLIC EMPLOYEES RETIREMENT	MINNEAPOLIS EMPLOYEES RETIREMENT	POLICE AND FIRE
Additions:			
Contributions:			
Employer.....	\$ 368,037	\$ 31,623	\$ 121,891
Member.....	321,412	1,104	76,264
Contributions From Other Sources.....	-	-	-
Participating Plans.....	-	-	304,474
Total Contributions.....	<u>\$ 689,449</u>	<u>\$ 32,727</u>	<u>\$ 502,629</u>
Net Investment Income:			
Investment Income.....	\$ 332,592	\$ 18,911	\$ 152,630
Less: Investment Expense.....	(18,479)	(1,079)	(7,852)
Net Investment Income.....	<u>\$ 314,113</u>	<u>\$ 17,832</u>	<u>\$ 144,778</u>
Securities Lending Revenues (Expenses):			
Securities Lending Income.....	\$ 10,800	\$ 628	\$ 4,595
Securities Lending Rebates and Fees.....	(4,496)	(261)	(1,913)
Net Securities Lending Revenue.....	<u>\$ 6,304</u>	<u>\$ 367</u>	<u>\$ 2,682</u>
Total Investment Income.....	<u>\$ 320,417</u>	<u>\$ 18,199</u>	<u>\$ 147,460</u>
Transfers From Other Funds.....	\$ -	\$ 22,750	\$ -
Other Additions.....	564	207	15,234
Total Additions.....	<u>\$ 1,010,430</u>	<u>\$ 73,883</u>	<u>\$ 665,323</u>
Deductions:			
Benefits.....	\$ 1,000,644	\$ 140,709	\$ 386,208
Refunds and Withdrawals.....	39,105	1,178	8,822
Administrative Expenses.....	9,650	172	855
Transfers To Other Funds.....	-	-	-
Total Deductions.....	<u>\$ 1,049,399</u>	<u>\$ 142,059</u>	<u>\$ 395,885</u>
Net Increase (Decrease).....	<u>\$ (38,969)</u>	<u>\$ (68,176)</u>	<u>\$ 269,438</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported.....			
	\$ 13,616,622	\$ 910,987	\$ 5,317,032
Change in Reporting Entity.....	-	-	1,666
Change in Fund Structure.....	-	-	183,911
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated.....	<u>\$ 13,616,622</u>	<u>\$ 910,987</u>	<u>\$ 5,502,609</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending.....	<u>\$ 13,577,653</u>	<u>\$ 842,811</u>	<u>\$ 5,772,047</u>

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION					
PUBLIC EMPLOYEES CORRECTIONAL	VOLUNTEER FIREFIGHTER RETIREMENT	DEFINED CONTRIBUTION	TEACHERS RETIREMENT	STATE COLLEGES AND UNIVERSITIES RETIREMENT	TOTAL
\$ 14,320	\$ 118	\$ 1,674	\$ 244,935	\$ 41,500	\$ 989,364
9,581	-	1,548	239,834	34,926	1,181,467
-	-	-	6,092	1,576	7,668
-	-	-	-	-	304,474
<u>\$ 23,901</u>	<u>\$ 118</u>	<u>\$ 3,222</u>	<u>\$ 490,861</u>	<u>\$ 78,002</u>	<u>\$ 2,482,973</u>
\$ 8,118	\$ 250	\$ 1,282	\$ 398,195	\$ 28,905	\$ 1,304,805
(414)	-	(34)	(22,757)	-	(72,861)
<u>\$ 7,704</u>	<u>\$ 250</u>	<u>\$ 1,248</u>	<u>\$ 375,438</u>	<u>\$ 28,905</u>	<u>\$ 1,231,944</u>
\$ 243	\$ 7	\$ 27	\$ 13,278	\$ -	\$ 38,337
(101)	(3)	(12)	(5,530)	-	(15,960)
<u>\$ 142</u>	<u>\$ 4</u>	<u>\$ 15</u>	<u>\$ 7,748</u>	<u>\$ -</u>	<u>\$ 22,377</u>
<u>\$ 7,846</u>	<u>\$ 254</u>	<u>\$ 1,263</u>	<u>\$ 383,186</u>	<u>\$ 28,905</u>	<u>\$ 1,254,321</u>
\$ -	\$ 153	\$ -	\$ 16,493	\$ -	\$ 68,303
-	3,076	-	4,070	-	30,565
<u>\$ 31,747</u>	<u>\$ 3,601</u>	<u>\$ 4,485</u>	<u>\$ 894,610</u>	<u>\$ 106,907</u>	<u>\$ 3,836,162</u>
\$ 4,809	\$ 273	\$ -	\$ 1,485,527	\$ 49,762	\$ 3,830,725
1,332	6	2,128	12,695	-	258,168
229	21	145	10,023	230	35,391
-	-	-	-	-	24,507
<u>\$ 6,370</u>	<u>\$ 300</u>	<u>\$ 2,273</u>	<u>\$ 1,508,245</u>	<u>\$ 49,992</u>	<u>\$ 4,148,791</u>
<u>\$ 25,377</u>	<u>\$ 3,301</u>	<u>\$ 2,212</u>	<u>\$ (613,635)</u>	<u>\$ 56,915</u>	<u>\$ (312,629)</u>
\$ 280,031	\$ 3,520	\$ 39,058	\$ 17,303,576	\$ 1,093,691	\$ 54,168,869
-	-	-	-	-	1,666
-	-	-	-	-	183,911
<u>\$ 280,031</u>	<u>\$ 3,520</u>	<u>\$ 39,058</u>	<u>\$ 17,303,576</u>	<u>\$ 1,093,691</u>	<u>\$ 54,354,446</u>
<u>\$ 305,408</u>	<u>\$ 6,821</u>	<u>\$ 41,270</u>	<u>\$ 16,689,941</u>	<u>\$ 1,150,606</u>	<u>\$ 54,041,817</u>





State of Minnesota

Investment Trust Funds

Supplemental Retirement Fund

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

Investment Trust Fund

The fund provides an investment vehicle for external funds authorized to be invested by the state.

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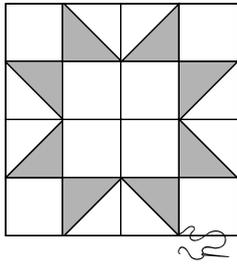
**INVESTMENT TRUST FUNDS
STATEMENT OF PLAN NET ASSETS
JUNE 30, 2012
(IN THOUSANDS)**

	SUPPLEMENTAL RETIREMENT	INVESTMENT TRUST	TOTAL
ASSETS			
Investment Pools, at fair value:			
Cash Equivalent Investments.....	\$ 13,136	\$ 58,693	\$ 71,829
Investments.....	199,237	136,828	336,065
Accrued Interest and Dividends.....	624	560	1,184
Securities Trades Receivables (Payables).....	(4,886)	(967)	(5,853)
Total Investment Pool Participation.....	<u>\$ 208,111</u>	<u>\$ 195,114</u>	<u>\$ 403,225</u>
Securities Lending Collateral.....	\$ 21,607	\$ -	\$ 21,607
Total Assets	<u>\$ 229,718</u>	<u>\$ 195,114</u>	<u>\$ 424,832</u>
LIABILITIES			
Securities Lending Liabilities.....	\$ 21,607	\$ -	\$ 21,607
Total Liabilities	<u>\$ 21,607</u>	<u>\$ -</u>	<u>\$ 21,607</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants.....	<u>\$ 208,111</u>	<u>\$ 195,114</u>	<u>\$ 403,225</u>

STATE OF MINNESOTA

**INVESTMENT TRUST FUNDS
STATEMENT OF CHANGES
IN PLAN NET ASSETS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	SUPPLEMENTAL RETIREMENT	INVESTMENT TRUST	TOTAL
Additions:			
Contributions:			
Participating Plans.....	\$ 20,476	\$ 10,941	\$ 31,417
Total Contributions.....	<u>\$ 20,476</u>	<u>\$ 10,941</u>	<u>\$ 31,417</u>
Net Investment Income:			
Investment Income.....	\$ 5,387	\$ 10,028	\$ 15,415
Net Investment Income.....	<u>\$ 5,387</u>	<u>\$ 10,028</u>	<u>\$ 15,415</u>
Securities Lending Revenues (Expenses):			
Securities Lending Income.....	\$ 185	\$ -	\$ 185
Securities Lending Rebates and Fees.....	(77)	-	(77)
Net Securities Lending Revenue.....	<u>\$ 108</u>	<u>\$ -</u>	<u>\$ 108</u>
Total Investment Income.....	<u>\$ 5,495</u>	<u>\$ 10,028</u>	<u>\$ 15,523</u>
Total Additions.....	<u>\$ 25,971</u>	<u>\$ 20,969</u>	<u>\$ 46,940</u>
Deductions:			
Refunds and Withdrawals.....	\$ 23,575	\$ 7,577	\$ 31,152
Administrative Expenses.....	196	23	219
Total Deductions.....	<u>\$ 23,771</u>	<u>\$ 7,600</u>	<u>\$ 31,371</u>
Net Increase (Decrease).....	<u>\$ 2,200</u>	<u>\$ 13,369</u>	<u>\$ 15,569</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Reported.....			
Change in Fund Structure.....	\$ 389,822	\$ 181,745	\$ 571,567
	<u>(183,911)</u>	<u>-</u>	<u>(183,911)</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Beginning, as Restated.....			
	<u>\$ 205,911</u>	<u>\$ 181,745</u>	<u>\$ 387,656</u>
Net Assets Held in Trust for Pension Benefits and Pool Participants, Ending.....			
	<u>\$ 208,111</u>	<u>\$ 195,114</u>	<u>\$ 403,225</u>





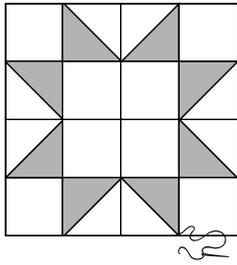
State of Minnesota

Agency Fund

Agency Fund

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

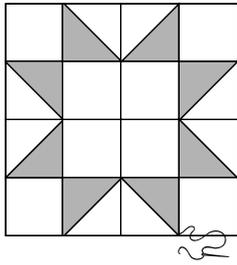
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**AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
MISCELLANEOUS AGENCY				
ASSETS				
Cash and Cash Equivalents.....	\$ 105,687	\$ 1,603,704	\$ 1,537,349	\$ 172,042
Accounts Receivable.....	24,671	25,021	24,671	25,021
Total Assets.....	<u>\$ 130,358</u>	<u>\$ 1,628,725</u>	<u>\$ 1,562,020</u>	<u>\$ 197,063</u>
LIABILITIES				
Accounts Payable.....	\$ 130,358	\$ 1,628,725	\$ 1,562,020	\$ 197,063
Total Liabilities.....	<u>\$ 130,358</u>	<u>\$ 1,628,725</u>	<u>\$ 1,562,020</u>	<u>\$ 197,063</u>





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Nonmajor Component Unit Funds

Agricultural and Economic Development Board

The board administers programs for agricultural and economic development.

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.

Office of Higher Education

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

Public Facilities Authority

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

Rural Finance Authority

The authority administers state agricultural 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.

STATE OF MINNESOTA

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

ASSETS	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	NATIONAL SPORTS CENTER FOUNDATION	OFFICE OF HIGHER EDUCATION
Current Assets:			
Cash and Cash Equivalents.....	\$ 2,317	\$ 462	\$ 185,091
Investments.....	-	-	-
Accounts Receivable.....	-	426	3,274
Due from Primary Government.....	-	-	-
Accrued Investment/Interest Income.....	81	-	2,569
Federal Aid Receivable.....	-	-	-
Inventories.....	-	55	-
Loans and Notes Receivable.....	153	-	92,122
Prepaid Expenses.....	-	85	189
Other Assets.....	-	-	-
Total Current Assets.....	<u>\$ 2,551</u>	<u>\$ 1,028</u>	<u>\$ 283,245</u>
Noncurrent Assets:			
Cash and Cash Equivalents-Restricted.....	\$ -	\$ -	\$ 94,079
Investments-Restricted.....	20,772	-	-
Due from Primary Government.....	-	-	-
Investments.....	-	-	-
Accounts Receivable.....	-	-	-
Loans and Notes Receivable.....	585	-	606,658
Depreciable Capital Assets (Net).....	-	4,223	7
Nondepreciable Capital Assets.....	-	967	-
Other Assets.....	-	85	3,983
Total Noncurrent Assets.....	<u>\$ 21,357</u>	<u>\$ 5,275</u>	<u>\$ 704,727</u>
Total Assets.....	<u>\$ 23,908</u>	<u>\$ 6,303</u>	<u>\$ 987,972</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable.....	\$ 16	\$ 1,130	\$ 3,185
Due to Primary Government.....	-	-	-
Unearned Revenue.....	-	840	10,619
Accrued Interest Payable.....	35	-	585
Bonds and Notes Payable.....	375	619	-
Claims Payable.....	-	-	-
Compensated Absences Payable.....	-	-	59
Other Liabilities.....	-	-	-
Total Current Liabilities.....	<u>\$ 426</u>	<u>\$ 2,589</u>	<u>\$ 14,448</u>
Noncurrent Liabilities:			
Due to Primary Government.....	\$ -	\$ -	\$ -
Bonds and Notes Payable.....	1,460	2,736	547,265
Claims Payable.....	-	-	-
Compensated Absences Payable.....	-	-	533
Other Postemployment Benefits.....	-	-	50
Other Liabilities.....	-	250	6,092
Total Noncurrent Liabilities.....	<u>\$ 1,460</u>	<u>\$ 2,986</u>	<u>\$ 553,940</u>
Total Liabilities.....	<u>\$ 1,886</u>	<u>\$ 5,575</u>	<u>\$ 568,388</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt.....	\$ -	\$ 5,190	\$ 7
Restricted-Expendable.....	19,713	-	419,266
Unrestricted.....	2,309	(4,462)	311
Total Net Assets.....	<u>\$ 22,022</u>	<u>\$ 728</u>	<u>\$ 419,584</u>

PUBLIC FACILITIES AUTHORITY	RURAL FINANCE AUTHORITY	WORKERS' COMPENSATION ASSIGNED RISK PLAN	TOTAL
\$ 276,226	\$ 23,267	\$ 14,540	\$ 501,903
26,252	-	266,728	292,980
-	-	15,536	19,236
2,196	-	-	2,196
18,847	-	571	22,068
1,379	-	-	1,379
-	-	-	55
328,988	3,894	-	425,157
-	-	3,320	3,594
-	-	76	76
<u>\$ 653,888</u>	<u>\$ 27,161</u>	<u>\$ 300,771</u>	<u>\$ 1,268,644</u>
\$ -	\$ -	\$ -	\$ 94,079
-	-	-	20,772
14,488	-	-	14,488
27,077	-	-	27,077
-	-	347,415	347,415
1,646,142	49,992	-	2,303,377
-	-	-	4,230
-	-	-	967
3,010	-	-	7,078
<u>\$ 1,690,717</u>	<u>\$ 49,992</u>	<u>\$ 347,415</u>	<u>\$ 2,819,483</u>
<u>\$ 2,344,605</u>	<u>\$ 77,153</u>	<u>\$ 648,186</u>	<u>\$ 4,088,127</u>
\$ 8,018	\$ -	\$ 2,614	\$ 14,963
-	29,000	27,092	56,092
-	-	18,480	29,939
18,102	-	-	18,722
70,550	-	-	71,544
-	-	23,802	23,802
40	-	-	99
586	-	-	586
<u>\$ 97,296</u>	<u>\$ 29,000</u>	<u>\$ 71,988</u>	<u>\$ 215,747</u>
\$ -	\$ 41,046	\$ -	\$ 41,046
1,097,008	-	-	1,648,469
-	-	526,198	526,198
337	-	-	870
-	-	-	50
697	-	-	7,039
<u>\$ 1,098,042</u>	<u>\$ 41,046</u>	<u>\$ 526,198</u>	<u>\$ 2,223,672</u>
<u>\$ 1,195,338</u>	<u>\$ 70,046</u>	<u>\$ 598,186</u>	<u>\$ 2,439,419</u>
\$ -	\$ -	\$ -	\$ 5,197
1,144,487	-	3,637	1,587,103
4,780	7,107	46,363	56,408
<u>\$ 1,149,267</u>	<u>\$ 7,107</u>	<u>\$ 50,000</u>	<u>\$ 1,648,708</u>

STATE OF MINNESOTA

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

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	NATIONAL SPORTS CENTER FOUNDATION	OFFICE OF HIGHER EDUCATION
Net Expenses:			
Total Expenses.....	\$ 1,154	\$ 12,438	\$ 205,071
Program Revenues:			
Charges for Services.....	\$ 267	\$ 10,439	\$ 45,370
Operating Grants and Contributions.....	-	-	4,840
Net (Expense) Revenue.....	\$ (887)	\$ (1,999)	\$ (154,861)
General Revenues:			
Investment Income.....	\$ 161	\$ -	\$ -
Other Revenues.....	-	1,147	-
Total General Revenues before Grants.....	\$ 161	\$ 1,147	\$ -
State Grants Not Restricted.....	-	-	181,688
Total General Revenues.....	\$ 161	\$ 1,147	\$ 181,688
Change in Net Assets.....	\$ (726)	\$ (852)	\$ 26,827
Net Assets, Beginning, as Reported.....	\$ 22,748	\$ 1,580	\$ 392,757
Net Assets, Ending.....	\$ 22,022	\$ 728	\$ 419,584

<u>PUBLIC FACILITIES AUTHORITY</u>	<u>RURAL FINANCE AUTHORITY</u>	<u>WORKERS' COMPENSATION ASSIGNED RISK PLAN</u>	<u>TOTAL</u>
\$ 100,840	\$ 1,736	\$ 48,763	\$ 370,002
\$ 45,411	\$ 2,945	\$ 34,973	\$ 139,405
50,885	-	-	55,725
\$ (4,544)	\$ 1,209	\$ (13,790)	\$ (174,872)
\$ -	\$ -	\$ 13,790	\$ 13,951
-	-	-	1,147
\$ -	\$ -	\$ 13,790	\$ 15,098
32,735	-	-	214,423
\$ 32,735	\$ -	\$ 13,790	\$ 229,521
\$ 28,191	\$ 1,209	\$ -	\$ 54,649
\$ 1,121,076	\$ 5,898	\$ 50,000	\$ 1,594,059
\$ 1,149,267	\$ 7,107	\$ 50,000	\$ 1,648,708

STATE OF MINNESOTA

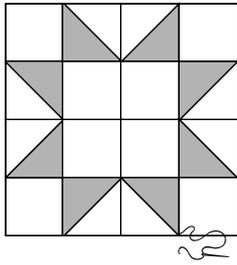
**NONMAJOR COMPONENT UNITS
NOT ISSUING SEPARATELY AUDITED FINANCIAL STATEMENTS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012
(IN THOUSANDS)**

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	RURAL FINANCE AUTHORITY	TOTAL
Operating Revenues:			
Loan Interest Income.....	\$ 70	\$ 2,944	\$ 3,014
Rental and Service Fees.....	-	1	1
Other Income.....	197	-	197
Total Operating Revenues.....	<u>\$ 267</u>	<u>\$ 2,945</u>	<u>\$ 3,212</u>
Operating Expenses:			
Economic and Manpower Development.....	\$ 1,007	\$ 1,736	\$ 2,743
Total Operating Expenses.....	<u>\$ 1,007</u>	<u>\$ 1,736</u>	<u>\$ 2,743</u>
Operating Income (Loss).....	<u>\$ (740)</u>	<u>\$ 1,209</u>	<u>\$ 469</u>
Nonoperating Revenues (Expenses):			
Bond Interest Expense.....	\$ (147)	\$ -	\$ (147)
Investment/Interest Income.....	161	-	161
Total Nonoperating Revenues (Expenses).....	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>
Change in Net Assets.....	<u>\$ (726)</u>	<u>\$ 1,209</u>	<u>\$ 483</u>
Net Assets, Beginning, as Reported.....	<u>\$ 22,748</u>	<u>\$ 5,898</u>	<u>\$ 28,646</u>
Net Assets, Ending.....	<u><u>\$ 22,022</u></u>	<u><u>\$ 7,107</u></u>	<u><u>\$ 29,129</u></u>

STATE OF MINNESOTA

NONMAJOR COMPONENT UNITS NOT ISSUING SEPARATELY AUDITED FINANCIAL STATEMENTS COMBINING STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

	AGRICULTURAL & ECONOMIC DEVELOPMENT BOARD	RURAL FINANCE AUTHORITY	TOTAL
Cash Flows from Operating Activities:			
Receipts from Customers.....	\$ 1,811	\$ 16,385	\$ 18,196
Receipts from Other Revenues.....	197	8,520	8,717
Payments to Customers.....	-	(10,245)	(10,245)
Payments to Suppliers.....	(750)	-	(750)
Payments to Employees.....	(20)	-	(20)
Payments to Others.....	-	(12,863)	(12,863)
Net Cash Flows from Operating Activities.....	<u>\$ 1,238</u>	<u>\$ 1,797</u>	<u>\$ 3,035</u>
Cash Flows from Non-Capital Financing:			
Payment of Bond Interest.....	\$ (204)	\$ -	\$ (204)
Repayment of Bond Principal.....	(2,621)	-	(2,621)
Loan Issuances.....	(145)	-	(145)
Net Cash Flows from Non-Capital Financing Activities.....	<u>\$ (2,970)</u>	<u>\$ -</u>	<u>\$ (2,970)</u>
Cash Flows from Investing Activities:			
Proceeds from Sales and Maturities of Investments.....	\$ 5,395	\$ -	\$ 5,395
Purchase of Investments.....	(6,587)	-	(6,587)
Investment Interest.....	486	-	486
Net Cash Flows from Investing Activities.....	<u>\$ (706)</u>	<u>\$ -</u>	<u>\$ (706)</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	<u>\$ (2,438)</u>	<u>\$ 1,797</u>	<u>\$ (641)</u>
Cash and Cash Equivalents, Beginning, as Reported.....	<u>\$ 4,755</u>	<u>\$ 21,470</u>	<u>\$ 26,225</u>
Cash and Cash Equivalents, Ending.....	<u>\$ 2,317</u>	<u>\$ 23,267</u>	<u>\$ 25,584</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating Income (Loss).....	\$ (740)	\$ 1,209	\$ 469
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:			
Loans Receivable.....	\$ 1,978	\$ 3,332	\$ 5,310
Due to Primary Government.....	-	(2,744)	(2,744)
Net Reconciling Items to be Added to (Deducted from) Operating Income.....	<u>\$ 1,978</u>	<u>\$ 588</u>	<u>\$ 2,566</u>
Net Cash Flows from Operating Activities.....	<u>\$ 1,238</u>	<u>\$ 1,797</u>	<u>\$ 3,035</u>





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General Obligation Debt Schedule

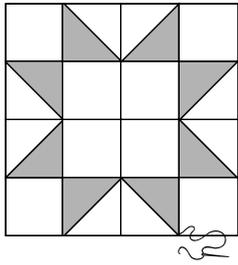
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GENERAL OBLIGATION BONDS AUTHORIZED, ISSUED AND UNISSUED
June 30, 2012
(In Thousands)

<u>Purpose of Issue</u>	<u>Law Authorizing</u>	<u>Total Authorization</u>	<u>Previously Issued</u>	<u>Remaining Authorization</u>
Building ^{18, 19, 20, 21}	1990, Ch. 610	\$ 270,129.1	\$ 270,126.0	\$ 3.1
Building ^{11, 15, 17, 19}	1994, Ch. 643	523,874.5	523,849.0	25.5
Building ^{9, 10, 11, 15}	X1997, Ch. 2	37,432.0	37,335.0	97.0
Building ^{9, 10, 11, 12, 15, 16}	1999, Ch. 240	439,437.1	438,865.0	572.1
Various Purpose ^{3, 5, 9, 10, 11, 14}	2000, Ch. 492	527,682.7	518,575.0	9,107.7
Various Purpose ^{3, 5, 9, 11, 13}	X2001, Ch. 12	116,127.7	115,778.0	349.7
Various Purpose ^{3, 4, 5, 7, 9, 11, 12}	2002, Ch. 393	600,797.1	598,705.0	2,092.1
Various Purpose ^{5, 9}	X2002, Ch. 1	15,273.0	15,055.0	218.0
Trunk Highway ⁵	X2003, Ch. 19, Art. 3	400,191.5	399,990.0	201.5
Trunk Highway ⁵	X2003, Ch. 19, Art. 4	106,026.5	105,700.0	326.5
Various Purpose ^{1, 3, 4, 7}	2005, Ch. 20	920,079.0	911,579.0	8,500.0
Various Purpose ^{3, 4, 7, 8}	2006, Ch. 258	996,373.3	988,803.0	7,570.3
Various Purpose ⁴	X2007, Ch. 2	53,971.7	36,845.0	17,126.7
Trunk Highway	X2007, Ch. 2	20,020.0	19,470.0	550.0
Trunk Highway ⁴	2008, Ch. 152	1,783,300.0	679,190.0	1,104,110.0
Transportation	2008, Ch. 152	60,060.0	58,300.0	1,760.0
Various Purpose ^{1, 4, 6}	2008, Ch. 179	797,369.3	738,947.0	58,422.3
Various Purpose	2008, Ch. 365	105,500.0	102,730.0	2,770.0
Trunk Highway	2009, Ch. 36	40,000.0	5,000.0	35,000.0
Various Purpose ⁴	2009, Ch. 93	258,865.0	231,035.0	27,830.0
Trunk Highway	2009, Ch. 93	2,705.0	2,700.0	5.0
Various Purpose ²	2010, Ch. 189	715,205.0	528,500.0	186,705.0
Trunk Highway ²	2010, Ch. 189	26,445.0	26,400.0	45.0
Trunk Highway	2010, Ch. 388	100,100.0	20,000.0	80,100.0
Various Purpose	X2010, Ch. 1	36,790.0	12,000.0	24,790.0
Various Purpose	X2011, Ch. 12	555,140.0	101,000.0	454,140.0
Trunk Highway	2012, Ch. 287	16,120.0	0.0	16,120.0
Various Purpose	2012, Ch. 293	566,858.0	0.0	566,858.0
Totals		<u>\$ 10,091,872.5</u>	<u>\$ 7,486,477.0</u>	<u>\$ 2,605,395.5</u>

- (1) Special Session Laws 2011, Chapter 12 also reduced Various Purpose Bonds authorizations in Laws 2005, Chapter 20 by \$22,000,000; and Laws 2008, Chapter 179 by \$3,500,000. However, as of July 2012, only \$18,520.5 was available in remaining authorization so that is the amount that was cancelled.
- (2) The Governor vetoed \$361,460,000 of appropriations for Various Purpose capital projects and \$6,500,000 for Trunk Highway projects to be funded from Laws 2010, Chapter 189. The Governor requested that the bond authorizations be reduced to match the appropriations in the 2011 Legislative Session but no capital budget was passed during this time frame. The bond authorizations for Laws 2010, Chapter 189 were reduced in Special Session Laws 2011, Chapter 12 to match the appropriations. The net reductions to the bond authorizations were \$359,660,000 for Various Purpose Bonds and \$6,500,000 for Trunk Highway Bonds.
- (3) Minnesota Statutes, Section 16A.642, required that on January 1, 2011, the Commissioner of Management and Budget report unencumbered bond proceeds balances to the legislature that were enacted more than four years prior. These bond proceeds balances and their bond authorizations cancelled effective on July 1, 2011. The cancellation report reduced Various Purpose Bonds authorizations as follows: Laws 2000, Chapter 492 by \$2,000; Special Session Laws 2001, Chapter 12 by \$631,014; Laws 2002, Chapter 393 by \$34,670; Laws 2005, Chapter 20 by \$2,697,899; and Laws 2006, Chapter 258 by \$6,481,965.
- (4) Laws 2010, Chapter 189 also reduced Various Purpose Bonds authorizations in Laws 2002, Chapter 393 by \$280,914; Laws 2005, Chapter 20 by \$1,682,567; Laws 2006, Chapter 258 by \$7,770; Special Session Laws 2007, Chapter 2 by \$2,283,263; Laws 2008, Chapter 179 by \$152,660; and Laws 2009, Chapter 93 by \$3,900,000. Laws 2010, Chapter 189 reduced Trunk Highway Bond authorization Laws 2008, Chapter 152 by \$18,500,000. Laws 2010, Chapter 189 reduced the Various Purpose Bond authorization in Laws 2009, Chapter 93 by \$85,155,000 to offset the appropriations that the Governor vetoed \$85,155,000.

- (5) Minnesota Statutes, Section 16A.642, required that on January 1, 2009, the Commissioner of Finance report unencumbered bond proceeds balances to the legislature that were enacted more than four years prior. These bond proceeds balances and their bond authorizations cancelled effective on July 1, 2009. The cancellation report reduced Various Purpose Bonds authorizations as follows: Laws 2000, Chapter 492 by \$217,331; Special Session Laws 2001, Chapter 12 by \$171,552; Laws 2002, Chapter 393 by \$284,508; and Special Session Laws 2002, Chapter 1 by \$178,656. The cancellation report also reduced Trunk Highway Bonds authorized by Special Session Laws 2003, Chapter 19, Article 3 by \$208,570; Special Session Laws 2003, Chapter 19, Article 4 by \$4,083,466.
- (6) Laws 2008, Chapter 365 reduced the Various Purpose Bond authorization in Laws 2008, Chapter 179 by \$223,588,000.
- (7) Laws 2008, Chapter 179 reduced Various Purpose Bonds authorizations in Laws 2002, Chapter 393 by \$17,262,000; Laws 2005, Chapter 20 by \$2,000,000; and Laws 2006, Chapter 258 by \$3,767,000.
- (8) Laws 2007, Chapter 45 reduced the Various Purpose Bond authorization in Laws 2006, Chapter 258 by \$150,000.
- (9) Minnesota Statutes, Section 16A.642, required that on January 1, 2007, the Commissioner of Finance report unencumbered bond proceeds balances to the legislature that were enacted more than four years prior. These bond proceeds balances and their bond authorizations cancelled effective on July 1, 2007. The cancellation report reduced Building Bond authorizations as follows: Special Session Laws 1997, Chapter 2 by \$112,548; and Laws 1999, Chapter 240 by \$93,091. The cancellation report also reduced Various Purpose Bonds authorizations as follows: Laws 2000, Chapter 492 by \$524,411; Special Session Laws 2001, Chapter 12 by \$274,734; Laws 2002, Chapter 393 by \$6,052,781; and Special Session Laws 2002, Chapter 1 by \$863,386.
- (10) Minnesota Statutes, Section 16A.642, required that on January 1, 2005, the Commissioner of Finance report unencumbered bond proceeds balances to the legislature that were enacted more than four years prior. These bond proceeds balances and their bond authorizations cancelled effective on July 1, 2005. The cancellation report reduced Building Bond authorizations as follows: Special Session Laws 1997, Chapter 2 by 763,514; and Laws 1999, Chapter 240 by \$292,887. The cancellation report also reduced Various Purpose Bonds authorized by Laws 2000, Chapter 492 by \$3,333,695.
- (11) Laws 2005, Chapter 20 reduced Building Bond authorizations as follows: Laws 1994, Chapter 643 by \$2,631,376; Special Session Laws 1997, Chapter 2 by \$18; and Laws 1999, Chapter 240 by \$24,887,000. Laws 2005, Chapter 20 also reduced Various Purpose Bonds authorized by Laws 2000, Chapter 492 by \$3,300,000; Special Session Laws 2001, Chapter 12 by \$1,000,000; and Laws 2002, Chapter 393 by \$352,923,000.
- (12) The Governor vetoed \$352,923,000 of appropriations for capital projects to be funded from Laws 2002, Chapter 393. The bond authorization was reduced to match the appropriations in Laws 2005, Chapter 20. Laws of 2002, Chapter 393 also corrected the bond authorization reported in footnote 15 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.
- (13) The Governor vetoed \$1,000,000 of appropriations for capital projects to be funded from Special Session Laws 2001, Chapter 12. The bond authorization was reduced to match the appropriations in the Laws 2005, Chapter 20.
- (14) 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.
- (15) Laws 2000, Chapter 492 reduced Building Bonds authorizations as follows: Laws 1994, Chapter 643 by \$1,964,000; Special Session Laws 1997, Chapter 2 by \$10,000,000; 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.
- (16) 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 bond authorization was reduced to match the appropriations in Laws 2005, Chapter 20.
- (17) Laws 1998, Chapter 404 reduced Building Bonds authorization in Laws 1994, Chapter 643 by \$1,350,000.
- (18) Laws 1997, Chapter 202 reduced Building Bond authorizations as follows: Laws 1990, Chapter 610 by \$9,260,000.
- (19) Special Session Laws 1995, Chapter 2 reduced Building Bond authorizations as follows: Laws 1990, Chapter 610 by \$580,000; and Laws 1994, Chapter 643 by \$1,245,000.
- (20) Laws 1994, Chapter 643 reduced Building Bond authorizations of Laws 1990, Chapter 610 by \$115,000.
- (21) Laws 1993, Chapter 373 reduced Building Bond authorizations of Laws 1990, Chapter 610 by \$2,500,000.





State of Minnesota

2012
Comprehensive
Annual
Financial Report

Statistical Section

The statistical section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

Financial Trends

These schedules contain trend information to help understand and assess how the state's financial position has changed over time.

Revenue Capacity

These schedules contain information to assess the state's most significant revenue source, individual income taxes. Minnesota's data privacy laws prevent disclosing the names of principal taxpayers.

Debt Capacity

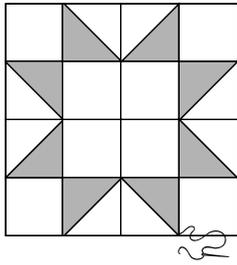
These schedules present information to help assess the affordability of the state's current level of outstanding debt and the state's ability to issue additional debt in the future.

Economic and Demographic Information

These schedules offer economic and demographic indicators to help understand the environment within which the state's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help understand how the information in the state's financial report relates to the services the state provides and the activities it performs.





2012 Comprehensive Annual Financial Report
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**Schedule 1 - Net Assets By Component
Last Ten Years
Accrual Basis of Accounting
(In Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities:				
Invested in Capital Assets, Net of Related Debt	\$ 4,998,667	\$ 5,525,157	\$ 5,943,503	\$ 6,468,103
Restricted	2,280,661	2,387,732	2,452,423	2,482,626
Unrestricted	<u>(526,251)</u>	<u>(987,312)</u>	<u>(673,695)</u>	<u>649,481</u>
Total Governmental Activities Net Assets	<u>\$ 6,753,077</u>	<u>\$ 6,925,577</u>	<u>\$ 7,722,231</u>	<u>\$ 9,600,210</u>
Business-type Activities:				
Invested in Capital Assets, Net of Related Debt	\$ 812,780	\$ 872,804	\$ 884,486	\$ 931,297
Restricted	151,812	86,291	520,745	852,943
Unrestricted	<u>179,009</u>	<u>218,797</u>	<u>(1,096)</u>	<u>(1,089)</u>
Total Business-type Activities Net Assets	<u>\$ 1,143,601</u>	<u>\$ 1,177,892</u>	<u>\$ 1,404,135</u>	<u>\$ 1,783,151</u>
Primary Government:				
Invested in Capital Assets, Net of Related Debt	\$ 5,811,447	\$ 6,397,961	\$ 6,827,989	\$ 7,399,400
Restricted	2,432,473	2,474,023	2,973,168	3,335,569
Unrestricted	<u>(347,242)</u>	<u>(768,515)</u>	<u>(674,791)</u>	<u>648,392</u>
Total Primary Government Net Assets	<u>\$ 7,896,678</u>	<u>\$ 8,103,469</u>	<u>\$ 9,126,366</u>	<u>\$ 11,383,361</u>

Source: The state's Comprehensive Annual Financial Report for the relevant year.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 6,781,966	\$ 7,775,939	\$ 8,285,028	\$ 8,947,341	\$ 9,147,520	\$ 9,773,122
2,703,598	2,693,756	2,552,659	3,060,905	3,396,243	3,546,397
<u>1,317,416</u>	<u>489,661</u>	<u>(917,895)</u>	<u>(2,646,096)</u>	<u>(2,534,196)</u>	<u>(2,830,824)</u>
<u>\$ 10,802,980</u>	<u>\$ 10,959,356</u>	<u>\$ 9,919,792</u>	<u>\$ 9,362,150</u>	<u>\$ 10,009,567</u>	<u>\$ 10,488,695</u>
\$ 1,016,955	\$ 1,108,136	\$ 1,199,727	\$ 1,293,856	\$ 1,352,739	\$ 1,383,762
1,058,032	1,140,070	737,400	509,705	643,700	1,252,075
<u>(1,403)</u>	<u>(5,900)</u>	<u>(38,907)</u>	<u>(300,615)</u>	<u>(82,907)</u>	<u>(6,409)</u>
<u>\$ 2,073,584</u>	<u>\$ 2,242,306</u>	<u>\$ 1,898,220</u>	<u>\$ 1,502,946</u>	<u>\$ 1,913,532</u>	<u>\$ 2,629,428</u>
\$ 7,798,921	\$ 8,884,075	\$ 9,484,755	\$ 10,241,197	\$ 10,500,259	\$ 11,156,884
3,761,630	3,833,826	3,290,059	3,570,610	4,039,943	4,798,472
<u>1,316,013</u>	<u>483,761</u>	<u>(956,802)</u>	<u>(2,946,711)</u>	<u>(2,617,103)</u>	<u>(2,837,233)</u>
<u>\$ 12,876,564</u>	<u>\$ 13,201,662</u>	<u>\$ 11,818,012</u>	<u>\$ 10,865,096</u>	<u>\$ 11,923,099</u>	<u>\$ 13,118,123</u>

Schedule 2 - Changes in Net Assets
Last Ten Years
Accrual Basis of Accounting
(In Thousands)

	2003	2004	2005	2006
Program Revenues:				
Governmental Activities:				
Charges for Services				
Agricultural, Environmental and Energy Resources ⁽¹⁾	\$ 179,037	\$ 187,779	\$ 196,047	\$ 218,376
Economic and Workforce Development ⁽¹⁾	125,832	158,788	159,929	214,650
General Education	34,038	33,284	39,655	38,808
General Government	183,052	214,962	226,809	245,015
Health and Human Services	571,531	516,539	360,563	447,404
Higher Education	249	-	2	-
Public Safety and Corrections	101,157	138,359	143,998	174,807
Transportation	16,445	15,473	17,451	19,226
Operating Grants and Contributions				
Health and Human Services	3,764,754	3,874,378	4,075,420	4,187,909
All Others	1,454,634	1,554,481	1,480,801	1,506,094
Capital Grants and Contributions	131,632	269,786	261,236	452,197
Total Governmental Activities Program Revenues	\$ 6,562,361	\$ 6,963,829	\$ 6,961,911	\$ 7,504,486
Business-type Activities:				
Charges for Services:				
State Colleges and Universities	\$ 583,236	\$ 636,138	\$ 651,094	\$ 694,053
Unemployment Insurance	608,634	806,185	908,540	1,054,227
Lottery	351,815	387,800	408,011	449,761
Other	153,962	171,598	169,182	178,764
Operating Grants and Contributions	369,481	312,200	198,217	176,023
Capital Grants and Contributions	2,274	2,307	1,687	1,963
Total Business-type Activities Program Revenues	\$ 2,069,402	\$ 2,316,228	\$ 2,336,731	\$ 2,554,791
Total Primary Government Program Revenues	\$ 8,631,763	\$ 9,280,057	\$ 9,298,642	\$ 10,059,277
Expenses:				
Governmental Activities:				
Agricultural, Environmental and Energy Resources ⁽¹⁾	\$ 541,828	\$ 557,414	\$ 612,566	\$ 525,251
Economic and Workforce Development ⁽¹⁾	671,469	591,513	505,901	273,510
General Education	6,929,870	6,512,834	6,820,389	7,336,455
General Government	652,005	671,908	654,758	718,996
Health and Human Services	8,102,781	8,228,552	8,466,865	8,823,115
Higher Education	785,524	744,112	762,092	786,563
Intergovernmental Aid	1,480,533	1,355,683	1,284,576	1,400,479
Public Safety and Corrections	750,143	731,438	764,307	818,192
Transportation	1,727,604	1,662,402	1,685,256	1,791,316
Interest	169,023	181,323	184,573	172,612
Total Governmental Activities Expenses	\$ 21,810,780	\$ 21,237,179	\$ 21,741,283	\$ 22,646,489
Business-type Activities:				
State Colleges and Universities	\$ 1,386,493	\$ 1,385,817	\$ 1,394,893	\$ 1,479,519
Unemployment Insurance	1,054,281	931,659	686,818	690,713
Lottery	273,884	287,550	302,575	332,031
Other	153,397	166,923	172,886	183,043
Total Business-type Activities Expenses	\$ 2,868,055	\$ 2,771,949	\$ 2,557,172	\$ 2,685,306
Total Primary Government Expenses	\$ 24,678,835	\$ 24,009,128	\$ 24,298,455	\$ 25,331,795

⁽¹⁾ Beginning in fiscal year 2007, the Department of Commerce financial activity was moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

2007	2008	2009	2010	2011	2012
\$ 335,670	\$ 360,056	\$ 339,523	\$ 358,666	\$ 369,400	\$ 384,593
44,551	52,400	47,377	49,212	46,764	59,481
42,943	54,662	42,192	21,342	19,403	23,418
278,846	240,331	270,153	266,565	265,022	249,824
265,853	330,570	285,963	353,929	424,670	399,963
-	-	-	3	3	636
130,830	143,073	159,155	156,139	157,201	159,882
18,796	21,474	45,385	25,397	21,782	19,146
4,609,077	4,909,527	5,996,063	6,775,255	6,692,535	6,369,736
1,891,362	1,767,796	1,758,923	3,388,958	2,706,074	2,040,575
236,700	449,765	272,736	206,292	202,285	135,113
<u>\$ 7,854,628</u>	<u>\$ 8,329,654</u>	<u>\$ 9,217,470</u>	<u>\$ 11,601,758</u>	<u>\$ 10,905,139</u>	<u>\$ 9,842,367</u>
\$ 750,742	\$ 794,091	\$ 827,997	\$ 771,104	\$ 851,754	\$ 848,541
946,269	835,725	800,590	972,425	1,211,352	1,444,622
422,570	461,565	482,738	499,271	504,514	520,049
230,657	233,944	232,570	246,829	260,247	274,825
187,530	217,224	872,484	1,958,195	1,697,323	1,113,581
1,839	1,142	4,262	1,554	1,515	-
<u>\$ 2,539,607</u>	<u>\$ 2,543,691</u>	<u>\$ 3,220,641</u>	<u>\$ 4,449,378</u>	<u>\$ 4,526,705</u>	<u>\$ 4,201,618</u>
<u>\$ 10,394,235</u>	<u>\$ 10,873,345</u>	<u>\$ 12,438,111</u>	<u>\$ 16,051,136</u>	<u>\$ 15,431,844</u>	<u>\$ 14,043,985</u>
\$ 762,549	\$ 825,842	\$ 834,458	\$ 950,738	\$ 969,947	\$ 916,001
568,064	704,501	695,314	715,085	695,050	543,680
7,323,406	7,675,567	7,811,723	8,042,744	7,499,159	7,890,863
771,733	816,111	800,123	762,238	832,859	856,328
9,596,061	10,296,359	11,248,700	11,949,235	12,274,181	12,487,762
921,339	981,943	912,011	981,859	892,921	778,389
1,489,439	1,511,715	1,435,897	1,558,453	1,339,943	1,358,521
855,328	901,641	944,400	958,915	976,261	952,585
1,795,056	2,047,500	2,068,880	2,468,573	2,897,408	2,343,031
208,719	221,162	210,435	261,802	322,773	506,909
<u>\$ 24,291,694</u>	<u>\$ 25,982,341</u>	<u>\$ 26,961,941</u>	<u>\$ 28,649,642</u>	<u>\$ 28,700,502</u>	<u>\$ 28,634,069</u>
\$ 1,550,936	\$ 1,675,051	\$ 1,743,609	\$ 1,802,527	\$ 1,903,985	\$ 1,816,268
735,987	828,857	1,865,939	3,038,557	2,228,405	1,490,943
311,893	346,834	363,832	377,025	382,759	396,590
215,005	228,361	235,163	222,110	269,880	280,817
<u>\$ 2,813,821</u>	<u>\$ 3,079,103</u>	<u>\$ 4,208,543</u>	<u>\$ 5,440,219</u>	<u>\$ 4,785,029</u>	<u>\$ 3,984,618</u>
<u>\$ 27,105,515</u>	<u>\$ 29,061,444</u>	<u>\$ 31,170,484</u>	<u>\$ 34,089,861</u>	<u>\$ 33,485,531</u>	<u>\$ 32,618,687</u>

Schedule 2 - Changes in Net Assets (Continued)
Last Ten Years
Accrual Basis of Accounting
(In Thousands)

	2003	2004	2005	2006
Net (Expense)/Revenue:				
Governmental Activities	\$ (15,248,419)	\$ (14,273,350)	\$ (14,779,372)	\$ (15,142,003)
Business-type Activities	(798,653)	(455,721)	(220,441)	(130,515)
Total Primary Government Net Expense	<u>\$ (16,047,072)</u>	<u>\$ (14,729,071)</u>	<u>\$ (14,999,813)</u>	<u>\$ (15,272,518)</u>
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Individual Income Taxes	\$ 5,497,328	\$ 5,863,383	\$ 6,556,331	\$ 7,069,242
Corporate Income Taxes	636,214	643,442	702,839	1,189,328
Sales Taxes	3,924,424	3,911,496	4,269,837	4,439,667
Property Taxes	594,094	608,860	603,412	633,288
Motor Vehicle Taxes	606,137	587,223	552,856	539,468
Fuel Taxes	656,326	643,964	652,493	659,980
Other Taxes	1,981,468	2,190,491	2,417,175	2,663,939
Tobacco Settlement	261,525	173,173	178,177	184,139
Unallocated Investment/Interest Income	24,049	32,712	42,753	101,803
Other Revenues	203,206	178,255	63,182	28,447
Special Item	30,000	-	-	-
Transfers	(548,291)	(471,382)	(425,180)	(474,090)
Total Governmental Activities	<u>\$ 13,866,480</u>	<u>\$ 14,361,617</u>	<u>\$ 15,613,875</u>	<u>\$ 17,035,211</u>
Business-type Activities:				
Unallocated Investment/Interest Income	\$ 15,697	\$ 16,213	\$ 9,264	\$ 18,300
Other Revenues	9,294	2,417	12,240	17,141
Transfers	548,291	471,382	425,180	474,090
Total Business-type Activities	<u>\$ 573,282</u>	<u>\$ 490,012</u>	<u>\$ 446,684</u>	<u>\$ 509,531</u>
Total Primary Government General Revenues	<u>\$ 14,439,762</u>	<u>\$ 14,851,629</u>	<u>\$ 16,060,559</u>	<u>\$ 17,544,742</u>
Change in Net Assets:				
Governmental Activities:				
Prior Period Adjustments	\$ (1,381,939)	\$ 88,267	\$ 834,503	\$ 1,893,208
Change in Accounting Principle	(41,919)	84,233	(37,849)	(15,229)
Change in Fund Structure	-	-	-	-
Change in Fund Structure	(3,641)	-	-	-
Business-type Activities:				
Prior Period Adjustments	(225,371)	34,291	226,243	379,016
Change in Fund Structure	-	-	-	-
Change in Fund Structure	3,641	-	-	-
Total Primary Government Change in Net Assets	<u>\$ (1,649,229)</u>	<u>\$ 206,791</u>	<u>\$ 1,022,897</u>	<u>\$ 2,256,995</u>

⁽¹⁾ Beginning in fiscal year 2007, the Department of Commerce financial activity was moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

2007	2008	2009	2010	2011	2012
\$ (16,437,066)	\$ (17,652,687)	\$ (17,744,471)	\$ (17,047,884)	\$ (17,795,363)	\$ (18,791,702)
<u>(274,214)</u>	<u>(535,412)</u>	<u>(987,902)</u>	<u>(990,841)</u>	<u>(258,324)</u>	<u>217,000</u>
<u>\$ (16,711,280)</u>	<u>\$ (18,188,099)</u>	<u>\$ (18,732,373)</u>	<u>\$ (18,038,725)</u>	<u>\$ (18,053,687)</u>	<u>\$ (18,574,702)</u>
\$ 7,463,959	\$ 7,929,096	\$ 7,203,337	\$ 6,792,510	\$ 7,883,583	\$ 8,409,530
1,160,380	1,039,843	741,049	539,534	1,204,521	953,428
4,600,984	4,474,576	4,338,748	4,379,236	4,760,684	4,849,514
667,395	703,972	733,899	746,685	771,020	809,044
1,025,820	1,011,494	955,785	997,214	1,074,769	1,150,343
647,168	651,988	758,271	826,574	851,245	849,955
2,154,689	2,149,162	2,206,648	2,224,237	2,192,739	2,253,625
184,924	186,425	176,140	157,924	172,207	166,154
155,016	121,638	57,790	21,242	19,836	12,873
91,867	103,416	95,316	145,608	139,406	94,707
-	-	-	-	-	-
<u>(510,578)</u>	<u>(654,359)</u>	<u>(610,880)</u>	<u>(543,525)</u>	<u>(584,171)</u>	<u>(480,195)</u>
<u>\$ 17,641,624</u>	<u>\$ 17,717,251</u>	<u>\$ 16,656,103</u>	<u>\$ 16,287,239</u>	<u>\$ 18,485,839</u>	<u>\$ 19,068,978</u>
\$ 26,786	\$ 48,126	\$ 32,306	\$ 8,483	\$ 7,058	\$ 6,567
17,811	1,649	630	-	18,765	12,134
<u>510,578</u>	<u>654,359</u>	<u>610,880</u>	<u>543,525</u>	<u>584,171</u>	<u>480,195</u>
<u>\$ 555,175</u>	<u>\$ 704,134</u>	<u>\$ 643,816</u>	<u>\$ 552,008</u>	<u>\$ 609,994</u>	<u>\$ 498,896</u>
<u>\$ 18,196,799</u>	<u>\$ 18,421,385</u>	<u>\$ 17,299,919</u>	<u>\$ 16,839,247</u>	<u>\$ 19,095,833</u>	<u>\$ 19,567,874</u>
\$ 1,204,558	\$ 64,564	\$ (1,088,368)	\$ (760,645)	\$ 690,476	\$ 277,276
7,684	-	94,658	87,186	15,857	201,852
-	91,812	(45,854)	115,817	-	-
(9,472)	-	-	-	(58,916)	-
280,961	168,722	(344,086)	(438,833)	351,670	715,896
-	-	-	43,559	-	-
<u>9,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,916</u>	<u>-</u>
<u>\$ 1,493,203</u>	<u>\$ 325,098</u>	<u>\$ (1,383,650)</u>	<u>\$ (952,916)</u>	<u>\$ 1,058,003</u>	<u>\$ 1,195,024</u>

Schedule 3 - Fund Balances - Governmental Funds
Last Ten Years
Modified Accrual Basis of Accounting
(In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund:				
Reserved	\$ 74,766	\$ 120,506	\$ 161,257	\$ 228,640
Designated	-	-	-	610,167
Undesignated	<u>(1,006,866)</u>	<u>(448,465)</u>	<u>(68,292)</u>	<u>-</u>
Total General Fund	<u>\$ (932,100)</u>	<u>\$ (327,959)</u>	<u>\$ 92,965</u>	<u>\$ 838,807</u>
All Other Governmental Funds:				
Reserved	\$ 3,944,156	\$ 2,543,206	\$ 2,797,593	\$ 2,805,382
Designated, Reported In:				
Special Revenue Funds	442,662	580,118	484,012	715,202
Debt Service Fund	-	-	-	-
Permanent Funds	-	-	-	-
Undesignated, Reported In:				
Special Revenue Funds	396,014	262,630	189,873	239,599
Capital Projects Funds	<u>44</u>	<u>(62,340)</u>	<u>(8,187)</u>	<u>(48,184)</u>
Total All Other Governmental Funds	<u>\$ 4,782,876</u>	<u>\$ 3,323,614</u>	<u>\$ 3,463,291</u>	<u>\$ 3,711,999</u>
Total Governmental Funds	<u>\$ 3,850,776</u>	<u>\$ 2,995,655</u>	<u>\$ 3,556,256</u>	<u>\$ 4,550,806</u>

Note: The State implemented GASB Statement No. 54 in fiscal year 2010, which significantly changed the fund balance classifications. Therefore, the fund balance classifications are not comparable to prior years' classifications for fiscal years 2010 and beyond.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 155,985	\$ 153,150	\$ 111,182	\$ -	\$ -	\$ -
1,124,122	689,476	-	-	-	-
<u>-</u>	<u>-</u>	<u>(752,490)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,280,107</u>	<u>\$ 842,626</u>	<u>\$ (641,308)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,020,610	\$ 1,931,753	\$ 1,858,589	\$ -	\$ -	\$ -
1,139,133	1,266,623	1,214,750	-	-	-
704,800	707,086	742,069	-	-	-
15,690	9,479	5,862	-	-	-
243,192	339,989	344,884	-	-	-
<u>6,044</u>	<u>(12,873)</u>	<u>2,472</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 4,129,469</u>	<u>\$ 4,242,057</u>	<u>\$ 4,168,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 5,409,576</u>	<u>\$ 5,084,683</u>	<u>\$ 3,527,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Schedule 3 - Fund Balances - Governmental Funds
Last Ten Years
Modified Accrual Basis of Accounting
(In Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund:				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total General Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All Other Governmental Funds:				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total All Other Governmental Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Governmental Funds	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note: The State implemented GASB Statement No. 54 in fiscal year 2010, which significantly changed the fund balance classifications. Therefore, the fund balance classifications are not comparable to prior years' classifications for fiscal years 2010 and beyond.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ -	\$ -	\$ -	\$ 465,601	\$ 579,800	\$ 625,689
-	-	-	173,687	171,033	148,483
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	(1,525,534)	(900,675)	(887,037)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (886,246)</u>	<u>\$ (149,842)</u>	<u>\$ (112,865)</u>
\$ -	\$ -	\$ -	\$ 718,469	\$ 833,403	\$ 892,478
-	-	-	2,380,542	2,450,612	2,300,043
-	-	-	537,009	382,939	561,628
-	-	-	3,920	2,306	642,158
-	-	-	-	(19,905)	(97,404)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,639,940</u>	<u>\$ 3,649,355</u>	<u>\$ 4,298,903</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,753,694</u>	<u>\$ 3,499,513</u>	<u>\$ 4,186,038</u>

Schedule 4 - Changes in Fund Balances - Governmental Funds
Last Ten Years
Modified Accrual Basis of Accounting
(In Thousands)

	2003	2004	2005	2006
Revenues:				
Individual Income Taxes	\$ 5,477,799	\$ 5,836,790	\$ 6,534,422	\$ 7,068,712
Corporate Income Taxes	572,689	648,837	711,136	1,189,915
Sales Taxes	3,822,453	3,959,236	4,281,391	4,473,275
Property Taxes	585,416	599,622	610,809	631,279
Motor Vehicle Taxes	1,109,090	1,096,890	1,067,444	1,037,593
Fuel Taxes	645,886	651,261	655,162	659,647
Federal Revenues	5,265,603	5,550,606	5,606,553	5,864,373
Other Taxes and Revenues	3,212,677	3,396,171	3,591,776	4,080,518
Total Revenues	\$ 20,691,613	\$ 21,739,413	\$ 23,058,693	\$ 25,005,312
Expenditures:				
Current:				
Agricultural, Environmental and Energy Resources ⁽¹⁾	\$ 594,696	\$ 575,363	\$ 578,000	\$ 537,220
Economic and Workforce Development ⁽¹⁾	750,463	649,090	617,247	703,108
General Education	6,929,529	6,512,633	6,820,292	7,337,888
General Government	604,481	617,052	622,177	690,753
Health and Human Services	8,091,315	8,229,553	8,465,547	8,820,143
Higher Education	785,887	745,406	764,072	786,606
Intergovernment Aid	1,480,533	1,355,683	1,284,576	1,400,479
Public Safety and Corrections	748,482	711,888	753,260	793,202
Transportation	1,724,106	1,647,447	1,644,500	1,776,980
Securities Lending Rebates and Fees	6,968	3,854	9,030	18,049
Capital Outlay	572,534	701,372	703,777	854,612
Debt Service:				
Principal	275,718	253,127	260,930	288,932
Interest	144,940	184,833	184,191	183,240
Total Expenditures	\$ 22,709,652	\$ 22,187,301	\$ 22,707,599	\$ 24,191,212
Excess of Revenues Over (Under) Expenditures	\$ (2,018,039)	\$ (447,888)	\$ 351,094	\$ 814,100
Other Financing Sources (Uses):				
Bond Proceeds	\$ 256,362	\$ 417,937	\$ 507,294	\$ 377,949
Certificates of Participation Issuance	-	-	-	-
Loan Proceeds	14,897	-	17,885	24,388
Proceeds from Refunding Bonds	391,680	20,855	171,880	160,960
Payment of Refunding Bonds	-	(425,715)	(171,880)	(160,960)
Bond Issue Premium	58,252	33,455	61,662	45,141
Certificates of Participation Premium	-	-	-	-
Net Transfers In (Out)	(523,318)	(456,971)	(387,029)	(449,246)
Capital Leases	3,134	1,774	8,387	180,005
Total Other Financing Sources (Uses)	\$ 201,007	\$ (408,665)	\$ 208,199	\$ 178,237
Changes in Inventory	(321)	1,432	1,308	-
Changes in Fund Structure	(1,117)	-	-	-
Prior Period Adjustments	(59,340)	-	-	-
Special Item	30,000	-	-	-
Net Change in Fund Balances	\$ (1,847,810)	\$ (855,121)	\$ 560,601	\$ 992,337
Debt Service as a Percentage of Noncapital Expenditures	1.9%	2.0%	2.0%	2.0%

⁽¹⁾ Beginning in fiscal year 2007, the Department of Commerce financial activity was moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

2007	2008	2009	2010	2011	2012
\$ 7,412,381	\$ 7,932,036	\$ 7,162,974	\$ 6,729,244	\$ 7,828,818	\$ 8,267,608
1,163,095	1,024,040	727,928	540,504	1,135,193	996,524
4,513,452	4,499,550	4,279,178	4,411,277	4,681,525	4,871,038
665,746	704,246	729,373	766,830	766,926	813,723
1,025,820	1,011,494	955,785	997,214	1,074,769	1,150,343
648,078	651,860	756,381	825,341	852,765	851,410
6,333,686	6,858,191	7,887,945	10,020,456	9,162,775	8,268,573
4,027,767	4,005,067	3,810,907	4,074,393	4,249,437	4,063,416
<u>\$ 25,790,025</u>	<u>\$ 26,686,484</u>	<u>\$ 26,310,471</u>	<u>\$ 28,365,259</u>	<u>\$ 29,752,208</u>	<u>\$ 29,282,635</u>
\$ 755,168	\$ 782,381	\$ 866,963	\$ 918,410	\$ 1,022,523	\$ 904,313
605,784	719,801	704,736	755,337	720,542	588,847
7,320,491	7,673,220	7,808,279	8,038,447	7,494,180	7,885,111
699,585	772,835	753,882	730,091	787,042	742,654
9,581,606	10,298,462	11,238,043	11,929,558	12,252,582	12,467,327
922,772	983,319	913,292	981,868	892,947	777,958
1,489,439	1,511,715	1,435,897	1,549,453	1,317,185	1,358,520
813,636	858,385	891,480	901,983	911,490	893,858
1,765,410	2,029,762	2,040,334	2,416,333	2,673,915	2,300,784
29,929	21,534	1,237	132	89	-
693,041	818,701	746,955	643,736	699,583	539,608
349,941	373,619	389,371	381,845	344,703	471,448
222,175	220,957	230,645	295,974	352,557	568,078
<u>\$ 25,248,977</u>	<u>\$ 27,064,691</u>	<u>\$ 28,021,114</u>	<u>\$ 29,543,167</u>	<u>\$ 29,469,338</u>	<u>\$ 29,498,506</u>
<u>\$ 541,048</u>	<u>\$ (378,207)</u>	<u>\$ (1,710,643)</u>	<u>\$ (1,177,908)</u>	<u>\$ 282,870</u>	<u>\$ (215,871)</u>
\$ 720,445	\$ 637,744	\$ 675,810	\$ 722,904	\$ 843,496	\$ 1,517,849
-	-	-	74,980	-	-
24,610	414	549	5,729	677	-
264,050	-	155,415	426,505	907,785	-
(264,050)	-	(155,415)	(426,505)	(907,785)	(400,775)
57,918	34,016	56,112	108,704	233,570	142,273
-	-	-	7,411	-	-
(479,598)	(622,455)	(580,540)	(523,176)	(557,776)	(495,540)
1,090	1,308	-	3,356	-	-
<u>\$ 324,465</u>	<u>\$ 51,027</u>	<u>\$ 151,931</u>	<u>\$ 399,908</u>	<u>\$ 519,967</u>	<u>\$ 763,807</u>
2,845	2,287	1,347	4,376	1,898	-
(9,588)	-	-	-	(58,916)	-
-	-	-	-	-	138,589
-	-	-	-	-	-
<u>\$ 858,770</u>	<u>\$ (324,893)</u>	<u>\$ (1,557,365)</u>	<u>\$ (773,624)</u>	<u>\$ 745,819</u>	<u>\$ 686,525</u>
2.3%	2.3%	2.3%	2.3%	2.4%	3.6%

**Schedule 5 - Revenue Base
Personal Income By Industry
Last Ten Calendar Years
(In Thousands)**

	2002	2003	2004	2005
Farm Earnings	\$ 980,509	\$ 1,890,660	\$ 2,466,520	\$ 3,089,441
Private Earnings:				
Forestry, Fishing, Related Activities	\$ 282,013	\$ 296,927	\$ 301,315	\$ 301,845
Mining	380,852	399,799	430,736	453,720
Utilities	1,176,293	1,136,952	1,273,103	1,248,361
Construction	9,279,159	9,693,308	10,377,189	10,574,558
Manufacturing:				
Durable Goods Manufacturing	13,377,345	13,858,423	14,703,033	14,903,048
Nondurable Goods Manufacturing	6,981,285	7,155,596	7,284,143	7,260,833
Wholesale Trade	8,605,381	8,930,235	9,500,469	10,025,738
Retail Trade	8,974,539	9,258,367	9,590,980	9,571,126
Transportation and Warehousing	5,010,525	5,178,203	5,433,112	5,583,772
Information	4,005,539	3,915,092	4,091,623	4,142,205
Finance and Insurance	10,702,728	11,492,034	12,187,514	12,647,381
Real Estate and Rental and Leasing	2,821,021	2,893,049	2,914,275	2,970,362
Professional and Technical Services	10,074,878	10,221,545	10,825,901	11,440,141
Management of Companies and Enterprises	6,062,365	6,052,241	6,926,319	6,719,458
Administrative and Waste Services	3,991,636	4,124,896	4,333,128	4,611,705
Educational Services	1,525,624	1,621,389	1,739,372	1,781,380
Health Care and Social Assistance	13,859,167	14,908,626	15,988,253	16,675,293
Arts, Entertainment, and Recreation	1,317,325	1,440,220	1,502,810	1,523,561
Accommodation and Food Services	3,215,164	3,376,348	3,587,470	3,677,062
Other Services, Except Public Administration	5,266,709	5,232,613	5,453,478	5,693,557
Total Private Earnings	<u>\$ 116,909,548</u>	<u>\$ 121,185,863</u>	<u>\$ 128,444,223</u>	<u>\$ 131,805,106</u>
Government and Government Enterprises:				
Federal, Civilian	\$ 2,434,264	\$ 2,557,012	\$ 2,757,741	\$ 2,832,440
Military	473,651	663,606	745,144	966,040
State and Local	15,625,483	16,089,018	16,567,688	17,138,227
Total Government and Government Enterprises	<u>\$ 18,533,398</u>	<u>\$ 19,309,636</u>	<u>\$ 20,070,573</u>	<u>\$ 20,936,707</u>
Nonfarm Earnings	<u>135,442,946</u>	<u>140,495,499</u>	<u>148,514,796</u>	<u>152,741,813</u>
Total Earnings By Industry	<u>\$ 136,423,455</u>	<u>\$ 142,386,159</u>	<u>\$ 150,981,316</u>	<u>\$ 155,831,254</u>
Derivation of Personal Income:				
Earnings By Place of Work	\$ 136,423,455	\$ 142,386,159	\$ 150,981,316	\$ 155,831,254
Other Personal Income ⁽¹⁾	<u>34,574,578</u>	<u>35,760,502</u>	<u>37,348,629</u>	<u>38,158,390</u>
Personal income	<u>\$ 170,998,033</u>	<u>\$ 178,146,661</u>	<u>\$ 188,329,945</u>	<u>\$ 193,989,644</u>

⁽¹⁾ Adjustments for Residence, Dividends, Interest, Rent and Transfer Receipts less Social Security Benefits

Source: Bureau of Economic Analysis, U.S. Department of Commerce, SA05N - Personal income by major source and earnings by industry as of September 25, 2012.

Note: The estimates of earnings for 2002-2006 are based on the 2002 North American Industry Classification System (NAICS). The estimates for 2007-2010 are based on the 2007 NAICS. Under the 2007 NAICS, internet publishing and broadcasting was reclassified to other information services. The estimates for 2011 forward are based on the 2012 NAICS.

2006	2007	2008	2009	2010	2011
\$ 2,680,438	\$ 2,611,979	\$ 4,534,958	\$ 3,128,218	\$ 4,239,150	\$ 5,174,974
\$ 322,520	\$ 331,291	\$ 363,055	\$ 375,401	\$ 474,378	\$ 498,500
510,529	496,648	569,846	392,713	569,337	686,281
1,359,490	1,341,776	1,561,150	1,518,731	1,595,273	1,683,949
10,519,155	10,188,790	9,177,943	7,936,155	7,909,259	8,418,102
15,139,874	15,449,197	15,545,095	14,010,211	14,301,769	15,210,283
7,557,310	7,584,431	8,723,364	7,586,192	7,825,576	8,223,403
10,539,400	11,060,667	11,559,965	10,723,846	11,024,058	11,634,169
9,640,300	9,758,460	9,291,098	9,070,313	9,213,028	9,568,336
5,294,729	5,549,312	5,660,973	5,138,069	5,188,307	5,436,887
4,179,078	4,467,478	4,577,089	4,434,846	4,444,277	4,696,039
13,391,232	14,038,193	13,705,758	13,247,376	14,399,556	15,281,965
2,983,106	2,653,833	2,835,561	2,635,654	2,761,895	2,841,732
12,375,438	13,460,799	14,390,199	13,319,041	13,564,508	14,364,782
7,217,755	8,291,254	9,622,963	8,013,237	9,149,283	9,290,948
4,902,735	5,081,752	5,112,831	4,779,281	5,137,590	5,562,635
1,938,994	2,091,268	2,262,925	2,462,885	2,470,913	2,606,188
18,059,007	19,331,595	20,308,450	21,178,348	22,074,062	22,340,924
1,731,523	1,816,631	1,809,220	1,745,774	1,912,604	1,951,722
3,795,917	4,058,411	3,997,290	3,838,404	3,966,080	4,203,526
5,824,217	5,992,562	5,785,340	5,750,639	5,808,299	6,043,097
<u>\$ 137,282,309</u>	<u>\$ 143,044,348</u>	<u>\$ 146,860,115</u>	<u>\$ 138,157,116</u>	<u>\$ 143,790,052</u>	<u>\$ 150,543,468</u>
\$ 2,995,599	\$ 3,059,076	\$ 3,177,923	\$ 3,253,407	\$ 3,290,078	\$ 3,307,026
896,525	971,403	961,427	1,055,862	1,044,439	983,386
17,962,127	18,715,439	19,757,794	20,282,087	20,524,265	20,622,030
<u>\$ 21,854,251</u>	<u>\$ 22,745,918</u>	<u>\$ 23,897,144</u>	<u>\$ 24,591,356</u>	<u>\$ 24,858,782</u>	<u>\$ 24,912,442</u>
159,136,560	165,790,266	170,757,259	162,748,472	168,648,834	175,455,910
<u>\$ 161,816,998</u>	<u>\$ 168,402,245</u>	<u>\$ 175,292,217</u>	<u>\$ 165,876,690</u>	<u>\$ 172,887,984</u>	<u>\$ 180,630,884</u>
\$ 161,816,998	\$ 168,402,245	\$ 175,292,217	\$ 165,876,690	\$ 172,887,984	\$ 180,630,884
44,040,406	48,438,103	52,776,912	50,390,820	52,965,141	57,534,845
<u>\$ 205,857,404</u>	<u>\$ 216,840,348</u>	<u>\$ 228,069,129</u>	<u>\$ 216,267,510</u>	<u>\$ 225,853,125</u>	<u>\$ 238,165,729</u>

Schedule 6 - Revenue Rates
Tax Rates and Taxable Income Brackets for 2003 through 2012

Tax Year 2003

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 27,780	\$27,781 - \$110,390	\$ 110,390
Married Separate	\$ 13,890	\$13,891 - \$ 55,200	\$ 55,200
Single	\$ 19,010	\$19,011 - \$ 62,440	\$ 62,440
Head of Household	\$ 23,400	\$23,401 - \$ 94,030	\$ 94,030

Tax Year 2004

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 28,420	\$28,421 - \$112,910	\$ 112,910
Married Separate	\$ 14,210	\$14,211 - \$ 56,460	\$ 56,460
Single	\$ 19,440	\$19,441 - \$ 63,860	\$ 63,860
Head of Household	\$ 23,940	\$23,941 - \$ 96,180	\$ 96,180

Tax Year 2005

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 29,070	\$29,071 - \$115,510	\$ 115,510
Married Separate	\$ 14,540	\$14,541 - \$ 57,760	\$ 57,760
Single	\$ 19,890	\$19,891 - \$ 65,330	\$ 65,330
Head of Household	\$ 24,490	\$24,491 - \$ 98,390	\$ 98,390

Tax Year 2006

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 29,980	\$29,981 - \$119,100	\$ 119,100
Married Separate	\$ 14,990	\$14,991 - \$ 59,550	\$ 59,550
Single	\$ 20,510	\$20,511 - \$ 67,360	\$ 67,360
Head of Household	\$ 25,250	\$25,251 - \$101,450	\$ 101,450

Tax Year 2007

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 31,150	\$31,151 - \$123,750	\$ 123,750
Married Separate	\$ 15,580	\$15,581 - \$ 61,880	\$ 61,880
Single	\$ 21,310	\$21,311 - \$ 69,990	\$ 69,990
Head of Household	\$ 26,230	\$26,231 - \$105,410	\$ 105,410

Source: Minnesota Department of Revenue Tax Research Division
 Minnesota Taxable Income is the Federal Taxable Income modified for state-specific additions and subtractions.

Schedule 6 - Revenue Rates
Tax Rates and Taxable Income Brackets for 2003 through 2012 - (Continued)

Tax Year 2008

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 31,860	\$31,861 - \$126,580	\$ 126,580
Married Separate	\$ 15,930	\$15,931 - \$ 63,290	\$ 63,290
Single	\$ 21,800	\$21,801 - \$ 71,590	\$ 71,590
Head of Household	\$ 26,830	\$26,831 - \$107,820	\$ 107,820

Tax Year 2009

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 33,220	\$33,221 - \$131,970	\$ 131,970
Married Separate	\$ 16,610	\$16,611 - \$ 65,990	\$ 65,990
Single	\$ 22,730	\$22,731 - \$ 74,650	\$ 74,650
Head of Household	\$ 27,980	\$27,981 - \$112,420	\$ 112,420

Tax Year 2010

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 33,280	\$33,281 - \$132,220	\$ 132,220
Married Separate	\$ 16,640	\$16,641 - \$ 66,110	\$ 66,110
Single	\$ 22,770	\$22,771 - \$ 74,780	\$ 74,780
Head of Household	\$ 28,030	\$28,031 - \$112,620	\$ 112,620

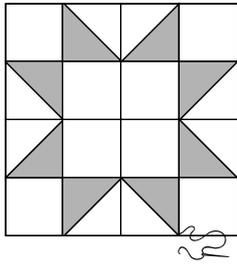
Tax Year 2011

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 33,770	\$33,771 - \$134,170	\$ 134,170
Married Separate	\$ 16,890	\$16,891 - \$ 67,090	\$ 67,090
Single	\$ 23,100	\$23,101 - \$ 75,890	\$ 75,890
Head of Household	\$ 28,440	\$28,441 - \$114,290	\$ 114,290

Tax Year 2012

	<u>5.35% Up To</u>	<u>7.05%</u>	<u>7.85% Over</u>
Married Joint	\$ 34,590	\$34,591 - \$137,430	\$ 137,430
Married Separate	\$ 17,300	\$17,301 - \$ 68,720	\$ 68,720
Single	\$ 23,670	\$23,671 - \$ 77,730	\$ 77,730
Head of Household	\$ 29,130	\$29,131 - \$117,060	\$ 117,060

Source: Minnesota Department of Revenue Tax Research Division
 Minnesota Taxable Income is the Federal Taxable Income modified for state-specific additions and subtractions.



**Schedule 7 - Principal Tax Payers
Personal Income Tax Filers and Liability By Income Level
Calendar Years 2001 and 2010**

Calendar Year 2001⁽¹⁾

Federal Adjusted Gross Income	Number of Returns ⁽²⁾	Percent of Total	Personal Income Tax Liability ⁽³⁾	Percent of Total
\$ 0 – 4,999	246,355	10.20%	\$ 1,933,676	0.04%
\$ 5,000 – 9,999	217,065	8.99%	14,090,227	0.26%
\$ 10,000 – 19,999	357,369	14.80%	93,475,507	1.72%
\$ 20,000 – 29,999	321,342	13.31%	220,455,607	4.07%
\$ 30,000 – 39,999	259,122	10.73%	305,300,695	5.63%
\$ 40,000 – 49,999	204,961	8.49%	330,945,836	6.10%
\$ 50,000 – 99,999	577,441	23.91%	1,672,762,259	30.86%
\$ 100,000 – 249,999	189,511	7.85%	1,333,733,022	24.60%
\$ 250,000 – 499,999	25,760	1.07%	483,249,063	8.91%
\$ 500,000 & Over	16,112	0.67%	965,118,627	17.80%
	<u>2,415,038</u>	<u>100.00%</u>	<u>\$ 5,421,064,519</u>	<u>100.00%</u>

Calendar Year 2010

Federal Adjusted Gross Income	Number of Returns ⁽²⁾	Percent of Total	Personal Income Tax Liability ⁽³⁾	Percent of Total
\$ 0 – 4,999	216,164	8.41%	\$ 2,924,436	0.04%
\$ 5,000 – 9,999	196,817	7.66%	5,158,137	0.07%
\$ 10,000 – 19,999	340,490	13.25%	61,562,700	0.87%
\$ 20,000 – 29,999	303,340	11.81%	165,959,354	2.33%
\$ 30,000 – 39,999	255,103	9.93%	251,164,846	3.53%
\$ 40,000 – 49,999	206,692	8.04%	310,401,380	4.37%
\$ 50,000 – 99,999	650,903	25.33%	1,804,018,067	25.38%
\$ 100,000 – 249,999	337,097	13.12%	2,254,900,423	31.72%
\$ 250,000 – 499,999	40,591	1.58%	743,503,118	10.46%
\$ 500,000 & Over	22,259	0.87%	1,509,396,228	21.23%
	<u>2,569,456</u>	<u>100.00%</u>	<u>\$ 7,108,988,689</u>	<u>100.00%</u>

⁽¹⁾There was no income tax sample available for calendar year 2001. Therefore, estimates were obtained using a different methodology.

⁽²⁾Total number of returns filed.

⁽³⁾Minnesota Income Tax Liability before refundable tax credits.

Note: Calendar year 2010 is the most recent year available.

Source: Minnesota Department of Revenue, 2010 Individual Income Tax Sample.

**Schedule 8 - Ratios of Outstanding and General Bonded Debt
Last Ten Years
(In Thousands)**

	2003	2004	2005	2006
Governmental Activities:				
General Obligation Bonds ⁽¹⁾	\$ 3,387,932	\$ 3,173,115	\$ 3,483,856	\$ 3,615,381
Loans	24,198	19,653	17,130	45,918
Revenue Bonds	-	-	-	-
Certificates of Participation Payable	-	-	-	-
Capital Leases	8,846	9,085	11,037	182,930
Total	\$ 3,420,976	\$ 3,201,853	\$ 3,512,023	\$ 3,844,229
Business-type Activities:				
General Obligation Bonds ⁽¹⁾	\$ 127,644	\$ 145,101	\$ 149,448	\$ 164,631
Loans	135,486	275,703	87,376	5,832
Revenue Bonds	52,925	51,410	52,475	95,780
Capital Leases	12,483	14,868	26,497	26,520
Total	\$ 328,538	\$ 487,082	\$ 315,796	\$ 292,763
Total Debt to the Primary Government	\$ 3,749,514	\$ 3,688,935	\$ 3,827,819	\$ 4,136,992
Less: Set Aside to Repay General Debt	\$ (263,810)	\$ (258,925)	\$ (286,535)	\$ (313,324)
Net Debt to the Primary Government	\$ 3,485,704	\$ 3,430,010	\$ 3,541,284	\$ 3,823,668
Total Personal Income	\$ 170,998,033	\$ 178,146,661	\$ 188,329,945	\$ 193,989,644
Ratio of Total Debt to Personal Income	2.19%	2.07%	2.03%	2.13%
Per Capita Total Outstanding Debt (Actual Dollars)	\$ 747	\$ 730	\$ 752	\$ 808
Ratio of Net General Obligation Debt to Personal Income	1.90%	1.72%	1.78%	1.79%
Per Capita Net General Obligation Debt (Actual Dollars)	\$ 648	\$ 605	\$ 658	\$ 677

⁽¹⁾ Net of applicable premium or discount

Sources:

The state's Comprehensive Annual Financial Report for the relevant year.
Bureau of Economic Analysis U.S. Department of Commerce.

2007	2008	2009	2010	2011	2012
\$ 4,036,703	\$ 4,330,291	\$ 4,667,902	\$ 5,103,210	\$ 5,814,900	\$ 5,772,034
60,494	59,889	53,658	41,319	31,583	28,612
15,145	14,500	13,715	12,900	12,055	794,574
-	-	-	80,649	79,408	70,742
172,732	167,877	161,629	158,175	151,156	144,319
<u>\$ 4,285,074</u>	<u>\$ 4,572,557</u>	<u>\$ 4,896,904</u>	<u>\$ 5,396,253</u>	<u>\$ 6,089,102</u>	<u>\$ 6,810,281</u>
\$ 199,690	\$ 224,090	\$ 241,946	\$ 250,353	\$ 260,618	\$ 249,636
5,419	5,829	5,582	603,020	465,280	5,015
170,941	209,719	278,246	320,779	375,409	431,952
25,382	22,647	20,324	18,662	46,168	40,137
<u>\$ 401,432</u>	<u>\$ 462,285</u>	<u>\$ 546,098</u>	<u>\$ 1,192,814</u>	<u>\$ 1,147,475</u>	<u>\$ 726,740</u>
<u>\$ 4,686,506</u>	<u>\$ 5,034,842</u>	<u>\$ 5,443,002</u>	<u>\$ 6,589,067</u>	<u>\$ 7,236,577</u>	<u>\$ 7,537,021</u>
<u>\$ (372,510)</u>	<u>\$ (368,800)</u>	<u>\$ (406,310)</u>	<u>\$ (420,055)</u>	<u>\$ (463,165)</u>	<u>\$ (301,320)</u>
<u>\$ 4,313,996</u>	<u>\$ 4,666,042</u>	<u>\$ 5,036,692</u>	<u>\$ 6,169,012</u>	<u>\$ 6,773,412</u>	<u>\$ 7,235,701</u>
\$ 205,857,404	\$ 216,840,348	\$ 226,049,178	\$ 217,704,959	\$ 227,543,790	\$ 238,165,729
2.28%	2.32%	2.41%	3.03%	3.18%	3.16%
\$ 908	\$ 967	\$ 1,037	\$ 1,248	\$ 1,363	\$ 1,410
1.88%	1.93%	1.99%	2.27%	2.47%	2.40%
\$ 748	\$ 804	\$ 858	\$ 934	\$ 1,057	\$ 1,070

**Schedule 9 - Pledged Revenue Coverage
Last Ten Fiscal Years (In Thousands)**

	2003	2004	2005	2006
State University Board Revenue				
- Segment of College and University Enterprise Fund				
Gross Revenues ⁽¹⁾	\$ 60,606	\$ 66,221	\$ 70,091	\$ 76,901
Less: Operating Expenses ⁽²⁾	(47,599)	(54,221)	(53,884)	(57,496)
Net Available Revenue	<u>\$ 13,007</u>	<u>\$ 12,000</u>	<u>\$ 16,207</u>	<u>\$ 19,405</u>
Debt Service				
Principal	\$ -	\$ 1,065	\$ 1,115	\$ 1,222
Interest	2,247	1,695	1,401	3,496
Total Debt Service	<u>\$ 2,247</u>	<u>\$ 2,760</u>	<u>\$ 2,516</u>	<u>\$ 4,718</u>
Coverage	5.79	4.35	6.44	4.11
Vermilion Community College and Itasca Community College Student Housing				
- Segments of College and University Enterprise Fund				
Gross Revenues ⁽¹⁾	\$ 570	\$ 595	\$ 595	\$ 1,010
Less: Operating Expenses ⁽²⁾	(335)	(332)	(385)	(660)
Net Available Revenue	<u>\$ 235</u>	<u>\$ 263</u>	<u>\$ 210</u>	<u>\$ 350</u>
Debt Service				
Principal	\$ 130	\$ 140	\$ 150	\$ 230
Interest	96	86	75	189
Total Debt Service	<u>\$ 226</u>	<u>\$ 226</u>	<u>\$ 225</u>	<u>\$ 419</u>
Coverage	1.04	1.16	0.93	0.84
Giants Ridge Enterprise Fund⁽⁴⁾				
Gross Revenues ⁽¹⁾	\$ 3,128	\$ 4,994	\$ 5,138	\$ 4,693
Less: Operating Expenses ⁽²⁾	(3,876)	(4,283)	(4,532)	(5,139)
Net Available Revenue	<u>\$ (748)</u>	<u>\$ 711</u>	<u>\$ 606</u>	<u>\$ (446)</u>
Debt Service				
Principal ⁽³⁾	\$ 310	\$ 310	\$ 615	\$ 615
Interest	574	1,170	1,071	1,045
Total Debt Service	<u>\$ 884</u>	<u>\$ 1,480</u>	<u>\$ 1,686</u>	<u>\$ 1,660</u>
Coverage	(0.85)	0.48	0.36	(0.27)

⁽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.

⁽⁵⁾ Revenue bonds of \$15.0 million for Iron Range Educational Facilities were issued on July 26, 2006.

⁽⁶⁾ Revenue bonds of \$35.0 million and \$42.2 were issued on November 1, 2006, and November 13, 2008, respectively, for 911 Services.

⁽⁷⁾ Taxes pledged for these bonds consist only of the portion allocated to the Iron Range Resources and Rehabilitation Agency (IRRRA) and D.J.Johnson Economic Protection Trust Funds.

⁽⁸⁾ In 2011, the entire \$11.31 million in outstanding revenue bonds was redeemed. Of this amount, the D.J. Johnson Economic Protection Trust Fund contributed \$8.70 million.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

2007	2008	2009	2010	2011	2012
\$ 83,073	\$ 88,884	\$ 96,248	\$ 101,311	\$ 110,055	\$ 111,171
(60,778)	(65,166)	(69,867)	(71,426)	(72,391)	(74,432)
<u>\$ 22,295</u>	<u>\$ 23,718</u>	<u>\$ 26,381</u>	<u>\$ 29,885</u>	<u>\$ 37,664</u>	<u>\$ 36,739</u>
\$ 1,875	\$ 1,945	\$ 2,945	\$ 6,125	\$ 7,870	\$ 7,545
4,663	5,374	7,091	10,816	8,070	11,889
<u>\$ 6,538</u>	<u>\$ 7,319</u>	<u>\$ 10,036</u>	<u>\$ 16,941</u>	<u>\$ 15,940</u>	<u>\$ 19,434</u>
3.41	3.24	2.63	1.76	2.36	1.89
\$ 1,074	\$ 1,038	\$ 618	\$ 628	\$ 667	\$ 698
(567)	(675)	(346)	(338)	(348)	(334)
<u>\$ 507</u>	<u>\$ 363</u>	<u>\$ 272</u>	<u>\$ 290</u>	<u>\$ 319</u>	<u>\$ 364</u>
\$ 370	\$ 135	\$ 145	\$ 145	\$ 155	\$ 165
170	155	148	141	134	124
<u>\$ 540</u>	<u>\$ 290</u>	<u>\$ 293</u>	<u>\$ 286</u>	<u>\$ 289</u>	<u>\$ 289</u>
0.94	1.25	0.93	1.01	1.10	1.26
\$ 4,204	\$ 4,338	\$ 4,195	\$ 4,184	\$ 3,922	\$ 3,138
(5,293)	(5,447)	(5,796)	(5,889)	(6,005)	(5,641)
<u>\$ (1,089)</u>	<u>\$ (1,109)</u>	<u>\$ (1,601)</u>	<u>\$ (1,705)</u>	<u>\$ (2,083)</u>	<u>\$ (2,503)</u>
\$ 665	\$ 705	\$ 760	\$ 815	\$ 11,310	\$ -
1,009	963	917	858	630	15
<u>\$ 1,674</u>	<u>\$ 1,668</u>	<u>\$ 1,677</u>	<u>\$ 1,673</u>	<u>\$ 11,940</u>	<u>\$ 15</u>
(0.65)	(0.66)	(0.95)	(1.02)	(0.17)	(166.87)

Schedule 9 - Pledged Revenue Coverage (Continued)
Last Ten Fiscal Years (In Thousands)

	2003	2004	2005	2006
D.J. Johnson Economic Protection Trust Fund⁽⁵⁾				
Taconite Production Tax ⁽⁷⁾	\$ -	\$ -	\$ -	\$ -
Net Available Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Total Debt Service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Coverage	N/A	N/A	N/A	N/A
Iron Range Resources and Rehabilitation Agency (IRRRA)⁽⁸⁾				
Taconite Production Tax ⁽⁷⁾	\$ -	\$ -	\$ -	\$ -
Net Available Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Total Debt Service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Coverage	N/A	N/A	N/A	N/A
911 Services Fund⁽⁶⁾				
911 Services Fees	\$ -	\$ -	\$ -	\$ -
Less: Operating Expenses ⁽²⁾	-	-	-	-
Net Available Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Total Debt Service	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Coverage	N/A	N/A	N/A	N/A

⁽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.

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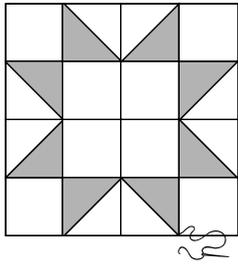
⁽⁶⁾ Revenue bonds of \$35.0 million and \$42.2 were issued on November 1, 2006, and November 13, 2008, respectively, for 911 Services.

⁽⁷⁾ Taxes pledged for these bonds consist only of the portion allocated to the Iron Range Resources and Rehabilitation Agency (IRRRA) and D.J.Johnson Economic Protection Trust Funds.

⁽⁸⁾ In 2011, the entire \$11.31 million in outstanding revenue bonds was redeemed. Of this amount, the D.J. Johnson Economic Protection Trust Fund contributed \$8.70 million.

Source: The state's Comprehensive Annual Financial Report for the relevant year.

2007	2008	2009	2010	2011	2012
\$ 2,864	\$ 4,002	\$ 3,682	\$ 3,197	\$ 4,302	\$ 843
<u>\$ 2,864</u>	<u>\$ 4,002</u>	<u>\$ 3,682</u>	<u>\$ 3,197</u>	<u>\$ 4,302</u>	<u>\$ 843</u>
\$ -	\$ 322	\$ 393	\$ 408	\$ 422	\$ 440
264	320	305	289	273	256
<u>\$ 264</u>	<u>\$ 642</u>	<u>\$ 698</u>	<u>\$ 697</u>	<u>\$ 695</u>	<u>\$ 696</u>
10.85	6.23	5.28	4.59	6.19	1.21
\$ 16,840	\$ 20,672	\$ 20,152	\$ 19,611	\$ 21,574	\$ 14,642
<u>\$ 16,840</u>	<u>\$ 20,672</u>	<u>\$ 20,152</u>	<u>\$ 19,611</u>	<u>\$ 21,574</u>	<u>\$ 14,642</u>
\$ -	\$ 322	\$ 393	\$ 408	\$ 422	\$ 440
265	320	305	289	273	256
<u>\$ 265</u>	<u>\$ 642</u>	<u>\$ 698</u>	<u>\$ 697</u>	<u>\$ 695</u>	<u>\$ 696</u>
63.55	32.20	28.87	28.14	31.04	21.04
\$ 49,527	\$ 52,271	\$ 52,677	\$ 60,229	\$ 63,373	\$ 68,516
(15,052)	(25,812)	(23,225)	(7,290)	(30,996)	(36,356)
<u>\$ 34,475</u>	<u>\$ 26,459</u>	<u>\$ 29,452</u>	<u>\$ 52,939</u>	<u>\$ 32,377</u>	<u>\$ 32,160</u>
\$ -	\$ 2,590	\$ 5,365	\$ 13,375	\$ 12,100	\$ 15,005
976	1,672	2,453	4,642	5,150	7,260
<u>\$ 976</u>	<u>\$ 4,262</u>	<u>\$ 7,818</u>	<u>\$ 18,017</u>	<u>\$ 17,250</u>	<u>\$ 22,265</u>
35.32	6.21	3.77	2.94	1.88	1.44



**Schedule 10 - Demographic and Economic Statistics
Last Ten Calendar Years**

Year	Population	Personal Income (Thousands)	Per Capita Personal Income	Median Age	Unemployment Rate
2002	5,018,935	\$ 170,998,033	\$ 34,071	35.9	4.5%
2003	5,053,572	\$ 178,146,661	\$ 35,252	36.1	4.9%
2004	5,087,713	\$ 188,329,945	\$ 37,017	36.3	4.6%
2005	5,119,598	\$ 193,989,644	\$ 37,892	36.5	4.2%
2006	5,163,555	\$ 205,857,404	\$ 39,867	36.6	4.1%
2007	5,207,203	\$ 216,840,348	\$ 41,642	36.8	4.6%
2008	5,247,018	\$ 228,069,129	\$ 43,466	37.1	5.4%
2009	5,281,203	\$ 216,267,510	\$ 40,950	37.2	8.1%
2010	5,310,658	\$ 225,853,125	\$ 42,528	37.4	7.3%
2011	5,344,861	\$ 238,165,729	\$ 44,560	37.4	6.4%

Sources: U.S. Census Bureau
Bureau of Economic Analysis, U.S. Department of Commerce
Minnesota Department of Employment and Economic Development

**Schedule 11 - Principal Employers
Current Year and Ten Years Ago⁽¹⁾**

Employer	2001			2011		
	Employees	Rank	Percent of Total State Employment	Employees	Rank	Percent of Total State Employment
State of Minnesota	56,320	1	2.09%	40,208	1	1.51%
United States Government	34,806	2	1.29%	34,000	2	1.28%
Mayo Foundation	24,587	5	0.91%	32,893	3	1.24%
Target Corporation	31,731	3	1.18%	30,500	4	1.15%
Allina Health System	22,261	6	0.83%	23,302	5	0.88%
Wal-Mart Stores Inc.	14,051	12	0.52%	20,434	6	0.77%
Fairview Health Services	18,495	8	0.69%	20,178	7	0.76%
Wells Fargo Bank Minnesota	15,259	10	0.57%	20,000	8	0.75%
University of Minnesota	30,823	4	1.15%	19,157	9	0.72%
MN State Colleges/Universities	-	-	-	18,516	10	0.70%
3M Company	18,606	7	0.69%	15,000	11	0.56%
Northwest Airlines Corp.	18,270	9	0.68%	-	-	-
Total	<u>285,209</u>			<u>274,188</u>		
Total State Employment	<u>2,689,351</u>			<u>2,656,421</u>		

⁽¹⁾Calendar Year 2011 is the most current year available.

Sources: Minneapolis/St. Paul Business Journal Book of Lists published October 26, 2001, and September 23, 2011.
Minnesota Department of Employment and Economic Development

Schedule 12
Full-Time Equivalent State Employees By Function
Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Primary Government:				
Public Safety and Corrections	5,807	5,705	5,752	6,245
Transportation	5,223	4,788	4,849	4,710
Agricultural, Environmental and Energy Resources ⁽¹⁾	4,539	4,400	4,389	4,019
Economic & Workforce Development ⁽¹⁾	2,669	4,257	4,136	3,976
General Education	880	857	864	964
Higher Education	14,094	14,006	14,407	14,150
Health and Human Services	9,118	7,415	7,570	7,827
General Government	<u>5,470</u>	<u>5,761</u>	<u>6,050</u>	<u>6,520</u>
Total	<u><u>47,800</u></u>	<u><u>47,189</u></u>	<u><u>48,017</u></u>	<u><u>48,411</u></u>

⁽¹⁾Beginning in fiscal year 2007, the Department of Commerce financial activity was moved from the Economic and Workforce Development function to the Agricultural, Environmental and Energy Resources function.

Sources: Minnesota Management & Budget
Minnesota State Colleges and Universities

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
6,198	6,447	6,517	6,553	6,569	6,457
4,435	4,544	4,713	4,969	4,964	4,514
4,322	4,465	4,515	4,467	4,416	4,221
3,486	2,379	2,499	2,661	2,621	2,368
935	897	882	880	877	851
14,437	14,841	15,592	15,835	15,851	15,554
8,042	9,587	8,257	9,167	8,997	8,694
<u>6,559</u>	<u>7,393</u>	<u>8,393</u>	<u>6,868</u>	<u>7,005</u>	<u>6,867</u>
<u><u>48,414</u></u>	<u><u>50,553</u></u>	<u><u>51,368</u></u>	<u><u>51,400</u></u>	<u><u>51,300</u></u>	<u><u>49,526</u></u>

**Schedule 13 - Operating and Capital Asset Indicators By Function
Last Ten Years**

	2003	2004	2005	2006
Public Safety and Corrections				
Incarcerated Inmates	7,073	7,795	7,978	8,874
Offenders on Supervision	16,753	19,061	18,106	19,977
Correctional Facilities	10	10	10	10
Reassignment of Minnesota Certificates of Title	2,700,603	2,363,013	2,344,311	1,542,648 ⁽²⁾
Crashes Investigated By State Patrol	22,939	18,789	23,429	23,777
Transportation				
Miles of Highways	29,078	29,153	29,130	29,100
Trunk Highway Bridges	2,784	2,831	2,876	2,907
Acres of Right-of-Way	250,243	252,205	252,433	253,852
Agricultural, Environmental and Energy Resources				
Recreational Fishing Licenses Issued/License Year	1,513,018	1,490,110	1,478,219	1,499,482
Watercraft Licenses Issued/Calendar Year	845,379	854,110	853,999	863,434
Acres of State Land Managed by Forestry/Fiscal Year	3,853,000	3,853,000	3,853,000	3,853,000
Farms/Calendar Year	80,000	79,600	79,600	79,300
Acres of Farmland/Calendar Year (1,000 Acres)	27,600	27,400	27,200	27,000
Agricultural Production-Crops/Calendar Year (In Thousands)	\$ 4,391,532	\$ 5,147,314	\$ 4,866,387	\$ 5,183,498
Agricultural Production-Livestock/Calendar Year (In Thousands)	\$ 4,089,925	\$ 4,974,098	\$ 4,970,842	\$ 4,864,539
Economic and Workforce Development				
Unemployment Claims Filed	323,262	299,630	285,669	276,381
Workplace Injuries Reported	44,983	43,871	42,002	39,919
General Education				
Kindergarten Through Grade 12 Students	835,227 ⁽¹⁾	829,832	825,843	826,543
School Districts	343	343	343	343
Charter Schools	78	88	106	125
Special Education Age 0-21 Childcount	115,802	117,666	118,501	119,720
Higher Education				
Full Year Equivalents	132,586	135,819	135,494	134,220
Number of Students Graduated	29,438	32,480	32,638	33,860
Buildings - Square Footage	24,509,182	25,263,803	25,559,289	25,725,125
Health and Human Services				
Average Monthly Cash Recipients	184,848	182,645	171,738	164,632
Average Monthly Health Care Enrollees	636,228	649,032	663,529	667,182
Health Care Providers	5,517	5,491	5,726	6,276
General Government				
Individual Income Tax Payers/Calendar Year	2,416,197	2,415,563	2,501,144	2,563,373
Corporate Income Tax Returns/Calendar Year	37,522	51,803	39,334	43,304
Sales Tax Permit Holders/Calendar Year	226,000	229,000	219,000	197,000

Note: N/A = Information not available.

⁽¹⁾ Fiscal year 1997-2003 average daily membership is adjusted to current law which requires that each student can be counted as no more than one.

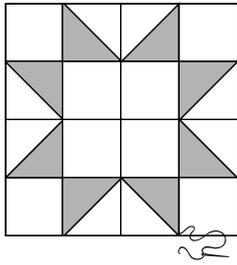
⁽²⁾ Certificates of Titles prior to fiscal year 2006 were based on the number of transactions. Beginning in fiscal year 2006, Certificates of Title were based on the number of applicants.

⁽³⁾ Estimate

Source: Applicable State Agencies

2007	2008	2009	2010	2011	2012
8,900	9,270	9,217	9,619	9,429	9,345
18,979	20,132	20,974	20,559	19,727	19,697
10	10	10	10	10	10
1,402,284	1,436,622	1,268,416	1,277,295	1,277,132	1,319,334
20,975	20,198	20,297	20,324	25,768	20,527
29,200	29,191	29,228	29,370	29,347	29,310
2,924	2,981	3,021	2,988	2,985	2,985
254,087	254,074	254,269	254,880	254,852	254,958
1,386,087	1,326,087	1,363,841	1,247,885	1,317,401	N/A
866,971	870,736	873,986	908,232	928,540	N/A
3,852,000	3,847,000	3,922,744	3,915,225	3,915,178	3,914,875
81,000	81,000	81,000	80,500	79,800	N/A
26,900	26,900	26,900	26,900	26,850	N/A
\$ 6,848,553	\$ 10,288,852	\$ 8,760,107	\$ 9,327,774	\$10,853,947	N/A
\$ 5,849,694	\$ 6,095,538	\$ 5,185,204	\$ 6,202,670	\$ 7,012,641	N/A
228,664	193,499	336,266	350,443	353,277	319,473
39,827	38,178	35,416	32,828	33,889	33,757
827,197	823,755	821,021	821,923	823,347	827,725 ⁽³⁾
340	340	340	337	337	337
131	143	153	154	149	148
121,511	123,269	124,592	126,108	127,863	128,430
135,839	139,885	143,924	155,427	157,903	153,521 ⁽³⁾
33,796	33,328	35,026	36,464	38,765	39,049 ⁽³⁾
26,007,169	26,065,364	26,672,956	26,792,759	27,248,375	27,835,651
159,390	158,556	164,293	174,372	185,739	183,983
661,265	667,086	707,006	776,430	832,903	855,643
6,710	7,120	8,368	7,971	8,872	9,295
2,602,439	2,715,679	2,687,864	2,695,214	2,708,203	2,762,039
38,339	40,900	33,822	32,115	38,072	31,842
256,000	277,000	277,000	284,000	284,000	256,439

Note: Of the \$14.8 billion in capital assets owned by the state, \$9.9 billion (67 percent) of the assets represent infrastructure and right of way under the Transportation function. The remaining \$4.9 billion in capital assets is allocated to other functions.





OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Report on Internal Control Over Statewide Financial Reporting

Year Ended June 30, 2012

May 17, 2013

Report 13-06

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Roger J. Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Schowalter, Commissioner
Department of Management and Budget

In auditing the State of Minnesota's basic financial statements for the year ended June 30, 2012, we considered the state's internal controls over financial reporting. We also tested the state's compliance with significant legal provisions impacting the basic financial statements.¹ This report contains our findings and recommendations on compliance and internal controls over the state's financial reporting process taken as a whole. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the State of Minnesota's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

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.

We reported a significant noncompliance with financial reporting requirements in Finding 1. We consider the deficiencies identified in findings 1 through 5, which relate to the preparation of the basic financial statements, to be material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider Finding 6 to be an other matter that is significant to the state's financial operations.

Individual agency responses to our findings and recommendations are presented in the accompanying section of this report titled, *Agencies' Responses*. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the State of Minnesota's management, the Legislative Audit Commission, and federal grantor agencies; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 17, 2013.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: March 22, 2013

Report Signed On: May 16, 2013

¹ We separately report the results of our tests of compliance with federal programs.

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Report Summary

Conclusion

The State of Minnesota's financial statements were fairly stated in all material respects. However, the state did not comply with the statutory deadline for issuing the financial statements and continued to have weaknesses in internal controls over financial reporting.

Our audit report contains five findings related to internal controls over the preparation of the state's financial statements and one finding related to delays in drawing federal funds to reimburse for federal grant program expenditures. Three of the findings include concerns from our previous audit that have not been fully resolved.¹

In addition, we previously reported to the Department of Management and Budget system security issues in the new accounting system (SWIFT) related to incompatible security roles and the development and assessment of mitigating controls for conflicting security access and incompatible duties.^{2,3} Establishing and maintaining appropriate security access in the new accounting system is fundamental to the state's ability to ensure the integrity of its financial operations.

Key Findings

- The Department of Management and Budget did not finalize financial statements in order to report the state's financial operations to the Legislature in a timely manner. ([Finding 1, page 3](#))
- The Department of Management and Budget did not adequately resolve some issues resulting from the implementation of the new accounting system. ([Finding 2, page 4](#))
- Prior Finding Partially Resolved: The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors and inaccuracies in the financial information used to compile the financial statements and footnote disclosures. ([Finding 3, page 5](#))
- Prior Finding Partially Resolved: Some agencies allowed employees to have inappropriate access to state business systems or perform incompatible duties without establishing mitigating controls. ([Finding 4, page 11](#))
- Prior Finding Partially Resolved: Some agencies lacked a comprehensive internal control structure over financial reporting to sufficiently mitigate the risk of potential misstatements in the financial statements. ([Finding 5, page 12](#))

¹ Office of the Legislative Auditor's Financial Audit Division Report 12-03, *Report on Internal Control Over Statewide Financial Reporting*, issued February 16, 2012.

² Office of the Legislative Auditor, Financial Audit Division, Report 11-24, *Statewide Integrated Financial Tools (SWIFT) Application Security Controls*, issued November 3, 2011.

³ Office of the Legislative Auditor, Financial Audit Division, Report 12-23, *Department of Management and Budget: Statewide Integrated Financial Tools (SWIFT)*, issued November 16, 2012.

Audit Scope

We audited the state's financial statements for the fiscal year ended June 30, 2012. Our audit encompassed many large state agencies that had financial activities significant to the financial statements.

Background

The Department of Management and Budget is responsible for preparing the state's annual financial statements, which are included in the *State of Minnesota's Comprehensive Annual Financial Report*. To prepare the statements, the department uses information from a variety of sources, including information provided by other agencies. The issues contained in this report relate to weaknesses in internal controls in the state's financial reporting process as a whole.

Financial Statement Findings and Recommendations

The Department of Management and Budget did not finalize financial statements in order to report the state’s financial operations to the Legislature in a timely manner.

Finding 1

The department did not adequately design, develop and test its new financial reporting process to allow it to meet the statutory requirement to complete its 2012 financial report by December 31, 2012.⁴ According to the department, the implementation of a new accounting system in July 2011 and a redesign of the financial reporting process resulted in it being unable to produce timely financial statements for fiscal year 2012.⁵ While it is understandable that the implementation of a new accounting system would impact the financial reporting process, the department did not adequately anticipate the challenges of converting prior year account balance information and the difficulty of obtaining system data necessary for financial reporting. As late as November 2012, 17 months after the new system’s implementation, important elements of the state’s financial reporting process were not fully functional.

The department did not establish realistic financial reporting due dates for itself or other state agencies. Although the financial reporting process was not fully developed or tested, the department’s due date schedule for elements of the financial reports was about the same as for the previous year. The schedule did not seem to take into account issues the department was already aware of or allow time to resolve difficulties likely to be encountered in the first year of a new process. In addition, the department underestimated the difficulty agencies would have using the new accounting system to obtain the information needed to develop reasonably accurate estimates of some accrual amounts. Even as they were unable to meet some critical due dates, department staff stated that they continued to work toward the December 31 deadline.

In early November, we notified the commissioner that we believed the department was at risk of not meeting the year end deadline. Finally, by early December, the commissioner formally acknowledged that the department would miss the deadline, but stated that they would issue the financial statements by the end of January 2013. Ultimately, the department issued the fiscal year 2012 financial statements on March 27, 2013.

⁴ Minnesota Statute, Chapter 16A, section 50.

⁵ The new accounting system, called the Statewide Integrated Financial Tools (SWIFT), is an Oracle PeopleSoft Enterprise Resource Planning System.

As a result of the late financial reporting, the department was required to disclose on the Municipal Securities Rulemaking Board's electronic municipal market access website⁶ that it would not be filing (and subsequently did not file) its 2012 financial reports by the end of year. These disclosures may have raised some doubt about the state's financial stability and could have put the state's bond ratings at risk. In addition, as of May 1, 2013, the department had not finalized its Schedules of Expenditures of Federal Awards and did not meet the fiscal year 2012 Single Audit reporting deadline of March 31, 2013.⁷

Issuing audited financial statements is an important way that the state is accountable and provides transparency for its operations. The statutory deadline reinforces the conclusion there is a time limit on the value of this financial information. Because we believed that the lateness of the state's 2012 financial report diminished its usefulness to the Legislature, state agencies, investors, and citizens, we included a paragraph in our audit opinion noting the noncompliance with the statutory December 31 reporting requirement.

Recommendation

- *The Department of Management and Budget should re-evaluate its financial reporting process and continue to work toward creating a more efficient financial reporting model and a realistic schedule to ensure the timely completion of the state's financial statements.*

Finding 2

The Department of Management and Budget did not adequately resolve some issues resulting from the implementation of the new accounting system.

Unresolved issues created by the implementation of the state's new accounting system impacted the department's ability to finalize certain key internal control and accounting processes with critical information needed for its fiscal year 2012 financial reports. The department had not adequately resolved the following issues:

- Throughout fiscal year 2012, the Department of Management and Budget was unable to fully identify and resolve differences between the detailed transactional entries recorded in the accounting system and the general ledger. Ultimately, as a fundamental control, the general ledger cash should reconcile with the transactions recorded in the accounting system

⁶ The Municipal Securities Regulatory Board regulates the municipal bond market. Its electronic municipal market access website is the official repository for information on all municipal securities and a key way for the board to promote a fair and efficient municipal market.

⁷ Office of Management and Budget Circular A-133 requires a single audit of the state's compliance in administering federal awards and requires a single audit report be completed by nine months after the end of the fiscal year.

and with the cash in the bank to ensure the overall integrity of the recorded financial activity. For financial reporting purposes, it took the department until November 2012 to adequately identify the reasons for the \$373 million difference between the June 30, 2012, cash balance in the accounting system and the cash held at the bank.⁸ While some of the reconciling items were due to normal timing differences between when the state recorded receipts and expenditures and when the bank actually received the deposits or cleared the payments, other differences were due to errors or misunderstandings about how the accounting system recorded certain types of financial transactions. It took the department until February 2013 to finalize the adjustments necessary to correct the cash balances in the preliminary financial statements.

- Due to difficulties with the implementation of the new accounting system's capital asset module, the department had to manually adjust the final June 30, 2012, capital asset balances. The department tried to use the system to obtain the majority of the capital asset information; however, some state agencies, struggled to determine reasonably accurate amounts and submitted manual ledgers instead. The resulting delays contributed to the department's inability to finalize capital asset financial information until January 2013.
- Due to complications in the new system's grants module and the accounts receivable module, state agencies had difficulty estimating certain significant accruals. These difficulties led to the governmental funds' financial statements not being completed and submitted for audit until February 2013, over three months later than originally scheduled.

Recommendation

- *The Department of Management and Budget should resolve issues resulting from the implementation of the new accounting system to minimize the effect on the state's financial reporting process.*

⁸ The June 30, 2012, reconciliation included an unexplained difference between the cash balance recorded in the accounting system modules and the general ledger of about \$5 million. While this was not a significant amount for financial reporting purposes, it was an unacceptable discrepancy in relation to the department's financial oversight responsibility.

Finding 3

Prior Finding Partially Resolved: The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

The Department of Management and Budget and the departments of Human Services, Education, Employment and Economic Development, and Revenue did not have adequate internal controls, or the controls were not effective, to prevent and detect errors as they compiled the state's financial statements.

The implementation of the state's new accounting system in July 2011 increased the state's financial reporting risks because it changed the underlying financial data and the way the state used that data to create its financial statements. To address the risks, the Department of Management and Budget updated its overall financial reporting risk assessment for known factors resulting from the implementation of the new accounting system; however, it did not assess the risks of the unanticipated financial reporting complications and data challenges that resulted in the delayed financial reports. It also did not update the detailed risk assessments for accounts receivable or accounts payable because staff believed the overall risks did not change, and they were assessing and designing new system controls as they developed the new financial reporting process.

No internal control structure can completely eliminate the risk of errors. The occurrence of errors is not necessarily an indication that the overall internal control structure is deficient. As agencies continue to monitor and maintain their internal control structures, a key to their ongoing effectiveness will be how well the agencies identify weaknesses and update controls when the controls do not work as expected to prevent or detect errors or in response to changes in policy, personnel, and regulations. The Department of Management and Budget worked with agencies on financial reporting issues due to the implementation of the new accounting system and on the application of governmental accounting principles and internal controls.

Despite the monitoring and updating of their comprehensive internal control structures, the Department of Management and Budget and other agencies had weaknesses in their review processes that allowed some errors to occur and not be detected. The Department of Management and Budget's preliminary financial statements contained the following errors:⁹

- The Department of Management and Budget incorrectly reported the financial activity related to the merger of three local police and fire pension funds that had participated in the Supplemental Investment Trust Fund until they merged with the state's Public Employees Police and Fire

⁹ For each of these errors, we proposed adjustments to the financial statements, and the Department of Management and Budget made the adjustments necessary to accurately present the financial information.

Fund in fiscal year 2012.¹⁰ The department recorded the financial activity within the Supplemental Investment Trust Fund and the state's Public Employees Police and Fire Fund statements rather than restating the beginning fund balance as a change in fund structure as required by generally accepted accounting principles.¹¹ As a result, it overstated the Supplemental Investment Trust Fund's beginning net assets by \$184 million, contributions and investment earnings by \$304 million and \$9 million respectively, and withdrawals by \$479 million. The department had similar errors in the Police and Fire Fund financial statements. The classification errors offset each other and did not impact ending net assets in either fund. The department's internal controls did not identify or prompt further review of the material variances in the financial statements from the prior year that could have detected the errors.

- The Department of Management and Budget inaccurately classified as Unassigned the \$769 million fund balance for the Tobacco Securitization Authority, a blended component unit reported as a special revenue fund. Generally accepted accounting principles stipulate that a fund balance in a special revenue fund cannot be considered unassigned due to the inherent dedicated nature of the fund.¹² The department's review process did not identify this error. The department adjusted the classification of fund balance to properly reflect the nature of the fund by showing the cash and investment portions as Restricted and the remainder of the fund balance as Assigned.
- The Department of Management and Budget incorrectly recorded as deferred revenue certain Department of Human Services receipts (drug rebates and medical provider credits) that should have been recorded as reductions to expenditures, overstating the General Fund's deferred revenue and expenditures both by \$81 million, respectively.¹³
- The Department of Human Services did not include \$44 million of the health maintenance organization provider surcharge revenues in its June 30, 2012, estimate of General Fund accounts receivable it submitted to the Department of Management and Budget. The department collects provider surcharges from medical organizations including nursing homes, hospitals, health maintenance organizations, and nonstate owned intermediate care facilities for persons with developmental disabilities.¹⁴ Because of the omission, the accounts receivable and deferred revenue in

¹⁰ The Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association merged on December 30, 2011. The Fairmont Police Relief Association merged on June 29, 2012.

¹¹ Accounting Principles Board Opinion No. 16, *Business Combinations*, paragraph 56, requires that the financial statements show the financial activity of the merged entities as if the merger occurred as of the beginning of the period.

¹² Governmental Accounting Standards Board (GASB) Statement 54, paragraph 17.

¹³ Governmental Accounting Standards Board No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

¹⁴ *Minnesota Statutes* 2012, 256.9657.

the state's General Fund were both understated by \$44 million. Since the Department of Human Services had not included these provider surcharges as accounts receivable for several years, the omission also resulted in a \$44 million prior period adjustment in the government-wide financial statements.

- The Department of Education overstated Federal Fund education aids accounts payable by approximately \$87 million. The department's method to calculate the payable was not consistent with generally accepted accounting principles because it did not limit the payables to the amount of allowable costs eligible for reimbursement that school districts and other subrecipients incurred by June 30.¹⁵
- The Department of Employment and Economic Development overstated the Unemployment Insurance Fund liability by \$15 million for fiscal year 2012 for benefits paid to applicants after July 1, 2012. The department used an Unemployment Insurance system report that erroneously overstated the amounts paid to applicants who had worked for multiple employers over the benefit period. In addition, as a result of the benefit liability error, the department overstated the fund's accounts receivable balance by \$6.3 million for the recoverable portion from the federal government and employers that reimburse the fund.
- Prior Finding Not Resolved:¹⁶ The Department of Revenue did not accurately calculate the property taxes receivable amounts it reported to the Department of Management and Budget for inclusion in the state's financial statements. This resulted in a \$3.3 million understatement of General Fund property taxes receivable. The department also did not accurately calculate and report receipts during the close, which resulted in a \$11.1 million misclassification of General Fund property tax revenue as deferred revenue. In addition, the department did not accurately calculate and report the portion of the receivable from prior tax periods, which resulted in a \$8 million misclassification of property taxes revenue as unearned revenue on the Government-wide statements. These errors occurred, in part, because the department had not reconciled and verified the integrity of property tax data recorded in its internal tax system to property tax forms and the state's accounting system. Although the error did not result in a material misstatement for fiscal year 2012, it increased the risk that a material misstatement could occur without detection.
- The Department of Revenue incorrectly reported the total sales tax receipts collected in July and August 2012 related to tax periods ending June 30, 2012 or earlier, as General Fund receivables when a portion

¹⁵ Governmental Accounting Standards Board No. 33, *Accounting and Financial Reporting for Nonexchange Transactions, Paragraphs 20 and 21*.

¹⁶ Office of the Legislative Auditor, Financial Audit Division, Report 12-03, *Report on Internal Control Over Statewide Financial Reporting*, issued February 16, 2012 (Finding 3).

should have been allocated to other funds. This resulted in a \$21 million overstatement of General Fund sales taxes receivable and a corresponding understatement in the Heritage Fund.¹⁷ In addition, because the department did not separately identify \$3 million in sales taxes from the Minnesota State Lottery on its accrual memo, the Department of Management and Budget did not back it out of the accrual to avoid duplicate reporting of the amount.

- The Department of Revenue did not use a consistent methodology to estimate the amount of collectable receivables for tax returns filed by taxpayers from September 2012 to December 2012.¹⁸ It used one method for September and a slightly different methodology for the other months. Although this inconsistent methodology did not result in a material misstatement for fiscal year 2012, it increased the risk that a material misstatement could occur without detection.

The Department of Management and Budget also had some deficiencies in the footnotes to the financial statements. Because footnote disclosures are an integral part of the financial statements, they may be misleading if the disclosures are inaccurate, inconsistent with financial statement amounts, or missing required information. The department did not detect the following deficiencies in its draft footnote disclosures:

- The department understated the actuarial accrued liability and the unfunded actuarial accrued liability for the Legislators Retirement Fund by \$131.5 million. The understatement of the unfunded actuarial accrued liability misstated the funding ratio as 23 percent funded instead of 9 percent funded. The department reported the actuarial accrued liability and the unfunded actuarial accrued liability in the Schedule of Funding Status contained in both the notes to the financial statements and in required supplemental information. The error occurred because the department did not use the amount determined by the actuary's reports to comply with generally accepted accounting principles. The department revised the footnotes to correct this error.
- The Department of Management and Budget did not consider whether the changes in actuarial assumptions that the Legislature approved in the 2012 Omnibus Retirement Bill¹⁹ had a material impact on the financial report's

¹⁷ The state's financial statements use one fund, the Heritage Fund, to account for the financial activities of the four "Legacy Amendment" funds. A 2008 amendment to the state's Constitution (Article XI, Section 15) increased the sales tax rate and dedicated the additional revenue to the four legacy funds: Outdoor Heritage, Arts and Cultural Heritage, Clean Water, and Parks and Trails.

¹⁸ The estimate for corporate income taxes also included receivables to be derived from tax returns filed by taxpayers in January and February 2013.

¹⁹ The 2012 Omnibus Retirement Bill contained in the *Laws of Minnesota*, 2012 Regular Session, Chapter 286, Article 1 amended *Minnesota Statutes* 2011, 356.215, subd. 8. The statutory changes

pension related disclosures. Department staff told us they used July 2011 actuarial reports instead of the available July 2012 actuarial reports because that was consistent with the timeframe of disclosures in prior years.²⁰ Generally accepted accounting principles requires the disclosure of information from the most recent actuarial valuation and requires that a new valuation be performed if significant changes have occurred since the previous valuation that affect the results of the valuation.²¹ While our analysis of the impact of the changes in actuarial assumptions did identify a significant impact on the disclosures related to certain pension plans, the changes were not significant to the state's overall financial status. For example, the most significant change reduced the funded status of one the four funds included in the state's disclosures (the State Patrol Retirement Fund) from 80.33 percent to 72.84 percent, but the corresponding increase in the fund's unfunded actuarial liability was only \$68,859.

The Department of Management and Budget conducted the final overall financial statement reviews and relied on agencies to provide accurate and complete information for use in developing the financial statements. Some agencies' internal reviews of the financial data were not effective to detect the errors noted above. Examples of effective internal review processes include analytical procedures to determine changes resulting in excessive variances between fiscal years, recalculations, and a final supervisory verification of financial data.

Recommendations

- *The Department of Management and Budget and other state agencies should conduct sufficient reviews of financial data to ensure the state prepares accurate financial statements.*
- *The Department of Management and Budget should ensure the accuracy of footnote disclosures to the financial statements including using the amounts calculated in accordance with the appropriate actuarial reports and assumptions when reporting pension note disclosures and required supplementary information.*

in actuarial assumptions included changes to the state's assumed investment rate of return and payroll adjustments, and other changes based on actuarial experience studies in several funds.

²⁰ When the state completes its financial reports by December 31, the most recent actuarial reports available are usually as of the beginning of the financial report's fiscal year. However, because of the lateness of the fiscal year 2012 financial reports, actuarial reports were available as of the end of fiscal year 2012.

²¹ *Codification of Governmental Accounting and Financial Reporting Standards*, Section P20, paragraph 106.

Prior Finding Partially Resolved: The departments of Education and Human Services had weaknesses in their internal controls to ensure appropriate access to state business systems.

Finding 4

The departments of Education and Human Services did not have adequate internal controls to ensure that they limited individual employee access to only those systems, programs, applications and data necessary for the individual to perform their job functions and responsibilities,²² and that they had developed effective controls to mitigate the risk of error or fraud occurring without detection. Employees with unnecessary system access or unmitigated incompatible system access increased the risk that errors or fraud could occur without detection and could compromise the integrity of financial transactions underlying the financial statements.

The state's security and access policy requires separation of incompatible duties so no one employee has control over an entire transaction or process that could result in errors or fraudulent transactions going undetected.²³ If agencies are unable to adequately separate incompatible duties, state policies require them to develop and document their controls designed to mitigate the risk that error or fraud will not be detected. These controls typically include analysis and supervisory review of transactions processed by the employees with inappropriate access. Agency management should document these mitigating controls and monitor that these controls are performed as designed and are effective in reducing the risks.

These agencies had the following system security access weaknesses:

- **Prior Finding Not Resolved:** The Department of Education lacked a formal process to periodically review and recertify employee access rights to its internal business systems. Although the department had developed a process for new security access requests, it had not recertified employees who had been granted access in the past, including the employees whose lack of documented authorization we first cited in our 2011 report.²⁴ State policy requires agencies to review and evaluate the appropriateness and reasonableness of employee access rights at least annually.²⁵
- **Prior Finding Partially Resolved:** The Department of Human Services did not fully identify the combinations of security roles that allowed users in its child support enforcement system to have incompatible access. During fiscal year 2012, the department identified the security roles that posed high risks but did not define the combinations of those roles creating

²² Department of Management and Budget Policy 1101-07 and HR 045.

²³ Department of Management and Budget Policy 1101-07.

²⁴ Office of the Legislative Auditor, Financial Audit Division, Report 11-02, *Report on Internal Control over Statewide Financial Reporting*, issued February 18, 2011 (Finding 2).

²⁵ Department of Management and Budget Statewide Operating Policy 1101-07.

incompatibilities. Because it had not identified the incompatible combinations of security roles, the department had not developed internal controls to mitigate the risks created by the incompatibilities. During fiscal year 2012, the department processed about \$535 million of child support payments through this system.

- **Prior Finding Not Resolved:** The Department of Human Services did not have internal controls to mitigate the risk created because one employee had incompatible access to the Medicaid Management Information System during fiscal year 2012. The department determined that the employee needed the incompatible access to perform their job duties. The incompatible access allowed the employee to update both provider claims and provider demographics. Without effective mitigating controls, the employee could make unauthorized changes to provider demographic or claims data without detection.

Recommendations

- *The Department of Education should periodically review and recertify the access it has granted to employees to its internal business systems.*
- *The Department of Human Services should identify and eliminate incompatible access to state business systems. If the department determines that it is not possible to eliminate certain incompatibilities, it should design, document, implement, and monitor internal controls to mitigate the risk of error or fraud.*

Finding 5

Prior Finding Partially Resolved: The departments of Education and Revenue each lacked a comprehensive internal control structure over financial reporting to sufficiently mitigate the risk of potential misstatements in the financial statements.

The departments of Education and Revenue continued to lag in their development and monitoring of a comprehensive internal control structure for their financial reporting processes to ensure that they would prevent or detect and correct a material misstatement of the state's financial statements on a timely basis. A comprehensive internal control structure is essential to accurate financial reporting and safeguarding of state resources because the state prepares its financial statements in an environment that has a high risk of error.

The financial reporting environment is high risk because of several factors, including, 1) the state needs to estimate some significant financial activity, such as certain accounts receivable and payable after the end of the fiscal year, and

2) the Department of Management and Budget relies on other state agencies to accurately account for many unique financial transactions according to a complex set of governmental accounting principles. Although the Department of Management and Budget has ultimate, statutory responsibility to prepare the state's annual financial reports, it must rely on the internal control structures of other agencies to provide complete and accurate financial information for inclusion in the state's financial reports. The state's policy on internal controls requires each agency head to develop and maintain an effective internal control structure.²⁶ It is likely the state will continue to have weaknesses in its financial reporting process until all agencies operate within a comprehensive internal control structure.

The departments of Education and Revenue did not make sufficient progress in their implementation of a comprehensive internal control structure for the fiscal year 2012 financial reporting period. They have repeatedly missed the target implementation dates they established when the Office of the Legislative Auditor first reported these internal control structure deficiencies in fiscal year 2009,²⁷ and repeated in 2010, 2011, and 2012. The agencies had the following deficiencies:

- **Prior Audit Finding Not Resolved:** The Department of Education made limited progress towards developing its comprehensive internal control structure. The department hired an internal auditor in April 2012 and made that person responsible for the development of a comprehensive internal control structure; however, work on that task did not begin until July 2012.
- **Prior Finding Partially Resolved:** The Department of Revenue made progress toward developing its comprehensive internal control structure during fiscal year 2012. It documented and assessed potential fraud risks in all aspects of its operations, and documented internal controls designed to limit those risks. It also continued to perform and monitor controls related to security access to its business systems. However, the department had not fully assessed and documented its financial reporting risks.

Recommendations

- *The Department of Management and Budget should continue to provide training and oversight to state agencies related to the state's overall financial reporting process and work with those state agencies cited as they continue to develop and maintain comprehensive internal control structures for their financial reporting processes and responsibilities, especially related to the state's new accounting system.*

²⁶ Department of Management and Budget Policy 0102-01.

²⁷ Office of the Legislative Auditor, Financial Audit Division, Report 09-03, *Report on Internal Control Over Statewide Financial Reporting for the Year Ended June 30, 2008*, issued February 13, 2009.

- *The departments of Education and Revenue should assess risks and develop a comprehensive internal control structure for their financial reporting processes and responsibilities.*

Finding 6

The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

Several state agencies were delayed in their ability to request reimbursement for federal grant program expenditures because they were unable to use financial information from the new accounting system. The reimbursement delays resulted in significant negative cash balances in some federal appropriation accounts, and, in effect, borrowing from the state's General Fund. The following state agencies did not request timely federal reimbursements:

- The Department of Public Safety requested federal reimbursements quarterly during fiscal year 2012 rather than bi-weekly, as in the preceding fiscal year, resulting in negative quarterly cash balances ranging from \$1.36 million to \$19 million for a major federal program.
- The Department of Employment and Economic Development delayed its drawdowns from July 2011 through December 2011 and temporarily used state money to fund over \$36 million in federal program costs for the Vocational Rehabilitation and the Workforce Investment Act programs and the federal administrative costs for the Unemployment Insurance program. The department requested sufficient federal funds in late December 2011 to make up the negative cash balances.
- The Department of Human Services was unable to use the new accounting system to determine its daily federal cash balances. In addition, the department did not include certain federal recovery or refund transactions when determining its federal draw, which resulted in it requesting incorrect reimbursement amounts from the federal government.
- The Department of Military Affairs had significant delays (up to three months) in requesting federal reimbursements because it was unable to extract the necessary information, such as project number and work order number, from the new accounting system's grants module to file federal reimbursements.

As of April 2013, the departments continued to work with the Department of Management and Budget to develop alternative procedures to monitor daily federal cash balances, obtain the necessary information to process reimbursement requests timely and to account for federal recovery or refund transactions.

Recommendation

- *The Department of Management and Budget should continue to work with the departments of Public Safety, Employment and Economic Development, Human Services, and Military Affairs to ensure the necessary information is available in the accounting system in order for agencies to request federal cost reimbursements timely from the federal government to minimize adverse effects on state's cash flow.*
-

May 13, 2013

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to discuss with you and your staff the audit findings in the Report on Internal Control over Statewide Financial Reporting. Since this report includes all findings statewide, our response will specifically address only those findings related to the Department of Management and Budget. The remainder of the findings will be addressed by the specific agency involved. However, we will continue to work with agencies to ensure all findings in this report are implemented.

We place a high priority on continuing our long history of issuing high quality, accurate financial statements in compliance with Generally Accepted Accounting Principles (GAAP). Our 27-year history of receiving unqualified audit opinions and the “Certificate of Achievement for Excellence in Financial Reporting” from the Government Finance Officers Association is important to us. We value suggestions which will make our existing process even stronger.

Recommendation

Finding 1. The Minnesota Department of Management and Budget did not finalize financial statements in order to report the state’s financial operations to the legislature in a timely manner.

Response

We are highly committed to accurate and timely reporting of the state’s financial statements. As you are aware, our new accounting and procurement system went live as our accounting system of record effective July 1, 2011. As a result, fiscal year 2012 was our first reporting cycle using the new system. We retired our stand-alone financial reporting system and developed new financial reporting processes using functionality imbedded in the new software.

The learning curve associated with a new system of this size and complexity was considerable. This impacted our internal staff as well as state agency personnel who contributed various elements necessary for reporting. Additionally, there was a substantial commitment of time to design, develop, and test the new reports needed to produce the financial statements and related disclosures.

James R. Nobles

May 14, 2013

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Other jurisdictions have experienced similar delays in issuing financial statements when implementing a new system. It is generally not an issue to the bond markets unless there is a pattern of delays. The state experienced no market penalty as a result of the delay and the bond rating agencies have not cited the delay as a credit concern.

We are very committed to returning to timely issued financial statements. We will continue to redesign processes and work with agencies to improve the efficiency of obtaining necessary information to issue the financial statements timely.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Implementation Date: December 31, 2013.

Recommendation

Finding 2. The Department of Management and Budget did not adequately resolve some issues resulting from the implementation of the new accounting system.

Response

We recognize that there was a significant learning curve and business process redesign in moving from a single ledger system to a highly complex integrated system.

Cash activity including cash receipts, cash disbursements and investment transactions were reconciled to the original entries into the accounting system. The majority of the reconciling difference was determined on a timely basis; however, the detailed activity between the modules was not fully reconciled for certain types of transactions. We have developed tools to capture the flow of this activity through the accounting system to facilitate the reconciliations.

We will continue to develop tools and perform process redesigns to improve the efficiencies of reconciliations. We will also work with agencies to ensure transactions are processed timely and accurately in the accounting system to minimize the volume of reconciling items and improve the timeliness of the completion of the reconciliations.

Persons Responsible: Barb Ruckheim, Financial Reporting Director

Ron Mavetz, Agency Assistance Director

Implementation Date: December 31, 2013

Recommendation

Finding 3. The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

Response

We continue to place a high emphasis on our review process. Extensive analysis and supervisory reviews are conducted of work performed by our financial reporting team. These reviews are designed to prevent material misstatements to the financial statements and note

James R. Nobles
May 14, 2013
Page 3 of 3

disclosures. We will continue to review the financial statements and disclosures to minimize the risk of material misstatements.

Person Responsible: Barb Ruckheim, Financial Reporting Director
Implementation Date: December 31, 2013

Finding 5. The departments of Education and Revenue each lacked a comprehensive internal control structure over financial reporting to sufficiently mitigate the risk of potential misstatements in the financial statements.

Response

MMB continues to work with all executive branch agencies to help them document their internal control structures. As of July 31, 2013, most executive agencies will be required to submit agency-specific risk assessment plans. Each plan will indicate which key business processes or functions need to have risk assessments performed sufficient to support the agency head's annual certification of internal control structure. The Internal Control and Accountability Unit is available to provide training and facilitation of agency risk assessment efforts.

Person Responsible: Jeanine Kuwik, Director of Internal Control and Accountability
Implementation Date: Implemented.

Finding 6. The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

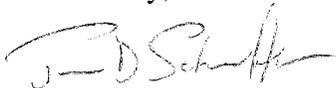
Response

We worked with agencies to identify and resolve issues associated with federal draws. We are also working on a system modification to further streamline the federal draw process.

Person Responsible: Ron Mavetz, Agency Assistance Director
Implementation Date: July 1, 2014

Again, thank you for the opportunity to discuss and respond to the audit findings of the department. We value your work to improve Minnesota's internal control structure.

Sincerely,



James Schowalter
Commissioner

May 14, 2013

James Nobles
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for your work on behalf of the citizens of the State of Minnesota and for the opportunity to respond to the findings for the Minnesota Department of Education (MDE), which were included in the State of Minnesota's financial statements audit for the June 30, 2012 year end.

Specific to the department are findings 3, 4, and 5. The response to each finding, person responsible for implementation and timeframe is included with each response.

Finding 3 (Finding Partially Resolved): The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

- The Department of Education overstated Federal Fund education aids accounts payable by approximately \$87 million. The department's method to calculate the payable was not consistent with generally accepted accounting principles because it did not limit the payables to the amount of allowable costs eligible for reimbursement that school districts and other sub recipients incurred by June 30.

OLA Recommendation: The Department of Management and Budget and other state agencies should conduct sufficient reviews of financial data to ensure the state prepares accurate financial statements.

Response: The Department agrees with this recommendation and began to work on resolving this finding after June 30, 2012. Revision to the original Federal Fund education aids payable submitted on November 27, 2012 were re-submitted on January 3, 2013 and on January 9, 2013, resulting in a reduction to the payables submitted of \$84 million. To resolve this, MDE worked in consultation with the OLA and our IT division to further analyze our subsystem information (SERVS), and analyze the use of service dates within the system to identify how the error occurred. It was determined that more accurate from the SERVS system was needed.

Going forward the MDE's plan is to limit, within SERVS, the correct use of service dates by school districts and other sub recipients thus facilitating the accurate reporting of the payables. Analysis of the prior year actual expenditures will be compared to the estimates to determine if changes to the established methodology are warranted. Improvements made to the SWIFT accounting system warehouse tables after June 30, 2012 will now serve to provide additional verification of the subsystem expenditures verifying SERVS. Additionally, the MDE accounting

division will be continuing to work collaboratively with our IT division to analyze and create more accurate reporting information from the SERVS system.

Resolution of this finding is the responsibility of Al Louismet, Director of Agency Finance. This finding is expected to be fully resolved by June 30, 2013.

Finding 4 (Finding Partially Resolved): The departments of Education and Human Services had weaknesses in their internal controls to ensure appropriate access to state business systems.

- **Prior Audit Finding Not Resolved:** The Department of Education lacked a formal process to periodically review and recertify employee access rights to its internal business systems. Although the department had developed a process for new security access requests, it had not recertified employees who had been granted access in the past, including the employees whose lack of documented authorization we cited in our 2010 report. State policy requires agencies to review and evaluate the appropriateness and reasonableness of employee access rights at least annually.

OLA Recommendation: The Department of Education should periodically review and recertify the access it has granted to employees to its internal business systems.

Response: Mainframe modernization is the biggest challenge for the Department of Education's compliance with finding number 4, and is being addressed through the MN.IT Services Tactical Plan. Over the next biennium, the intent is to migrate the Unisys ClearPath mainframe to a modern platform, as it is running an ANSI 1974 Cobol code base. What we have done is:

- In April 2013 we analyzed the capabilities of the out-of-the-box Unisys Secure Access Control Module to see if we could improve upon our current mainframe security by replacing our current home-grown mainframe security (built on top of the core Unisys SYSTEM/MAKEUSER utility). We determined that the Unisys Secure Access Control Module manages user credentials completely different from our current systems and it would require significant changes across our mainframe applications to implement it.
- We have purchased a suite of Locum security software tools which were deployed to our upgraded mainframe system at the end of April 2013. The Locum security software suite offers features for access controls and monitoring. We are investigating the capabilities of these features right now and we are planning to develop policies and procedures for our mainframe systems based on these features later this summer.
- We are also developing a plan for mainframe modernization in accordance with the MN.IT Tactical Plan. As mainframe systems are migrated to a modern platform, the secure access controls will be modernized as well.

Finding 5 (Finding Partially Resolved): The departments of Education and Revenue each lacked a comprehensive internal control structure over financial reporting to sufficiently mitigate the risk of potential misstatements in the financial statements.

- **Prior Audit Finding Not Resolved:** The Department of Education made limited progress towards developing its comprehensive internal control structure. The department hired an internal auditor in April 2012 and made that person responsible for the development of a comprehensive internal control structure; however, work on that task did not begin until July 2012.

Recommendation: The Department of Education and Revenue should assess risks and develop a comprehensive internal control structure for their financial reporting processes and responsibilities.

Response: The Department of Education is continuing efforts to implement agency-wide risk assessment and internal control programs. It is expected that both of these processes will provide significantly more robust programs that cohesively provide managed oversight and control for the organization in these areas. For both programs, this includes development of a new format of tools that better support performing risk and internal control analysis and testing within a broader array of agency-wide business process areas. This will ultimately allow for a more thorough review and strengthen the overall risk management and internal control environment for the agency.

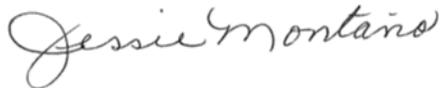
Progress steps made include the following:

- An Internal Auditor position was recruited and hired as of April 25, 2012. The position is within the Agency Finance and Operations division and is designated to be responsible for agency-wide efforts with risk assessment, internal control, and internal audit functions.
- The agency has revisited and updated its annual certification report to Minnesota Management and Budget (MMB) for the state fiscal year ended 2012 meeting requirements under state statute (MN Statute §16A.057 and Statewide Operating Policy 0102-01), which includes completing the Control Environment Self-Assessment Tool. This process included gathering up-to-date input throughout the agency with review from management.
- The agency Internal Audit department has developed risk assessment and internal control program tools that are designed to facilitate performing these functions on an agency-wide basis.
- A risk assessment policy for the agency was developed and approved with issuance to all agency personnel as of September 13, 2012. This clearly establishes protocol with roles and responsibilities for adhering to a program that achieves compliance requirements.
- Project plans have been outlined for both undertaking and completing a risk assessment and internal control review for the agency. It is intended that the risk assessment would be undertaken first so that feedback from that effort can be incorporated in the internal control program.
- The risk assessment program has completed its initial review of three pilot business process areas, and prioritized the next divisional areas for implementation of the risk assessment tool.
- Internal control review is pending to occur simultaneously with completing risk assessment.

Due to the complexity and breadth of achieving agency-wide risk assessment and internal control review, the current expectation is that the agency will need to fully establish both programs throughout fiscal year 2014. The agency is targeting full completion of an initial cycle of risk and internal control review by June 30, 2014. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Again, thank you for the opportunity to respond to the findings for the Minnesota Department of Education. If you have further questions, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in cursive script that reads "Jessie Montano".

Jessie Montano
Deputy Commissioner

Cc: Al Louismet
Matthew Porett
Paul Kurtenbach

May 15, 2013

Mr. James Nobles
Legislative Auditor
First Floor, Centennial Building
658 Cedar Street
St Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations related to the audit report of the State of Minnesota financial statements for the year ending June 30, 2012. The Department of Employment and Economic Development (DEED) was referenced in the following two findings:

Audit Finding 3: Prior Finding Partially Resolved: The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

DEED Audit Finding 3: The Department of Employment and Economic Development overstated the Unemployment Insurance Fund liability by \$15 million for fiscal year 2012 for benefits paid to applications after July 1, 2012. The department used an Unemployment Insurance system report that erroneously overstated the amounts paid to applicants who had worked for multiple employers over the benefit period. In addition, as a result of the benefit liability error, the department overstated the fund's accounts receivable balance by \$6.3 million for the recoverable portion from the federal government and employers that reimburse the fund.

Recommendation

- *The Department of Management and Budget and other state agencies should conduct sufficient reviews of financial data to ensure the state prepares accurate financial statements.*

Response: This audit finding has been resolved. Unemployment insurance benefit payments must be segregated by program type (standard UI, federal extensions, state extension, Trade Adjustment Assistance, etc.) and also by employer type. This requires complex system coding to determine the percentage of a payment distribution which is allocable to each employer type (federal, military, Minnesota taxpaying and Minnesota reimbursing). An isolated coding error resulted in overstated payables for applicants who had worked for multiple employers during the benefit year. The amount of the error represents approximately 0.9% of the total benefits paid in SFY 2012. The report has been corrected.

Audit Finding 6: The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

DEED Audit Finding 6: The Department of Employment and Economic Development delayed its drawdowns from July 2011 through December 2011 and temporarily used state money to fund over \$36 million in federal program costs for the Vocational Rehabilitation and Workforce Investment Act programs and the federal administrative costs for the Unemployment Insurance program. The department requested sufficient federal funds in late December 2011 to make up the negative cash balances.

Recommendation

- The Department of Management and Budget should continue to work with the departments of Public Safety, Employment and Economic Development, Human Services and Military Affairs to ensure the necessary information is available in the accounting system in order for agencies to request federal cost reimbursements timely from the federal government to minimize adverse effects on state's cash flow.*

Response: This audit finding has been resolved. DEED is regularly and timely requesting federal cash draw downs in compliance with federal requirements. The adverse effects on the state's cash flow and negative cash balance has been addressed. Minnesota Management and Budget (MMB) worked with DEED to identify and resolve issues related to federal draw downs. MMB instructed DEED to use the projects billing module in SWIFT to facilitate cash draws. MMB initially ran this process and discovered it was very onerous because there were thousands of lines which made it difficult to manage. In addition, there were a number of issues that surfaced related to how to reduce the draws for the match and program income. The federal draws were delayed while MMB was working on a solution as to how to set up the cash draws in the SWIFT project billing module and addressing the issues that had surfaced. At DEED's request, MMB turned off the projects billing module for DEED draws in December 2011. Since then, DEED has been using a manual process, which is meeting its cash draw needs in a timely manner.

If you have any questions or need additional information, please contact Julie Freeman, chief financial officer, at Julie.freeman@state.mn.us or 651-259-7081.

Regards,



Kathryn Clark Sieben
Commissioner



Minnesota Department of **Human Services**

May 14, 2014

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Department of Human Services' response to the findings and recommendations included in the draft audit report titled, "Report on Internal Control Over Statewide Financial Reporting" for the fiscal year ended June 30, 2012. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

Lucinda E. Jesson
Commissioner

Enclosure

**Department of Human Services
Response to the Legislative Audit Report on
Internal Control Over Statewide Financial Reporting
For the Period July 1, 2011, through June 30, 2012**

Audit Finding #3

Prior Finding Partially Resolved: The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

Audit Recommendation #3

The Department of Management and Budget and other state agencies should conduct sufficient reviews of financial data to ensure the state prepares accurate financial statements.

Agency Response to Audit Finding #3

The department agrees with this finding and recommendation. We will continue to refine our process of compilation and review of financial data submitted to Minnesota Management and Budget for the preparation of the financial statements.

Persons Responsible: Martin Cammack, Financial Operations Director
Estimated Completion Date: December 31, 2013

Audit Finding #4

Prior Finding Partially Resolved: The departments of Education and Human Services had weaknesses in their internal controls to ensure appropriate access to state business systems.

Audit Recommendation #4

The Department of Human Services should identify and eliminate incompatible access to state business systems. If the department determines that it is not possible to eliminate certain incompatibilities, it should design, document, and implement, and monitor internal controls to mitigate the risk of error or fraud.

Agency Response to Audit Finding #4

The Department agrees with this finding and recommendation. We have resolved the issue in our Medicaid Management Information System and are working to define those combinations of security roles that present incompatible access issues in our Child Support Enforcement System.

Persons Responsible: Jeff Jorgenson, Deputy Director, Child Support Enforcement Division
Betty Smothers, MMIS, Systems Analysis Unit Supervisor
Estimated Completion Date: December 31, 2013

**Department of Human Services
Response to the Legislative Audit Report on
Internal Control Over Statewide Financial Reporting
For the Period July 1, 2011, through June 30, 2012**

Audit Finding #6

The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

Audit Recommendation #6

The Department of Management and Budget should continue to work with the departments of Public Safety, Employment and Economic Development, Human Services and Military Affairs to ensure the necessary information is available in the accounting system in order for agencies to request federal cost reimbursements timely from the federal government to minimize adverse effects on state's cash flow.

Agency Response to Audit Finding #6

The department agrees with this finding and recommendation. DHS will continue to work with MMB to identify processes that ensure all federal recovery and refund transactions are included when determining federal draw amounts.

Persons Responsible: Martin Cammack, Financial Operations Director

Estimated Completion Date: December 31, 2013



DEPARTMENTS OF THE ARMY AND THE AIR FORCE

JOINT FORCE HEADQUARTERS MINNESOTA
OFFICE OF THE ADJUTANT GENERAL
20 12TH STREET WEST
SAINT PAUL, MN 55155-2004

May 8, 2013

The Adjutant General

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the recommendation outlined in the draft audit report of the federal programs under CFDA 12.401, National Guard Military Operations & Maintenance Projects. This is our written response to the audit finding and recommendation outlined in the draft audit report.

Audit Finding #6

The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

Several state agencies were delayed in their ability to request reimbursement for federal grant program expenditures because they were unable to use financial information from the new accounting system. The reimbursements delays resulted in significant negative cash balances in some federal appropriation accounts, and, in effect, borrowing from the state's general fund. The following state agencies did not request timely federal reimbursements:

The Department of Military Affairs had significant delays (up to three months) in requesting federal reimbursements because it was unable to extract the necessary information, such as project number and work order number, from the new accounting system's grants module to file federal reimbursements.

Audit Recommendation

The Department of Management and Budget should continue to work with the departments of Public Safety, Employment and Economic Development, Human Services and Military Affairs to ensure the necessary information is available in the accounting system in order for agencies to request federal cost reimbursements timely from the federal government to minimize adverse effects on state's cash flow.

Agency Response to Recommendation

The department concurs with the recommendation. With one of the SWIFT consultant's assistance, the department was able to customize SWIFT queries to extract critical federal accounting information. Hence, the department is current with the billing process. However, the department needs to work with the Department of Management and Budget to improve the department's current reports to extract various accounting related information more efficiently.

Person Responsible: CW2 Ben LaBelle, Comptroller, Department of Military Affairs
Estimated Completion Date: September 30, 2013

Again, thank you for the opportunity to review and respond to the department's audit finding. If you have any further questions or concerns, please do not hesitate to contact me.

Sincerely,

/s/ Richard C. Nash

Richard C. Nash
Major General, Minnesota
Army National Guard
The Adjutant General

CF:
Donald Kerr
Ben LaBelle
David Poliseno



Office of the Commissioner

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May 14, 2013

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the findings in the Report on Internal Control Over Statewide Financial Reporting for the year ended June 30, 2012.

Finding 6 – The Department of Management and Budget did not ensure that the state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

- ***The Department of Public Safety requested federal reimbursements quarterly during fiscal year 2012 rather than bi-weekly, as in the preceding fiscal year, resulting in negative quarterly cash balances ranging from \$1.36 million to \$19 million for a major federal program.***

The Department of Public Safety has experienced difficulty with using information from the new accounting system. We continue to improve in the timeliness of our federal reimbursement requests and are currently processing these on a monthly basis. We will continue to work with the Department of Management and Budget to make further improvements in this process to improve the state's cash flow.

If you have any questions or concerns, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Ramona L. Dohman".

Ramona L. Dohman, Commissioner

cc: Mary Ellison
Larry Freund
Cori Calhoun

Alcohol and Gambling Enforcement
Bureau of Criminal Apprehension
Driver and Vehicle Services
Emergency Communication Networks
Homeland Security and Emergency Management
Minnesota State Patrol
Office of Communications
Office of Justice Programs
Office of Traffic Safety
State Fire Marshal

MINNESOTA · REVENUE

May 13, 2013

James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Following is our response to the audit of the State of Minnesota's financial statements for the year ended June 30, 2012.

Finding (3): Prior Finding Partially Resolved

The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

Bullet Point #7

The Department of Revenue did not accurately calculate the property taxes receivable amounts it reported to the Department of Management and Budget for inclusion in the state's financial statements.

Response: The Department of Revenue used a manual process to calculate property taxes receivable in FY 2012. This process was difficult to manage and increased the probability of errors. Statewide Property Tax was converted to our new integrated tax system (GenTax), in February 2012. FY 2013 will be the first complete year of property tax data in GenTax. As it has for other tax types, GenTax will provide more comprehensive reporting data. In addition, the function of reporting the data to the Department of Management and Budget has been reassigned from our Property Tax Division to our Financial Management Division. Changes will be in place for FY 2013 reporting.

Person responsible for resolving the finding: Peter Skwira, Financial Management Agency Chief Financial Officer and John Hagen, Property Tax Director

Expected resolution date: August 31, 2013

Bullet Point #8

The Department of Revenue incorrectly reported the total sales tax receipts collected in July and August 2012 related to tax periods ending June 30, 2012 or earlier, as all General Fund receivables when a portion should have been allocated to other funds.

Response: The Department of Revenue will provide the Department of Management and Budget with complete data regarding sales tax receipts collected in July and August, related to tax periods in the closing fiscal year or earlier that are allocated to other funds. Changes have already been discussed with the Department of Management and Budget and are in place for FY 2013 reporting.

Person responsible for resolving the finding: Jean Jochim, Financial Management, Accounting Director

Expected resolution date: Completed February 28, 2013

Bullet Point #9

The Department of Revenue did not use a consistent methodology to estimate the amount of collectable receivables for tax returns filed by taxpayers from September 2012 to December 2012.

Response: The Department of Revenue will review the methodology we use to estimate the amount of collectable taxes receivable. This will include comparing past estimates to actual receivable amounts. We will analyze the results of our review, determine the best way to improve our estimates and implement appropriate changes in our procedures. Changes will be in place for FY 2013 reporting.

Person responsible for resolving the finding: Jean Jochim, Financial Management, Accounting Director

Expected resolution date: August 31, 2013

Finding (5) Prior Finding Partially Resolved

The Departments of Education and Revenue each lacked a comprehensive internal control structure over financial reporting to sufficiently mitigate the risk of potential misstatements in the financial statements.

Agency Response:

The Department of Revenue will add financial reporting as a risk to the internal control risk assessment. The Department of Revenue will also conduct a study on operational processes which have risks in financial reporting.

Person responsible for resolving the finding: Mike Turner, Internal Audit Manager

Expected resolution date: Assessment deadline July 1, 2013, Study deadline December 31, 2013

Sincerely,

A handwritten signature in black ink, appearing to read 'Myron Frans', with a stylized, cursive script.

Myron Frans
Commissioner

State of Minnesota
Financial and Compliance Report
on Federally Assisted Programs

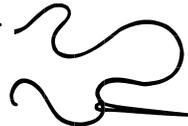


For the Year Ended June 30, 2012

Minnesota is represented by its many symbols. Every Minnesota school child knows the Common Loon and the Lady's Slipper are symbols of the state. But Minnesota, like all states, has named a number of official symbols to represent the cultural and natural treasures of the state, among them the Norway Pine (tree), the Monarch (butterfly), Honeycrisp™ Apple (fruit), Wild Rice (grain), Lake Superior Agate (gemstone), the Morel (mushroom) and the Blueberry Muffin (muffin).

It may sound a little silly but there is definite reasoning behind the careful consideration and selection of state symbols. State symbols represent things that are special to a particular state. They are generally used to identify a characteristic of the state's heritage or natural resources which represents "uniqueness" and conveys a message of interest to the rest of the country and world.

Minnesota's symbols are the fabric of who and what we are.





Financial and Compliance Report on Federally Assisted Programs

For the Year Ended June 30, 2012

State of Minnesota

**2012
Minnesota Financial
and Compliance
Report on Federally
Assisted Programs**

The Minnesota Financial and Compliance Report on Federally Assisted Programs can be made available in alternative formats upon request, to ensure that it is accessible to people with disabilities. To obtain this document in an alternate format, contact:

Minnesota Management & Budget
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1489
651-201-8000

The Minnesota Relay service phone number is
1-800-627-3529.

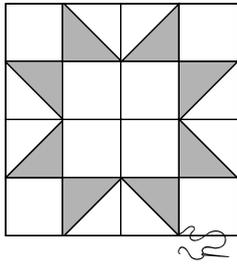
The State of Minnesota Financial and Compliance Report on Federally Assisted Programs is available at the following website:

<http://www.mmb.state.mn.us/>

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2012

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State of Minnesota

**2012 Financial and Compliance Report on Federally Assisted Programs
Transmittal Letter from the Commissioner of Minnesota
Management and Budget**

July 26, 2013

The Honorable Mark Dayton, Governor
Members of the Legislature

I am submitting the State of Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 2012. This report meets the requirements of the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

This single audit report includes all federal assistance received by the state agencies determined to be a part of the State of Minnesota's primary government. Programs administered by the state's discretely presented component units are reported in separate single audit reports issued by the individual component units. The criteria used to define the state's reporting entity are those established by the Governmental Accounting Standards Board.

For purposes of the single audit in Minnesota, the audited entity is the state rather than each state agency. With this approach, the single audit can be combined with the state's annual financial audit. This is an efficient approach for Minnesota because state agencies are all subject to the same centralized controls (accounting, personnel/payroll and procurement systems).

Management Responsibilities

Minnesota Management and Budget is responsible for the accuracy, fairness and completeness of the Schedule of Expenditures of Federal Awards, including all disclosures, presented in this report. The department is also responsible for the Statewide Integrated Financial Tools System (SWIFT), which was used in preparing this report. As this was the state's first reporting cycle under SWIFT, it required a substantial commitment of time to design, develop, and test the new reports needed to produce the financial reports and related disclosures contained in the attached report. This caused a delay in completing this report as we maintained our commitment to high standards for accuracy and completeness.

I believe the schedule provides a fair representation of expenditures for federal programs for the year ended June 30, 2012.

The financial schedules presented are meant to provide a consistent basis for reporting on the expenditures of federal assistance received by state agencies. The schedules are not meant to replace recipient financial reporting currently required for each individual program of federal assistance.

Minnesota Management and Budget is responsible for designing and applying statewide internal controls. State agencies are responsible for additional internal controls used for the administration of federal programs. These controls provide reasonable assurance that the state's assets are protected against loss, either intentional or unintentional; resource use is consistent with laws, regulations and policies; transactions are executed in accordance with management's authorization; and the accounting records from which financial schedules were prepared are reliable. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefit derived.

In addition, state agencies have specific responsibilities for federal programs. State agencies are required to manage and maintain adequate accounting records for their federal programs. They are required by the relevant federal departments and agencies to prepare periodic financial reports. State agencies are also responsible for assuring that organizations to which they subgrant federal funds have the required audits and promptly resolve federal program deficiencies reported as a result of those audits. The U.S. Department of Health and Human Services - Office of Inspector General — Office of Audit Services serves as the lead cognizant agency representing all federal agencies awarding federal assistance to the state of Minnesota.

Federal Financial Assistance to the State of Minnesota

In fiscal year 2012, the state of Minnesota received approximately \$11 billion in federal assistance for its many programs.

Audits

The Minnesota Office of the Legislative Auditor performs an annual statewide audit primarily for the purpose of expressing an audit opinion on the financial statements included in the state's Comprehensive Annual Financial Report prepared by Minnesota Management and Budget. Another purpose of the statewide audit is to provide information to the Governor, Legislature and heads of state agencies concerning financial and accounting issues involving the state and its agencies. The scope of the annual statewide audit also includes the federal requirements of the Single Audit Act and OMB Circular A-133.

The Office of the Legislative Auditor has audited the state's major federal programs identified in this single audit report. The auditor's report on compliance with requirements applicable to each major federal program and on internal control over compliance is included as part of this report. The Office of the Legislative Auditor has also issued a report on internal control over financial reporting in conjunction with the audit of the state's Comprehensive Annual Financial Report for the year ended June 30, 2012.

All subrecipients receiving federal assistance from Minnesota state agencies have been required to have audits in accordance with OMB Circular A-133. Results of these audits are summarized in the Report on Audits of Subrecipients issued by the Minnesota Office of the State Auditor.

Report

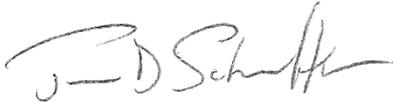
This single audit report supplements the state's Comprehensive Annual Financial Report for the year ended June 30, 2012, and includes financial information on federal programs which was compiled by Minnesota Management and Budget.

The Office of the Legislative Auditor is responsible for preparing the auditor's report on compliance with requirements applicable to each major federal program and on internal control over compliance, the summary of auditor's results, and the schedules of audit findings and questioned costs for federal awards. Minnesota Management and Budget is responsible for preparing the schedules of expenditures for federal programs and the status of prior federal program audit findings schedule.

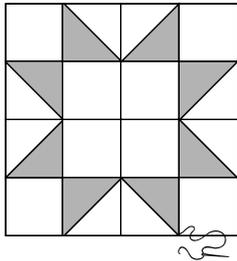
Acknowledgments

Although Minnesota Management and Budget accepts final responsibility for this report, we would like to acknowledge the significant assistance provided by staff in the many state agencies receiving federal assistance. The financial schedules agencies prepared for each of their federal programs were used to compile these financial schedules.

Sincerely,

A handwritten signature in black ink, appearing to read "J. D. Schowalter". The signature is fluid and cursive, with a large initial "J" and "D".

James Schowalter
Commissioner





**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Members of the Minnesota Legislature

The Honorable Mark Dayton, Governor

Mr. James Schowalter, Commissioner of Minnesota Management and Budget

Compliance

We have audited the compliance of the State of Minnesota with the requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that are applicable to the state's major federal programs for the year ended June 30, 2012. The state's major federal programs are identified in Section I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the federal requirements for these programs is the responsibility of the state's management. Our responsibility is to express an opinion on the State of Minnesota's compliance based on our audit.

The State of Minnesota's basic financial statements include the operations of its discretely presented component units, which received approximately \$1.7 billion in federal awards. Those expenditures of federal awards are not included in the State of Minnesota's schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, described below, did not include the state's discretely presented component units because they are not included as part of the state's primary government; accordingly, those units have engaged other auditors to perform their federal compliance audits in accordance with OMB Circular A-133.

We conducted our audit in accordance with the American Institute of Certified Public Accountants *Statements on Auditing Standards*; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and the circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred that could have a direct and material effect on the compliance requirements referred to above for a major federal program. An audit includes examining, on a test basis, evidence about the state's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Minnesota's compliance with those requirements.

As described in the findings in Section III of the accompanying Schedule of Findings and Questioned Costs and identified below, the State of Minnesota did not comply with certain federal requirements that are applicable to its major federal programs. These federal requirements include eligibility, activities allowed or unallowed, allowable costs/cost principals, and monitoring of grant recipients. Compliance with such requirements is necessary, in our opinion, for the State of Minnesota to comply with the requirements applicable to the following major federal programs:

- Medical Assistance – (CFDA¹ 93.778)
– Findings 13-05-1, 13-05-2, and 13-15-1.
- Temporary Assistance for Needy Families – (CFDA 93.558, 93.714)
– Findings 12-24-1, 12-24-2, 13-05-2, and 13-15-1.

In addition, as described in Finding 13-18-1, in Section III of the accompanying Schedule of Findings and Questioned Costs, the State of Minnesota did not comply with federal requirements to submit its Federal Single Audit report for fiscal year 2012 to the federal government by March 31, 2013. Compliance with this requirement is necessary, in our opinion, for the State of Minnesota to comply with the overall Single Audit requirements of the Office of Management and Budget Circular A-133.

In our opinion, except for the material noncompliance described in the preceding paragraphs, the State of Minnesota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which we are required to report in accordance with OMB Circular A-133 and that we describe in Section III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the State of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements applicable to federal programs. In planning and performing our audit, we considered the state's internal control over compliance with requirements that could have a direct and material effect on a major federal program. The purpose of our consideration of internal control was to determine the auditing procedures necessary for us to express our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our consideration of internal control was not for the purpose of expressing an opinion on its effectiveness over compliance; accordingly, we do not express an opinion on the effectiveness of the State of Minnesota's internal control over compliance.

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies² in the State of Minnesota's internal control over compliance that might be significant deficiencies³ or material weaknesses⁴ and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we consider the deficiencies in internal control over compliance, identified as Finding 12-24-1, 12-24-2, 13-05-1, 13-05-2, 13-15-1, 13-15-2, and 13-18-1 in Section III of the accompanying Schedule of Findings and Questioned Costs, to be material weaknesses. We consider all of the other deficiencies in internal control over compliance described in Section III of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We did not audit the Schedule of Expenditures of Federal Awards for the year ended June 30, 2012, and do not express an opinion on it. We did not audit this schedule because the significant change in the process used by the Department of Management and Budget to develop the schedule, and the delay in providing the schedule to our office for audit, significantly increased the risk of material misstatement. We were unable to perform sufficient and appropriate procedures necessary to reduce that risk to an acceptable level to provide an opinion, as explained in Finding 13-18-1.

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 20, 2013. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. The accompanying unaudited Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements.

The State of Minnesota's responses to the findings identified in our audit are included in Section III of the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the State of Minnesota, the Governor of the State of Minnesota, the Minnesota Legislature, and federal

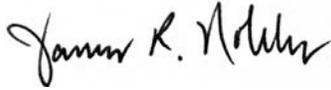
² A *deficiency* in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

³ A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

⁴ A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Members of the Minnesota Legislature
The Honorable Mark Dayton, Governor
Mr. James Schowalter, Commissioner of Minnesota Management and Budget
Page 4

awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a public document.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

July 26, 2013

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Supplemental Nutrition Assistance Program (SNAP) Cluster			
10.551	SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (7)	HUMAN SERVICES	\$ 740,901,998
10.561	STATE ADMIN MATCHING GRANTS FOR SUPP NUTR	HUMAN SERVICES	\$ 59,520,712
Supplemental Nutrition Assistance Program (SNAP) Cluster Total:			\$ 800,422,710
Child Nutrition Cluster			
10.553	SCHOOL BREAKFAST PROGRAM	EDUCATION	\$ 38,585,316
10.555	NATIONAL SCHOOL LUNCH PROGRAM	EDUCATION	\$ 162,050,963
10.556	SPECIAL MILK PROGRAM FOR CHILDREN	EDUCATION	\$ 868,588
10.559	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	EDUCATION	\$ 7,115,046
10.559	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	STATE COLLEGES & UNIVERSITIES	\$ 2,125
Child Nutrition Cluster Total:			\$ 208,622,038
10.557	SPECIAL SUPP. NUTRITION PROGRAM FOR WOMEN, INFANTS (4)	HEALTH	\$ 97,844,198
10.558	CHILD AND ADULT CARE FOOD PROGRAM	EDUCATION	\$ 67,321,325
U.S. DEPARTMENT OF DEFENSE			
12.401	NATIONAL GUARD MILITARY OPERATIONS AND MAINT	MILITARY AFFAIRS	\$ 34,032,846
12.401	NATIONAL GUARD MILITARY OPERATIONS AND MAINT	NATURAL RESOURCES	\$ 156,062
12.401	NATIONAL GUARD MILITARY OPERATIONS AND MAINT	WATER & SOIL RESOURCES BOARD	\$ 2,101,897
Program 12.401 Total:			\$ 36,290,805
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act (WIA) Cluster			
17.258	WIA ADULT PROGRAM	EMPLOYMENT & ECONOMIC	\$ 10,024,363
17.259	WIA YOUTH ACTIVITIES	EMPLOYMENT & ECONOMIC	\$ 12,634,810
17.259	ARRA-WIA YOUTH ACTIVITIES	STATE COLLEGES & UNIVERSITIES	\$ 1,621
17.260	WIA DISLOCATED WORKERS	EMPLOYMENT & ECONOMIC	\$ 515,392
17.260	ARRA-WIA DISLOCATED WORKERS	EMPLOYMENT & ECONOMIC	\$ 854,886
17.260	ARRA-WIA DISLOCATED WORKERS	STATE COLLEGES & UNIVERSITIES	\$ 16,247

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF LABOR (Continued)			
17.278	WIA DISLOCATED WORKER FORMULA GRANTS	EMPLOYMENT & ECONOMIC	\$ 13,126,850
Workforce Investment Act (WIA) Cluster Total:			\$ 37,174,169
17.225	UNEMPLOYMENT INSURANCE (5)	EMPLOYMENT & ECONOMIC	\$ 1,530,919,626
17.225	ARRA-UNEMPLOYMENT INSURANCE (5)	EMPLOYMENT & ECONOMIC	\$ 41,630
Program 17.225 Total:			\$ 1,530,961,256
U.S. DEPARTMENT OF TRANSPORTATION			
Highway Planning and Construction Cluster			
20.205	HIGHWAY PLANNING AND CONSTRUCTION	NATURAL RESOURCES	\$ 76,092
20.205	ARRA-HIGHWAY PLANNING AND CONSTRUCTION	TRANSPORTATION	\$ 18,920,000
20.205	HIGHWAY PLANNING AND CONSTRUCTION	TRANSPORTATION	\$ 604,303,044
20.205	R&D-HIGHWAY PLANNING AND CONSTRUCTION	TRANSPORTATION	\$ 13,906,429
20.219	RECREATIONAL TRAILS PROGRAM	NATURAL RESOURCES	\$ 1,112,217
Highway Planning and Construction Cluster Total:			\$ 638,317,782
20.106	ARRA-AIRPORT IMPROVEMENT PROGRAM (10)	TRANSPORTATION	\$ 373,000
20.106	AIRPORT IMPROVEMENT PROGRAM (10)	TRANSPORTATION	\$ 49,058,000
Program 20.106 Total:			\$ 49,431,000
U.S. DEPARTMENT OF EDUCATION			
Vocational Rehabilitation Cluster			
84.126	REHAB SERVICES_VOCATIONAL REHAB GRANTS	EMPLOYMENT & ECONOMIC	\$ 45,308,447
84.390	ARRA-REHAB SERVICES_VOCATIONAL REHAB GRANTS	EMPLOYMENT & ECONOMIC	\$ 915,345
Vocational Rehabilitation Cluster Total:			\$ 46,223,792
Title I, Part A Cluster			
84.010	TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	EDUCATION	\$ 126,619,005
Title I, Part A Cluster Total:			\$ 126,619,005
Student Financial Assistance Cluster			
84.007	FEDERAL SUPP. EDUCATIONAL OPPORTUNITY GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 6,089,367
84.033	FEDERAL WORK-STUDY PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 7,179,090

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
84.038	FEDERAL PERKINS LOAN (2)	STATE COLLEGES & UNIVERSITIES	\$ 29,792,830
84.063	FEDERAL PELL GRANT PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 297,167,750
84.268	FEDERAL DIRECT STUDENT LOANS (3)	STATE COLLEGES & UNIVERSITIES	\$ 771,876,888
84.375	ACADEMIC COMPETITIVENESS GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 69,646
84.376	NATIONAL SCIENCE AND MATHEMATICS ACCESS TO RETAIN	STATE COLLEGES & UNIVERSITIES	\$ 45,150
84.379	TEACHER ED. ASSIST. FOR COLLEGE AND HIGHER ED. GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 454,803
93.364	NURSING STUDENT LOANS (2)	STATE COLLEGES & UNIVERSITIES	\$ 2,204
Student Financial Assistance Cluster Total:			\$ 1,112,677,728
Special Education Cluster (IDEA)			
84.027	SPECIAL EDUCATION_GRANTS TO STATES	EDUCATION	\$ 147,981,288
84.027	SPECIAL EDUCATION_GRANTS TO STATES	STATE COLLEGES & UNIVERSITIES	\$ 15,797
84.173	SPECIAL EDUCATION_PRESCHOOL GRANTS	EDUCATION	\$ 5,056,109
Special Education Cluster (IDEA) Total:			\$ 153,053,194
84.410	ARRA-EDUCATION JOBS FUND (9)	GOVERNOR'S OFFICE	\$ 17,825,934
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Temporary Assistance for Needy Families (TANF) Cluster			
93.558	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	HUMAN SERVICES	\$ 179,180,200
93.714	ARRA-EMERGENCY CONTINGENCY FUND FOR TANF	HUMAN SERVICES	\$ 33,404,951
Temporary Assistance for Needy Families (TANF) Cluster Total:			\$ 212,585,151
Medicaid Cluster			
93.720	ARRA-SURVEY AND CERTIFICATION ASC-HAI	HEALTH	\$ 40,078
93.775	STATE MEDICAID FRAUD CONTROL UNITS	ATTORNEY GENERAL	\$ 1,004,518
93.777	STATE SURVEY AND CERT. OF HEALTH CARE PROVIDERS	HEALTH	\$ 8,431,491
93.777	STATE SURVEY AND CERT. OF HEALTH CARE PROVIDERS	HUMAN SERVICES	\$ 4,909,459
93.778	MEDICAL ASSISTANCE PROGRAM (4)	HUMAN SERVICES	\$ 4,523,943,492
Medicaid Cluster Total:			\$ 4,538,329,038

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
Immunization Cluster			
93.268	IMMUNIZATION GRANTS	HEALTH	\$ 40,935,883
93.712	ARRA-IMMUNIZATION	HEALTH	\$ 365,791
Immunization Cluster Total:			\$ 41,301,674
Child Care and Development Fund (CCDF) Cluster			
93.575	CHILD CARE AND DEVELOPMENT BLOCK GRANT	HUMAN SERVICES	\$ 102,675,638
93.596	CHILD CARE MANDATORY AND MATCHING FUNDS	HUMAN SERVICES	\$ 35,884,103
Child Care and Development Fund (CCDF) Cluster Total:			\$ 138,559,741
93.563	CHILD SUPPORT ENFORCEMENT	HUMAN SERVICES	\$ 117,798,051
93.568	LOW-INCOME HOME ENERGY ASSISTANCE	COMMERCE	\$ 107,233,971
93.658	FOSTER CARE_TITLE IV-E	HUMAN SERVICES	\$ 40,513,150
93.658	ARRA-FOSTER CARE_TITLE IV-E	STATE COLLEGES & UNIVERSITIES	\$ 224,340
Program 93.658 Total:			\$ 40,737,490
93.667	SOCIAL SERVICES BLOCK GRANT	HUMAN SERVICES	\$ 33,831,922
93.767	CHILDREN'S HEALTH INSURANCE PROGRAM	HUMAN SERVICES	\$ 37,475,368
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.036	DISASTER GRANTS - PUBLIC ASSISTANCE	PUBLIC SAFETY	\$ 36,764,151
Major Program Total:			\$ 10,227,401,493

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Forest Service Schools and Roads Cluster			
10.665	SCHOOLS AND ROADS - GRANTS TO STATES	MN MANAGEMENT & BUDGET	\$ 2,625,741
Forest Service Schools and Roads Cluster Total:			\$ 2,625,741
Emergency Food Assistance Cluster			
10.568	EMERGENCY FOOD ASSISTANCE (ADMINISTRATIVE COSTS)	HUMAN SERVICES	\$ 1,239,522
Emergency Food Assistance Cluster Total:			\$ 1,239,522
10.025	PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	AGRICULTURE	\$ 1,431,425
10.025	PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	ANIMAL HEALTH BOARD	\$ 798,000
10.025	PLANT AND ANIMAL DISEASE, PEST CONTROL, AND ANIMAL CARE	NATURAL RESOURCES	\$ 229,668
Program 10.025 Total:			\$ 2,459,093
10.072	WETLANDS RESERVE PROGRAM	WATER & SOIL RESOURCES	\$ 155,298
10.093	VOLUNTARY PUBLIC ACCESS & HABITAT INCENTIVE PROGRAM	NATURAL RESOURCES	\$ 801,712
10.156	FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM	AGRICULTURE	\$ 27,635
10.162	INSPECTION GRADING AND STANDARDIZATION	AGRICULTURE	\$ 106,235
10.163	MARKET PROTECTION AND PROMOTION	AGRICULTURE	\$ 1,009,395
10.170	SPECIALTY CROP BLOCK GRANT PROGRAM - FARM BILL	AGRICULTURE	\$ 601,236
10.171	ORGANIC CERTIFICATION COST SHARE	AGRICULTURE	\$ 826
10.307	ORGANIC AG RESEARCH AND EXT INITIATIVE	AGRICULTURE	\$ 57,703
10.311	BEGINNING FARMER AND RANCHER DEVELOPMENT	STATE COLLEGES & UNIVERSITIES	\$ 3,230
10.443	OUTREACH AND ASSIST. FOR DISADVANTAGED FARMERS	STATE COLLEGES & UNIVERSITIES	\$ 60,655
10.456	PARTNERSHIP AGREEMENTS TO DEV NON-INS RISK MGMT TOOLS	AGRICULTURE	\$ 29,464
10.475	COOP AGMNTS WITH STATES FOR INTRASTATE MEAT, POULTRY	AGRICULTURE	\$ 1,221,940
10.479	FOOD SAFETY COOPERATIVE AGREEMENTS	AGRICULTURE	\$ 383,203

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE (Continued)			
10.500	COOPERATIVE EXTENSION SERVICE	STATE COLLEGES & UNIVERSITIES	\$ 149,526
10.560	STATE ADMINISTRATIVE EXPENSES FOR CHILD NUTRITION	EDUCATION	\$ 3,098,783
10.565	COMMODITY SUPPLEMENTAL FOOD PROGRAM	HEALTH	\$ 1,118,585
10.572	WIC FARMERS' MARKET NUTRITION PROGRAM (FMNP)	AGRICULTURE	\$ 366,544
10.574	TEAM NUTRITION GRANTS	EDUCATION	\$ 89,540
10.576	SENIOR FARMERS' MARKET NUTRITION PROGRAM	AGRICULTURE	\$ 115,356
10.578	ARRA-WIC GRANTS TO STATES (WGS)	HEALTH	\$ 128,240
10.582	FRESH FRUIT AND VEGETABLE PROGRAM	EDUCATION	\$ 2,225,858
10.603	EMERGING MARKETS PROGRAM	AGRICULTURE	\$ 33,986
10.652	FORESTRY RESEARCH	NATURAL RESOURCES	\$ 11,172
10.652	FORESTRY RESEARCH	STATE COLLEGES & UNIVERSITIES	\$ 2,342
		Program 10.652 Total:	\$ 13,514
10.664	COOPERATIVE FORESTRY ASSISTANCE	AGRICULTURE	\$ 349,242
10.664	COOPERATIVE FORESTRY ASSISTANCE	NATURAL RESOURCES	\$ 1,444,218
		Program 10.664 Total:	\$ 1,793,460
10.668	ADDITIONAL LANDS-GRANTS	MN MANAGEMENT & BUDGET	\$ 6,150,000
10.675	URBAN AND COMMUNITY FORESTRY PROGRAM	NATURAL RESOURCES	\$ 204,852
10.676	FOREST LEGACY PROGRAM	NATURAL RESOURCES	\$ 27,878
10.678	FOREST STEWARDSHIP PROGRAM	NATURAL RESOURCES	\$ 544,673
10.680	FOREST HEALTH PROTECTION	AGRICULTURE	\$ 218,967
10.680	FOREST HEALTH PROTECTION	NATURAL RESOURCES	\$ 340,355
		Program 10.680 Total:	\$ 559,322
10.683	NATIONAL FISH & WILDLIFE FOUNDATION	NATURAL RESOURCES	\$ 10,920
10.861	PUBLIC TELEVISION STATION DIGITAL TRANSITION GRANT	STATE COLLEGES & UNIVERSITIES	\$ 110,196

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE (Continued)			
10.902	SOIL AND WATER CONSERVATION	AGRICULTURE	\$ 65,942
10.902	SOIL AND WATER CONSERVATION	WATER & SOIL RESOURCES	\$ 353,000
		Program 10.902 Total:	\$ 418,942
10.903	SOIL SURVEY	NATURAL RESOURCES	\$ 170,568
10.912	ENVIRONMENTAL QUALITY INCENTIVES PROGRAM	WATER & SOIL RESOURCES	\$ 148,750
10.950	AGRICULTURAL STATISTICS REPORTS	AGRICULTURE	\$ 13,191
U.S. DEPARTMENT OF COMMERCE			
Economic Development Cluster			
11.300	INVESTMENTS FOR PUBLIC WORKS AND ECONOMIC DEV FACILITIES	STATE COLLEGES & UNIVERSITIES	\$ 55,438
		Economic Development Cluster Total:	\$ 55,438
11.413	FISHERY PRODUCTS INSPECTION AND CERTIFICATION	AGRICULTURE	\$ 22,000
11.419	COASTAL ZONE MANAGEMENT ADMINISTRATION AWARDS	NATURAL RESOURCES	\$ 798,071
11.463	HABITAT CONSERVATION	NATURAL RESOURCES	\$ 196,238
11.468	APPLIED METEOROLOGICAL RESEARCH	PUBLIC SAFETY	\$ 137,892
11.555	PUBLIC SAFETY INTEROPERABLE COMMUNICATIONS GRANT	PUBLIC SAFETY	\$ 4,102,057
11.557	BROADBAND TECHNOLOGY OPPORTUNITIES	EMPLOYMENT & ECONOMIC	\$ 253,306
11.557	ARRA-BROADBAND TECHNOLOGY OPPORTUNITIES	STATE COLLEGES & UNIVERSITIES	\$ 105,975
		Program 11.557 Total:	\$ 359,281
U.S. DEPARTMENT OF DEFENSE			
12.113	REIMBURSEMENT OF TECHNICAL SERVICES	POLLUTION CONTROL AGENCY	\$ 201,259
12.217	ELECTRONIC ABSENTEE SYSTEMS FOR ELECTIONS	SECRETARY OF STATE	\$ 128,640
12.300	BASIC AND APPLIED SCIENTIFIC RESEARCH	STATE COLLEGES & UNIVERSITIES	\$ 15,876
12.400	MILITARY CONSTRUCTION, NATIONAL GUARD	MILITARY AFFAIRS	\$ 15,852,270
12.404	NATIONAL GUARD CHALLENGE PROGRAM	MILITARY AFFAIRS	\$ 865,000

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE (Continued)			
12.630	R&D-BASIC, APPLIED, AND ADV RES IN SCIENCE, ENGINEER	STATE COLLEGES & UNIVERSITIES	\$ 10,901
12.902	INFORMATION SECURITY GRANT	STATE COLLEGES & UNIVERSITIES	\$ 33,557
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
CDBG - State-Administered CDBG Cluster			
14.228	CDBG/STATE'S PROGRAM AND NON-ENTITLEMT GRANTS	EMPLOYMENT & ECONOMIC	\$ 20,208,797
14.255	ARRA-CDBG/STATE'S PROGRAM AND NON-ENTITLEMT GRANTS	EMPLOYMENT & ECONOMIC	\$ 996,298
CDBG - State-Administered CDBG Cluster Total:			\$ 21,205,095
CDBG - Entitlement Grants Cluster			
14.218	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT	STATE COLLEGES & UNIVERSITIES	\$ 3,623
CDBG - Entitlement Grants Cluster Total:			\$ 3,623
14.227	COMMUNITY DEV BLOCK GRANT/TECHNICAL ASSIST	STATE COLLEGES & UNIVERSITIES	\$ 19,687
14.231	EMERGENCY SHELTER GRANTS PROGRAM	HUMAN SERVICES	\$ 1,223,878
14.257	ARRA-HOMELESSNESS PREVENT AND RAPID REHOUSING	HUMAN SERVICES	\$ 1,102,044
14.900	LEAD-BASED PAINT HAZARD CNTRL PRIVATELY-OWNED HOUSING	HEALTH	\$ 355,012
14.914	ASTHMA INTERVENTIONS IN PUBLIC HOUSING	HEALTH	\$ 62,814
U.S. DEPARTMENT OF INTERIOR			
Fish and Wildlife Cluster			
15.605	SPORT FISH RESTORATION PROGRAM	NATURAL RESOURCES	\$ 12,641,531
15.611	WILDLIFE RESTORATION AND BASIC HUNTER EDUCATION	NATURAL RESOURCES	\$ 10,661,161
Fish and Wildlife Cluster Total:			\$ 23,302,692
15.231	ARRA-FISH, WILDLIFE, PLANT CONSERV RESOURCE MGMT	STATE COLLEGES & UNIVERSITIES	\$ 19,531
15.608	FISH AND WILDLIFE MANAGEMENT ASSISTANCE	NATURAL RESOURCES	\$ 45,588
15.615	COOPERATIVE ENDANGERED SPECIES CONSERVATION FUND	NATURAL RESOURCES	\$ 88,400

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF INTERIOR (Continued)			
15.616	CLEAN VESSEL ACT	NATURAL RESOURCES	\$ 49,002
15.622	SPORTFISHING AND BOATING SAFETY ACT	NATURAL RESOURCES	\$ 123,713
15.623	NORTH AMERICAN WETLANDS CONSERVATION FUND	NATURAL RESOURCES	\$ 27,803
15.626	ENHANCED HUNTER EDUCATION AND SAFETY PROGRAM	NATURAL RESOURCES	\$ 207,448
15.633	LANDOWNER INCENTIVE	NATURAL RESOURCES	\$ 124,832
15.634	STATE WILDLIFE GRANTS	NATURAL RESOURCES	\$ 1,289,989
15.647	MIGRATORY BIRD CONSERVATION	NATURAL RESOURCES	\$ 46,778
15.657	ENDANGERED SPECIES CONSERVATION - REC IMPLEMENT	NATURAL RESOURCES	\$ 33,329
15.662	GREAT LAKES RESTORATION	NATURAL RESOURCES	\$ 441,847
15.808	US GEOLOGICAL SURVEY_RESEARCH AND DATA COLLECTION	ADMINISTRATION	\$ 35,000
15.808	US GEOLOGICAL SURVEY_RESEARCH AND DATA COLLECTION	NATURAL RESOURCES	\$ 71,288
		Program 15.808 Total:	\$ 106,288
15.809	NATIONAL SPATIAL DATA INFRASTRUCTURE COOP AGREEMENTS	ADMINISTRATION	\$ 19,910
15.916	OUTDOOR RECREATION ACQUISITION, DEVELOPMT, PLANNING	NATURAL RESOURCES	\$ 605,999
15.922	NATIVE AMERICAN GRAVES PROTECTION, REPATRIATION	INDIAN AFFAIRS COUNCIL	\$ 85,665
15.978	UPPER MISSISSIPPI RIVER SYSTEM LT RESOURCE MONITORING	NATURAL RESOURCES	\$ 515,768
U.S. DEPARTMENT OF JUSTICE			
JAG Program Cluster			
16.738	EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT	PUBLIC SAFETY	\$ 4,762,204
16.803	ARRA-EDWARD BYRNE MEMORIAL JUSTICE	PUBLIC SAFETY	\$ 4,373,458
		JAG Program Cluster Total:	\$ 9,135,662
16.004	LAW ENFORCEMENT ASSIST. NARCOTICS, DANGEROUS DRUGS	PUBLIC SAFETY	\$ 71,528
16.017	SEXUAL ASSAULT SERVICES FORMULA PROGRAM	PUBLIC SAFETY	\$ 158,241
16.523	JUVENILE ACCOUNTABILITY BLOCK GRANTS	PUBLIC SAFETY	\$ 630,137

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE (Continued)			
16.540	JUVENILE JUSTICE AND DELINQUENCY PREVENTION	PUBLIC SAFETY	\$ 939,159
16.541	PART E - DEVELOPING, TESTING, DEMO PROMISING NEW PROG	STATE COLLEGES & UNIVERSITIES	\$ 518,495
16.543	MISSING CHILDREN'S ASSISTANCE	PUBLIC SAFETY	\$ 275,477
16.548	TITLE V_DELINQUENCY PREVENTION PROGRAM	PUBLIC SAFETY	\$ 70,416
16.550	STATE JUSTICE STATISTICS PROGRAM FOR STATISTICAL ANALYSIS	PUBLIC SAFETY	\$ 49,229
16.554	NATIONAL CRIMINAL HISTORY IMPROVEMENT PROGRAM (NCHIP)	PUBLIC SAFETY	\$ 259,064
16.560	NAT'L INSTITUTE OF JUSTICE RESEARCH, EVALUATION, AND DEV	PUBLIC SAFETY	\$ 220,273
16.575	CRIME VICTIM ASSISTANCE	PUBLIC SAFETY	\$ 8,290,566
16.576	CRIME VICTIM COMPENSATION	PUBLIC SAFETY	\$ 623,052
16.585	DRUG COURT DISCRETIONARY GRANT PROGRAM	TRIAL COURTS	\$ 647,417
16.588	ARRA-VIOLENCE AGAINST WOMEN	PUBLIC SAFETY	\$ 263,091
16.588	VIOLENCE AGAINST WOMEN FORMULA GRANTS	PUBLIC SAFETY	\$ 2,054,978
		Program 16.588 Total:	\$ 2,318,069
16.590	ARREST POLICIES AND ENFORCEMT OF PROTECTION ORDERS	PUBLIC SAFETY	\$ 49,952
16.593	RESIDENTIAL SUBSTANCE ABUSE TREATMENT STATE PRISONERS	PUBLIC SAFETY	\$ 151,151
16.606	STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	CORRECTIONS	\$ 2,202,085
16.607	BULLETPROOF VEST PARTNERSHIP	CORRECTIONS	\$ 18,776
16.607	BULLETPROOF VEST PARTNERSHIP	PUBLIC SAFETY	\$ 80,036
		Program 16.607 Total:	\$ 98,812
16.609	PROJECT SAFE NEIGHBORHOODS	PUBLIC SAFETY	\$ 162,108
16.710	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	PUBLIC SAFETY	\$ 203,972
16.727	ENFORCING UNDERAGE DRINKING LAWS PROGRAM	PUBLIC SAFETY	\$ 293,488
16.740	STATEWIDE AUTOMATED VICTIM INFORMATION NOTIFICATION	PUBLIC SAFETY	\$ 69,739
16.741	FORENSIC DNA BACKLOG REDUCTION PROGRAM	PUBLIC SAFETY	\$ 605,420

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE (Continued)			
16.742	PAUL COVERDELL FORENSIC SCIENCES IMPROVEMENT GRANT	PUBLIC SAFETY	\$ 263,922
16.745	CRIMINAL AND JUVENILE JUSTICE AND MENTAL HEALTH	CORRECTIONS	\$ 86,952
16.750	SUPPORT FOR ADAM WALSH ACT	PUBLIC SAFETY	\$ 290,545
16.753	CONGRESSIONALLY RECOMMENDED AWARDS	PUBLIC SAFETY	\$ 38,552
16.753	CONGRESSIONALLY RECOMMENDED AWARDS	TRIAL COURTS	\$ 50,096
		Program 16.753 Total:	\$ 88,648
16.754	HAROLD ROGERS PRESCRIPTION DRUG MONITORING	PHARMACY BOARD	\$ 4,864
16.801	ARRA-STATE VICTIM ASSISTANCE	PUBLIC SAFETY	\$ 8,194
16.812	SECOND CHANCE ACT PRISONER REENTRY INITIATIVE	CORRECTIONS	\$ 605,201
U.S. DEPARTMENT OF LABOR			
Employment Service Cluster			
17.207	EMPLOYMENT SERVICE/WAGNER-PEYSER FUNDED ACTIVITIES	EMPLOYMENT & ECONOMIC	\$ 16,593,459
17.801	DISABLED VETERANS' OUTREACH PROGRAM (DVOP)	EMPLOYMENT & ECONOMIC	\$ 1,687,844
17.804	LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE PROGRAM	EMPLOYMENT & ECONOMIC	\$ 1,025,891
		Employment Service Cluster Total:	\$ 19,307,194
17.002	LABOR FORCE STATISTICS	EMPLOYMENT & ECONOMIC	\$ 1,664,443
17.002	LABOR FORCE STATISTICS	STATE COLLEGES & UNIVERSITIES	\$ 1,301,836
		Program 17.002 Total:	\$ 2,966,279
17.005	COMPENSATION AND WORKING CONDITIONS	LABOR AND INDUSTRY	\$ 95,103
17.235	SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM	EMPLOYMENT & ECONOMIC	\$ 2,488,068
17.245	TRADE ADJUSTMENT ASSISTANCE	EMPLOYMENT & ECONOMIC	\$ 15,392,283
17.261	WIA PILOTS, DEMONSTRATIONS, AND RESEARCH PROJECTS	EMPLOYMENT & ECONOMIC	\$ 394,250
17.267	INCENTIVE GRANTS - WIA SECTION 503	EMPLOYMENT & ECONOMIC	\$ 1,214,943

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF LABOR (Continued)			
17.268	H-1B JOB TRAINING GRANTS	EMPLOYMENT & ECONOMIC	\$ 19,266
17.268	H-1B JOB TRAINING GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 119,175
		Program 17.268 Total:	\$ 138,441
17.269	R&D-COMMUNITY BASED JOB TRAINING GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 392,104
17.269	COMMUNITY BASED JOB TRAINING GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 2,178,210
		Program 17.269 Total:	\$ 2,570,314
17.271	WORK OPPORTUNITY TAX CREDIT PROGRAM (WOTC)	EMPLOYMENT & ECONOMIC	\$ 247,794
17.273	TEMPORARY LABOR CERTIFICATION FOR FOREIGN WORKERS	EMPLOYMENT & ECONOMIC	\$ 91,913
17.275	ARRA-WORKER TRAINING IN EMERGING INDUSTRY SECTORS	EMPLOYMENT & ECONOMIC	\$ 1,536,149
17.275	WORKER TRAINING IN EMERGING INDUSTRY SECTORS	EMPLOYMENT & ECONOMIC	\$ 196,666
17.275	ARRA-WORKER TRAINING IN EMERGING INDUSTRY SECTORS	STATE COLLEGES & UNIVERSITIES	\$ 2,722,545
		Program 17.275 Total:	\$ 4,455,360
17.277	WORKFORCE INVESTMENT ACT (WIA) NAT'L EMERGENCY GRANTS	EMPLOYMENT & ECONOMIC	\$ 1,196,707
17.282	TRADE ADJ ASSIST COMM CLG AND CAREER TRAINING	STATE COLLEGES & UNIVERSITIES	\$ 466,142
17.502	OCCUPATIONAL SAFETY AND HEALTH_SUSAN HARWOOD TRNG	STATE COLLEGES & UNIVERSITIES	\$ 29,160
17.503	OCCUPATIONAL SAFETY AND HEALTH_STATE PROGRAM	LABOR AND INDUSTRY	\$ 4,002,471
17.504	CONSULTATION AGREEMENTS	LABOR AND INDUSTRY	\$ 986,277
17.505	OSHA DATA INITIATIVE	LABOR AND INDUSTRY	\$ 34,280
17.600	MINE HEALTH AND SAFETY GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 365,571
U.S. DEPARTMENT OF STATE			
19.009	ACADEMIC EXCHANGE PROGRAMS	STATE COLLEGES & UNIVERSITIES	\$ 126,636
19.300	R&D-STUDY OF EASTERN EUROPE & FORMER SOVIET UNION	STATE COLLEGES & UNIVERSITIES	\$ 6,868
U.S. DEPARTMENT OF TRANSPORTATION			
Transit Services Programs Cluster			
20.513	CAPITAL ASSISTANCE PROGRAM FOR ELDERLY PERSONS	TRANSPORTATION	\$ 1,847,000

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
20.516	JOB ACCESS_REVERSE COMMUTE	TRANSPORTATION	\$ 738,493
20.521	NEW FREEDOM PROGRAM	TRANSPORTATION	\$ 539,354
Transit Services Programs Cluster Total:			\$ 3,124,847
Highway Safety Cluster			
20.600	STATE AND COMMUNITY HIGHWAY SAFETY	PUBLIC SAFETY	\$ 5,236,352
20.600	STATE AND COMMUNITY HIGHWAY SAFETY	TRANSPORTATION	\$ 1,855,825
20.601	ALCOHOL IMPAIRED DRIVING COUNTERMEASURES INCENTIVE	PUBLIC SAFETY	\$ 2,366,037
20.602	OCCUPANT PROTECTION INCENTIVE GRANTS	PUBLIC SAFETY	\$ 920,415
20.609	SAFETY BELT PERFORMANCE GRANTS	PUBLIC SAFETY	\$ 2,041,009
20.609	R&D-SAFETY BELT PERFORMANCE GRANTS	TRANSPORTATION	\$ 676,000
20.610	STATE TRAFFIC SAFETY INFORMATION SYSTEM IMPROVEMENT	PUBLIC SAFETY	\$ 377,859
20.610	STATE TRAFFIC SAFETY INFORMATION SYSTEM IMPROVEMENT	TRANSPORTATION	\$ 9,000
20.611	PROGRAM TO PROHIBIT RACIAL PROFILING	PUBLIC SAFETY	\$ 212,717
20.612	INCENTIVE GRANT PROGRAM TO INCREASE MOTORCYCLIST SAFETY	PUBLIC SAFETY	\$ 151,045
20.613	CHILD SAFETY AND CHILD BOOSTER SEATS INCENTIVE	PUBLIC SAFETY	\$ 39,080
Highway Safety Cluster Total:			\$ 13,885,339
Federal Transit Cluster			
20.500	FEDERAL TRANSIT_CAPITAL INVESTMENT GRANTS	TRANSPORTATION	\$ 6,493,000
Federal Transit Cluster Total:			\$ 6,493,000
20.200	R&D-HIGHWAY RESEARCH AND DEVELOPMENT PROGRAM	TRANSPORTATION	\$ 709,000
20.218	NATIONAL MOTOR CARRIER SAFETY	PUBLIC SAFETY	\$ 3,238,688
20.218	NATIONAL MOTOR CARRIER SAFETY	TRANSPORTATION	\$ 927,000
Program 20.218 Total:			\$ 4,165,688
20.232	COMMERCIAL DRIVER'S LICENSE PROG IMPROVEMT	PUBLIC SAFETY	\$ 785,809
20.233	BORDER ENFORCEMENT GRANTS	PUBLIC SAFETY	\$ 175,137

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
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YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
20.314	RAILROAD DEVELOPMENT	TRANSPORTATION	\$ 217,000
20.317	INTERCITY PASSENGER RAIL SERVICE	TRANSPORTATION	\$ 367,000
20.319	ARRA-RAIL CORRIDORS AND SERVICE CAP ASSISTANCE	TRANSPORTATION	\$ 28,282,000
20.320	RAIL LINE RELOCATION AND IMPROVEMENT	TRANSPORTATION	\$ 21,000
20.505	METROPOLITAN TRANSPORTATION PLANNING	TRANSPORTATION	\$ 4,751,376
20.509	ARRA-OTHER THAN URBANIZED AREAS	TRANSPORTATION	\$ 837,208
20.509	FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS	TRANSPORTATION	\$ 10,534,564
		Program 20.509 Total:	\$ 11,371,772
20.608	MINIMUM PENALTIES FOR REPEAT OFFENDERS	PUBLIC SAFETY	\$ 5,861,098
20.614	NHTSA DISCRETIONARY SAFETY GRANTS	HEALTH	\$ 42,426
20.614	NHTSA DISCRETIONARY SAFETY GRANTS	PUBLIC SAFETY	\$ 60,018
		Program 20.614 Total:	\$ 102,444
20.700	PIPELINE SAFETY PROGRAM BASE GRANTS	PUBLIC SAFETY	\$ 1,119,754
20.703	INTERAGENCY HAZARDOUS MATERIALS PUBLIC SECTOR TRAINING	PUBLIC SAFETY	\$ 411,237
20.720	STATE DAMAGE PREVENTION PROGRAM GRANTS	PUBLIC SAFETY	\$ 86,465
20.721	PHMSA PIPELINE SAFETY PROGRAM	PUBLIC SAFETY	\$ 44,480
U.S. OFFICE OF PERSONNEL MANAGEMENT			
27.011	INTERGOVERNMENTAL PERSONNEL ACT MOBILITY	STATE COLLEGES & UNIVERSITIES	\$ 145,960
U.S. GENERAL SERVICES ADMINISTRATION			
39.011	ELECTION REFORM PAYMENTS	SECRETARY OF STATE	\$ 908,199
U.S. NATIONAL AERONAUTICS & SPACE ADMINISTRATION			
43.001	SCIENCE	STATE COLLEGES & UNIVERSITIES	\$ 53,646
43.008	EDUCATION GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 82,313

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. NATIONAL FOUNDATION ARTS & HUMANITIES			
45.025	PROMOTION OF THE ARTS_PARTNERSHIP AGREEMENTS	ARTS BOARD	\$ 647,235
45.160	PROMOTION OF THE HUMANITIES	STATE COLLEGES & UNIVERSITIES	\$ 46,052
45.310	GRANTS TO STATES	EDUCATION	\$ 2,748,833
45.310	GRANTS TO STATES	STATE COLLEGES & UNIVERSITIES	\$ 35,082
		Program 45.310 Total:	\$ 2,783,915
U.S. NATIONAL SCIENCE FOUNDATION			
47.041	ENGINEERING GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 2,715
47.049	MATHEMATICAL AND PHYSICAL SCIENCES	STATE COLLEGES & UNIVERSITIES	\$ 130,499
47.050	GEOSCIENCES	STATE COLLEGES & UNIVERSITIES	\$ 172,061
47.050	R&D-GEOSCIENCES	STATE COLLEGES & UNIVERSITIES	\$ 9,142
		Program 47.050 Total:	\$ 181,203
47.074	R&D-BIOLOGICAL SCIENCES	STATE COLLEGES & UNIVERSITIES	\$ 97,664
47.074	BIOLOGICAL SCIENCES	STATE COLLEGES & UNIVERSITIES	\$ 2,358
		Program 47.074 Total:	\$ 100,022
47.076	R&D-EDUCATION AND HUMAN RESOURCES	STATE COLLEGES & UNIVERSITIES	\$ 184,000
47.076	EDUCATION AND HUMAN RESOURCES	STATE COLLEGES & UNIVERSITIES	\$ 2,602,067
		Program 47.076 Total:	\$ 2,786,067
47.082	ARRA R&D-TRANS-NSF RECOVERY ACT RESEARCH SUPPORT	STATE COLLEGES & UNIVERSITIES	\$ 47,262
U.S. SMALL BUSINESS ADMINISTRATION			
59.037	SMALL BUSINESS DEVELOPMENT CENTERS	EMPLOYMENT & ECONOMIC	\$ 1,700,363
59.059	CONGRESSIONAL GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 12,921
59.061	STATE TRADE AND EXPORT PROMOTION PILOT GRANT	EMPLOYMENT & ECONOMIC	\$ 145,677

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF VETERANS AFFAIRS			
64.005	STATE HOME FACILITIES CONSTRUCTION	VETERANS AFFAIRS	\$ 17,816,608
64.005	ARRA-CONSTRUCTION OF STATE HOME FACILITIES	VETERANS AFFAIRS	\$ 322,021
		Program 64.005 Total:	\$ 18,138,629
64.116	VOCATIONAL REHABILITATION FOR DISABLED VETERANS	STATE COLLEGES & UNIVERSITIES	\$ 400,717
U.S. ENVIRONMENTAL PROTECTION AGENCY			
66.032	STATE INDOOR RADON GRANTS	HEALTH	\$ 528,397
66.034	SURVEYS, STUDIES, RESEARCH, INVESTIGATIONS CLEAN AIR ACT	COMMERCE	\$ 2,780
66.034	SURVEYS, STUDIES, RESEARCH, INVESTIGATIONS CLEAN AIR ACT	POLLUTION CONTROL AGENCY	\$ 341,942
		Program 66.034 Total:	\$ 344,722
66.040	STATE CLEAN DIESEL GRANT PROGRAM	POLLUTION CONTROL AGENCY	\$ 231,555
66.419	WATER POLLUTION CONTROL STATE, INTERSTATE, AND TRIBAL	HEALTH	\$ 47,155
66.419	WATER POLLUTION CONTROL STATE, INTERSTATE, AND TRIBAL	POLLUTION CONTROL AGENCY	\$ 174,733
		Program 66.419 Total:	\$ 221,888
66.432	STATE PUBLIC WATER SYSTEM SUPERVISION	HEALTH	\$ 2,339,037
66.454	WATER QUALITY MANAGEMENT PLANNING	POLLUTION CONTROL AGENCY	\$ 308,577
66.454	ARRA-WATER QUALITY MANAGEMENT PLANNING	POLLUTION CONTROL AGENCY	\$ 117,174
		Program 66.454 Total:	\$ 425,751
66.460	NONPOINT SOURCE IMPLEMENTATION GRANTS	POLLUTION CONTROL AGENCY	\$ 3,569,902
66.468	CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLV	HEALTH	\$ 2,099,417
66.469	GREAT LAKES PROGRAM	HEALTH	\$ 469,702
66.469	GREAT LAKES PROGRAM	NATURAL RESOURCES	\$ 1,040,077
66.469	GREAT LAKES PROGRAM	POLLUTION CONTROL AGENCY	\$ 942,014
66.469	GREAT LAKES PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 1,385
		Program 66.469 Total:	\$ 2,453,178

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY (Continued)			
66.472	BEACH MONITORING AND NOTIFICATION PROGRAM GRANTS	HEALTH	\$ 109,028
66.472	BEACH MONITORING AND NOTIFICATION PROGRAM GRANTS	POLLUTION CONTROL AGENCY	\$ 65,498
		Program 66.472 Total:	\$ 174,526
66.474	WATER PROTECTION GRANTS TO THE STATES	HEALTH	\$ 29,502
66.509	SCIENCE TO ACHIEVE RESULTS (STAR) RESEARCH PROGRAM	HEALTH	\$ 171,023
66.605	PERFORMANCE PARTNERSHIP GRANTS	AGRICULTURE	\$ 626,682
66.605	PERFORMANCE PARTNERSHIP GRANTS	POLLUTION CONTROL AGENCY	\$ 13,762,357
		Program 66.605 Total:	\$ 14,389,039
66.608	ENVIRONMENTAL INFORMATION EXCHANGE NETWORK GRANT	ADMINISTRATION	\$ 79,579
66.700	CONSOLIDATED PESTICIDE ENFORCEMENT COOP AGREEMENTS	AGRICULTURE	\$ 58,296
66.700	CONSOLIDATED PESTICIDE ENFORCEMENT COOP AGREEMENTS	NATURAL RESOURCES	\$ 2,316
		Program 66.700 Total:	\$ 60,612
66.707	TSCA TITLE IV STATE LEAD GRANTS CERTIFICATION	HEALTH	\$ 239,599
66.802	SUPERFUND STATE, POLITICAL SUBDIVISION, AND INDIAN TRIBE	POLLUTION CONTROL AGENCY	\$ 337,257
66.804	UNDERGROUND STORAGE TANK PREVENTION, DETECTION	POLLUTION CONTROL AGENCY	\$ 803,229
66.805	LEAKING UNDERGROUND STORAGE TANK TRUST FUND	POLLUTION CONTROL AGENCY	\$ 2,317,309
66.805	ARRA-LEAKING UNDERGROUND STORAGE TANK TRUST FUND	POLLUTION CONTROL AGENCY	\$ 78,641
		Program 66.805 Total:	\$ 2,395,950
66.808	SOLID WASTE MANAGEMENT ASSISTANCE	POLLUTION CONTROL AGENCY	\$ 1,418
66.817	STATE AND TRIBAL RESPONSE PROGRAM GRANTS	POLLUTION CONTROL AGENCY	\$ 740,382
66.818	BROWNFIELDS ASSESSMENT AND CLEANUP COOP AGREEMENTS	EMPLOYMENT & ECONOMIC	\$ 29,610
U.S. NUCLEAR REGULATORY COMMISSION			
77.008	NUCLEAR EDUCATION GRANT PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 82,880

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF ENERGY			
81.041	ARRA-STATE ENERGY PROGRAM	COMMERCE	\$ 12,600,449
81.041	STATE ENERGY PROGRAM	COMMERCE	\$ 124,520
81.041	STATE ENERGY PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 73,826
		Program 81.041 Total:	\$ 12,798,795
81.042	WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	COMMERCE	\$ 7,201,832
81.042	ARRA-WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS	COMMERCE	\$ 14,295,313
		Program 81.042 Total:	\$ 21,497,145
81.049	OFFICE OF SCIENCE FINANCIAL ASSISTANCE PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 32,888
81.087	R&D-RENEWABLE ENERGY RESEARCH AND DEVELOPMENT	STATE COLLEGES & UNIVERSITIES	\$ 392,918
81.117	ENERGY EFFICIENCY AND RENEWABLE ENERGY	COMMERCE	\$ 11,023
81.122	ARRA-ELECTRICITY DELIVERY AND ENERGY RELIABILITY	COMMERCE	\$ 18,445
81.122	ARRA-ELECTRICITY DELIVERY AND ENERGY RELIABILITY	PUBLIC UTILITIES COMM	\$ 91,110
		Program 81.122 Total:	\$ 109,555
81.128	ARRA-ENERGY EFFICIENCY AND CONSERVATION	COMMERCE	\$ 2,229,398
U.S. DEPARTMENT OF EDUCATION			
TRIO Cluster			
84.042	TRIO_STUDENT SUPPORT SERVICES	STATE COLLEGES & UNIVERSITIES	\$ 7,007,680
84.044	TRIO_TALENT SEARCH	STATE COLLEGES & UNIVERSITIES	\$ 1,756,963
84.047	TRIO_UPWARD BOUND	STATE COLLEGES & UNIVERSITIES	\$ 5,858,124
84.066	TRIO_EDUCATIONAL OPPORTUNITY CENTERS	STATE COLLEGES & UNIVERSITIES	\$ 719,186
84.217	TRIO_MCNAIR POST-BACCALAUREATE ACHIEVEMENT	STATE COLLEGES & UNIVERSITIES	\$ 186,935
		TRIO Cluster Total:	\$ 15,528,888
Statewide Data Systems Cluster			
84.384	ARRA-STATEWIDE DATA SYSTEMS	EDUCATION	\$ 5,069,081
		Statewide Data Systems Cluster Total:	\$ 5,069,081

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
State Fiscal Stabilization Fund Cluster			
84.394	ARRA-STATE FISCAL STABILIZATION FUND (SFSF) (8)	GOVERNOR'S OFFICE	\$ 4,259,787
State Fiscal Stabilization Fund Cluster Total:			\$ 4,259,787
School Improvement Grants Cluster			
84.377	SCHOOL IMPROVEMENT GRANTS	EDUCATION	\$ 1,344,097
84.388	ARRA-SCHOOL IMPROVEMENT GRANTS, RECOVERY ACT	EDUCATION	\$ 10,161,324
School Improvement Grants Cluster Total:			\$ 11,505,421
Independent Living State Grants Cluster			
84.169	INDEPENDENT LIVING_STATE GRANTS	EMPLOYMENT & ECONOMIC	\$ 1,779,012
84.398	ARRA-INDEPENDENT LIVING STATE GRANTS	EMPLOYMENT & ECONOMIC	\$ 99,638
Independent Living State Grants Cluster Total:			\$ 1,878,650
Indep Living Services for Older Indiv Who Are Blind Cluster			
84.177	REHABILITATION SERVICES_IND LIVING SVS OLDER INDIVIDUALS	EMPLOYMENT & ECONOMIC	\$ 583,757
Indep Living Services for Older Indiv Who Are Blind Cluster Total:			\$ 583,757
Educational Technology State Grants Cluster			
84.318	EDUCATION TECHNOLOGY STATE GRANTS	EDUCATION	\$ 416,768
Educational Technology State Grants Cluster Total:			\$ 416,768
Education of Homeless Children and Youth Cluster			
84.196	EDUCATION FOR HOMELESS CHILDREN AND YOUTH	EDUCATION	\$ 642,731
Education of Homeless Children and Youth Cluster Total:			\$ 642,731
Early Intervention Services (IDEA) Cluster			
84.181	SPECIAL EDUCATION-GRANTS FOR INFANTS AND FAMILIES	EDUCATION	\$ 4,808,268
Early Intervention Services (IDEA) Cluster Total:			\$ 4,808,268
Centers for Independent Living Cluster			
84.132	CENTERS FOR INDEPENDENT LIVING	EMPLOYMENT & ECONOMIC	\$ 1,023,965

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
84.400	ARRA-CENTERS FOR INDEPENDENT LIVING	EMPLOYMENT & ECONOMIC	\$ 361,178
Centers for Independent Living Cluster Total:			\$ 1,385,143
84.002	ADULT EDUCATION - BASIC GRANTS TO STATES	EDUCATION	\$ 5,300,671
84.002	ADULT EDUCATION - BASIC GRANTS TO STATES	STATE COLLEGES & UNIVERSITIES	\$ 1,975
Program 84.002 Total:			\$ 5,302,646
84.011	MIGRANT EDUCATION_STATE GRANT PROGRAM	EDUCATION	\$ 1,741,245
84.013	TITLE I STATE AGENCY PROG FOR NEGLECTED, DELINQ CHILDREN	EDUCATION	\$ 114,258
84.031	HIGHER EDUCATION_INSTITUTIONAL AID	STATE COLLEGES & UNIVERSITIES	\$ 1,099,013
84.048	CAREER AND TECHNICAL EDUCATION -- BASIC GRANTS TO STATES	STATE COLLEGES & UNIVERSITIES	\$ 16,994,278
84.116	FUND FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION	STATE COLLEGES & UNIVERSITIES	\$ 505,662
84.144	MIGRANT EDUCATION_COORDINATION PROGRAM	EDUCATION	\$ 59,655
84.184	SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES-NAT'L	EDUCATION	\$ 82,668
84.184	SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES-NAT'L	STATE COLLEGES & UNIVERSITIES	\$ 1,426
Program 84.184 Total:			\$ 84,094
84.185	BYRD HONORS SCHOLARSHIPS	EDUCATION	\$ 133,000
84.186	SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES-STATE	EDUCATION	\$ 191,825
84.187	SUPPORTED EMPLOYMENT SERVICES	EMPLOYMENT & ECONOMIC	\$ 418,835
84.213	EVEN START_STATE EDUCATIONAL AGENCIES	EDUCATION	\$ 163,505
84.224	ASSISTIVE TECHNOLOGY	ADMINISTRATION	\$ 485,096
84.243	TECH-PREP EDUCATION	STATE COLLEGES & UNIVERSITIES	\$ 399
84.265	REHABILITATION TRAINING-STATE VOC REHAB	EMPLOYMENT & ECONOMIC	\$ 156,464
84.282	CHARTER SCHOOLS	EDUCATION	\$ 1,996,639
84.283	COMPREHENSIVE CENTERS	STATE COLLEGES & UNIVERSITIES	\$ 798
84.287	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	EDUCATION	\$ 9,457,347

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
84.323	SPECIAL EDUCATION - STATE PERSONNEL DEVELOPMENT	EDUCATION	\$ 1,265,735
84.324	RESEARCH IN SPECIAL EDUCATION	STATE COLLEGES & UNIVERSITIES	\$ 509,364
84.326	SPEC EDUC_TO IMPROVE SERVICES FOR DISABLED CHILDREN	EDUCATION	\$ 177,998
84.326	SPEC EDUC_TO IMPROVE SERVICES FOR DISABLED CHILDREN	STATE COLLEGES & UNIVERSITIES	\$ 79,321
		Program 84.326 Total:	\$ 257,319
84.330	ADVANCED PLACEMENT INCENTIVE PROGRAM	EDUCATION	\$ 707,744
84.331	GRANTS TO STATES FOR WORKPLACE AND COMM TRANSITION	CORRECTIONS	\$ 142,972
84.334	GAIN EARLY AWARENESS AND READINESS FOR UNDERGRADUATE	STATE COLLEGES & UNIVERSITIES	\$ 1,406
84.335	CHILD CARE ACCESS MEANS PARENTS IN SCHOOL	STATE COLLEGES & UNIVERSITIES	\$ 259,098
84.350	TRANSITION TO TEACHING	STATE COLLEGES & UNIVERSITIES	\$ 53,375
84.358	RURAL EDUCATION	EDUCATION	\$ 400,787
84.361	VOLUNTARY PUBLIC SCHOOL CHOICE	EDUCATION	\$ 1,149,767
84.365	ENGLISH LANGUAGE ACQUISITION GRANTS	EDUCATION	\$ 4,772,583
84.366	MATHEMATICS AND SCIENCE PARTNERSHIPS	EDUCATION	\$ 1,901,782
84.367	IMPROVING TEACHER QUALITY STATE GRANTS	EDUCATION	\$ 23,524,127
84.367	IMPROVING TEACHER QUALITY STATE GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 41,682
		Program 84.367 Total:	\$ 23,565,809
84.368	GRANTS FOR ENHANCED ASSESSMENT INSTRUMENTS	EDUCATION	\$ 1,164,014
84.369	GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	EDUCATION	\$ 4,514,735
84.371	STRIVING READERS	EDUCATION	\$ 47,524
84.407	TRANSITION PROG-STUDENTS WITH INTELLECTUAL DISABILITIES	STATE COLLEGES & UNIVERSITIES	\$ 302,474
84.412	RACE TO THE TOP-EARLY LEARNING CHALLENGE	EDUCATION	\$ 63,048
U.S. ELECTION ASSISTANCE COMMISSION			
90.401	HELP AMERICA VOTE ACT REQUIREMENTS PAYMENTS	SECRETARY OF STATE	\$ 156,000

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Head Start Cluster			
93.600	HEAD START	EDUCATION	\$ 114,863
93.708	ARRA-HEAD START	EDUCATION	\$ 409,618
93.708	ARRA-HEAD START	STATE COLLEGES & UNIVERSITIES	\$ 13,599
Head Start Cluster Total:			\$ 538,080
Community Services Block Grant (CSBG) Cluster			
93.569	COMMUNITY SERVICES BLOCK GRANT	HUMAN SERVICES	\$ 7,220,770
Community Services Block Grant (CSBG) Cluster Total:			\$ 7,220,770
Aging Cluster			
93.044	SPEC PROG FOR THE AGING_TITLE III, PART B_GRANTS	HUMAN SERVICES	\$ 5,766,696
93.045	SPEC PROG FOR THE AGING_TITLE III, PART C_NUTRITION SERVICE	HUMAN SERVICES	\$ 8,088,023
93.053	NUTRITION SERVICES INCENTIVE PROGRAM	HUMAN SERVICES	\$ 1,564,112
Aging Cluster Total:			\$ 15,418,831
93.016	POSTAL MODEL FOR MEDICAL COUNTERMEASURES	HEALTH	\$ 166,535
93.041	SPEC PROG FOR THE AGING_TITLE VII, CHAP 3	HUMAN SERVICES	\$ 16,883
93.042	SPEC PROG FOR THE AGING_TITLE VII, CHAP 2_LONG TERM CARE	HUMAN SERVICES	\$ 253,939
93.043	SPEC PROG FOR THE AGING_TITLE III, PART D	HUMAN SERVICES	\$ 304,255
93.048	SPEC PROG FOR THE AGING_TITLE IV_AND TITLE II	HUMAN SERVICES	\$ 1,222,276
93.051	ALZHEIMER'S DISEASE DEMONSTRATION GRANTS TO STATES	HUMAN SERVICES	\$ 658,655
93.052	NATIONAL FAMILY CAREGIVER SUPPORT, TITLE III, PART E	HUMAN SERVICES	\$ 2,123,947
93.069	PUBLIC HEALTH EMERGENCY PREPAREDNESS	HEALTH	\$ 8,987,304
93.070	ENVIRON PUBLIC HEALTH & EMERG RESPONSE	HEALTH	\$ 1,569,317
93.072	LIFESPAN RESPITE CARE PROGRAM	HUMAN SERVICES	\$ 50,984

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
93.090	GUARDIANSHIP ASSISTANCE	HUMAN SERVICES	\$ 289,123
93.092	ACA PERSONAL RESPONSIBILITY EDUCATION	HEALTH	\$ 98,859
93.103	FOOD AND DRUG ADMINISTRATION_RESEARCH	AGRICULTURE	\$ 711,127
93.110	MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROG	HEALTH	\$ 201,199
93.116	PROJECT GRANTS AND COOP AGREEMENTS FOR TUBERCULOSIS	HEALTH	\$ 982,553
93.127	EMERGENCY MEDICAL SERVICES FOR CHILDREN	EMERGENCY MEDICAL SERVICES	\$ 127,529
93.130	COOPERATIVE AGREEMENTS TO STATES/TERRITORIES	HEALTH	\$ 184,175
93.136	INJURY PREVENTION AND CONTROL RESEARCH	HEALTH	\$ 913,146
93.150	PROJECTS FOR ASSISTANCE IN TRANSITION FROM HOMELESSNESS	HUMAN SERVICES	\$ 820,000
93.161	HEALTH PROGRAM FOR TOXIC SUBSTANCES AND DISEASE	HEALTH	\$ 476,545
93.165	GRANTS TO STATES FOR LOAN REPAYMENT PROGRAM	HEALTH	\$ 117,000
93.197	CHILDHOOD LEAD POISONING PREVENTION	HEALTH	\$ 37,196
93.234	TRAUMATIC BRAIN INJURY STATE DEMO GRANT	HUMAN SERVICES	\$ 217,739
93.235	AFFORDABLE CARE ACT (ACA) ABSTINENCE EDUCATION	HEALTH	\$ 68,379
93.236	GRANTS FOR DENTAL PUBLIC HEALTH RESIDENCY TRAINING	HEALTH	\$ 861,243
93.240	STATE CAPACITY BUILDING	HEALTH	\$ 409,433
93.241	STATE RURAL HOSPITAL FLEXIBILITY PROGRAM	HEALTH	\$ 640,353
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	HUMAN SERVICES	\$ 979,694
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	STATE COLLEGES & UNIVERSITIES	\$ 69,928
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	TRIAL COURTS	\$ 97,820
		Program 93.243 Total:	\$ 1,147,442
93.251	UNIVERSAL NEWBORN HEARING SCREENING	HEALTH	\$ 299,858
93.256	STATE HEALTH ACCESS PROGRAM	HUMAN SERVICES	\$ 2,669,171
93.262	OCCUPATIONAL SAFETY & HEALTH GRANTS	HEALTH	\$ 113,379

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
93.270	ADULT VIRAL HEPATITIS PREVENTION, CONTROL	HEALTH	\$ 84,826
93.283	CENTERS FOR DISEASE CONTROL AND PREVENTION_ASSISTANCE	HEALTH	\$ 17,646,595
93.296	STATE PARTNERSHIP TO IMPROVE MINORITY HEALTH	HEALTH	\$ 133,726
93.301	SMALL RURAL HOSPITAL IMPROVEMENT GRANT PROGRAM	HEALTH	\$ 745,396
93.358	ADVANCED NURSING EDUCATION TRAINEESHIPS	STATE COLLEGES & UNIVERSITIES	\$ 109,230
93.395	R&D-CANCER TREATMENT RESEARCH	STATE COLLEGES & UNIVERSITIES	\$ 2,787
93.414	ARRA-STATE PRIMARY CARE OFFICES	HEALTH	\$ 36,190
93.448	FOOD SAFETY AND SECURITY MONITORING PROJECT	AGRICULTURE	\$ 387,832
93.500	PREGNANCY ASSISTANCE FUND PROGRAM	HEALTH	\$ 608,164
93.500	PREGNANCY ASSISTANCE FUND PROGRAM	STATE COLLEGES & UNIVERSITIES	\$ 215,958
		Program 93.500 Total:	\$ 824,122
93.505	ACA MATERNAL, INFANT, EARLY CHILDHOOD HOME VISIT	HEALTH	\$ 562,644
93.507	STRENGTHENING PUBLIC HEALTH INFRASTRUCTURE	HEALTH	\$ 1,605,008
93.509	ACA STATE HEALTH CARE WORKFORCE DEVELOPMENT	EMPLOYMENT & ECONOMIC	\$ 67,544
93.511	ACA GRANTS FOR HEALTH INSURANCE PREMIUM REVIEW	COMMERCE	\$ 5,224
93.518	ACA: MEDICARE IMPROVMTS FOR PATIENTS, PROVIDERS	HUMAN SERVICES	\$ 192,225
93.520	CDC-ACA-COMM PUTTING PREVENTION TO WORK	HEALTH	\$ 52,561
93.521	ACA: BUILDING EPIDEMIOLOGY AND LAB CAPACITY	HEALTH	\$ 1,346,928
93.525	STATE PLANNING, ESTABLISHMT GRANTS FOR ACA EXCHANGES	COMMERCE	\$ 1,455,256
93.531	PPHF 2012: COMMUNITY TRANSFORMATION GRANTS	HEALTH	\$ 222,141
93.536	ACA MEDICAID INCENT FOR PREVENT OF CHRONIC DISEASE	HUMAN SERVICES	\$ 1,190
93.538	ACA-NAT'L ENVIRON HEALTH PUBLIC HEALTH TRACKING	HEALTH	\$ 745,446
93.539	PPHF 2012-CAPACITY BUILDING ASSISTANCE	HEALTH	\$ 356,367
93.544	ACA COORDINATED CHRONIC DISEASE PREVENTION	HEALTH	\$ 210,263

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CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
93.550	TRANSITIONAL LIVING FOR HOMELESS YOUTH	HUMAN SERVICES	\$ 242,866
93.556	PROMOTING SAFE AND STABLE FAMILIES	HUMAN SERVICES	\$ 2,713,494
93.564	CHILD SUPPORT ENFORCEMENT RESEARCH	HUMAN SERVICES	\$ 215,222
93.566	REFUGEE AND ENTRANT ASSISTANCE_STATE PROGRAMS	HUMAN SERVICES	\$ 4,863,914
93.576	REFUGEE AND ENTRANT ASSISTANCE_DISCRETIONARY GRANTS	HEALTH	\$ 128,809
93.576	REFUGEE AND ENTRANT ASSISTANCE_DISCRETIONARY GRANTS	HUMAN SERVICES	\$ 798,463
		Program 93.576 Total:	\$ 927,272
93.584	REFUGEE AND ENTRANT ASSISTANCE_TARGETED ASSISTANCE	HUMAN SERVICES	\$ 1,322,036
93.586	STATE COURT IMPROVEMENT PROGRAM	SUPREME COURT	\$ 720,027
93.590	COMMUNITY-BASED CHILD ABUSE PREVENTION GRANTS	HUMAN SERVICES	\$ 1,346,918
93.597	GRANTS TO STATES FOR ACCESS AND VISITATION PROGRAMS	HUMAN SERVICES	\$ 133,649
93.599	CHAFEE EDUCATION AND TRAINING VOUCHERS	HUMAN SERVICES	\$ 591,866
93.603	ADOPTION INCENTIVE PAYMENTS	HUMAN SERVICES	\$ 539,260
93.617	VOTING ACCESS FOR INDIVIDUALS WITH DISABILITIES	SECRETARY OF STATE	\$ 297,894
93.630	DEVELOPMENTAL DISABILITIES BASIC SUPPORT AND ADVOCACY	ADMINISTRATION	\$ 1,089,979
93.643	CHILDREN'S JUSTICE GRANTS TO STATES	HUMAN SERVICES	\$ 239,371
93.645	STEPHANIE TUBBS JONES CHILD WELFARE SERVICES	HUMAN SERVICES	\$ 4,028,409
93.659	ADOPTION ASSISTANCE	HUMAN SERVICES	\$ 26,280,042
93.669	CHILD ABUSE AND NEGLECT STATE GRANTS	HUMAN SERVICES	\$ 330,944
93.670	CHILD ABUSE AND NEGLECT DISCRETIONARY ACTIVITIES	HEALTH	\$ 122,316
93.671	FAMILY VIOLENCE PREVENTION AND SERVICES	PUBLIC SAFETY	\$ 1,547,657
93.674	CHAFEE FOSTER CARE INDEPENDENCE PROGRAM	HUMAN SERVICES	\$ 1,779,790
93.717	ARRA-PREVENTING HEALTHCARE ASSOC INFECTIONS	HEALTH	\$ 378,003
93.719	ARRA-HEALTH INFORMATION TECHNOLOGY	HEALTH	\$ 475,109

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
93.721	ARRA-HEALTH INFO TECH PROF IN HEALTH CARE	STATE COLLEGES & UNIVERSITIES	\$ 193,827
93.723	ARRA-PREVENTION AND WELLNESS	HEALTH	\$ 1,967,926
93.724	ARRA-PREVENT AND WELLNESS FUNDING OPPORTUNITY	HEALTH	\$ 3,788,740
93.725	ARRA-COMMUNITIES PUTTING PREVENTION TO WORK	HUMAN SERVICES	\$ 348,037
93.729	ARRA-HEALTH INFO TECH AND PUBLIC HEALTH	HEALTH	\$ 840,550
93.768	MEDICAID INFRASTRUCTURE GRANTS	HUMAN SERVICES	\$ 2,395,276
93.779	CENTERS FOR MEDICARE AND MEDICAID SERV (CMS) RESEARCH	HUMAN SERVICES	\$ 974,102
93.791	MONEY FOLLOWS THE PERSON REBALANCING DEMO	HUMAN SERVICES	\$ 721,965
93.859	BIOMEDICAL RESEARCH AND RESEARCH TRAINING	STATE COLLEGES & UNIVERSITIES	\$ 29,454
93.865	CHILD HEALTH AND HUMAN DEVELOPMENT RESEARCH	STATE COLLEGES & UNIVERSITIES	\$ 42,667
93.888	SPECIALLY SELECTED HEALTH PROJECTS	STATE COLLEGES & UNIVERSITIES	\$ 124,537
93.889	NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM	HEALTH	\$ 5,290,985
93.913	GRANTS TO STATES FOR OPERATION OF OFFICES RURAL HEALTH	HEALTH	\$ 184,636
93.917	HIV CARE FORMULA GRANTS	HUMAN SERVICES	\$ 7,578,576
93.938	COOPERATIVE AGREEMENTS TO PREVENT HIV SPREAD	EDUCATION	\$ 469,522
93.940	HIV PREVENTION ACTIVITIES_HEALTH DEPARTMENT BASED	HEALTH	\$ 2,666,733
93.944	HIV/AIDS SURVEILLANCE	HEALTH	\$ 473,763
93.946	COOP AGREEMTS TO SUPPORT SAFE MOTHERHOOD	HEALTH	\$ 204,637
93.958	BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	HUMAN SERVICES	\$ 8,476,512
93.959	BLOCK GRANTS - PREVENTION, TREATMENT OF SUBSTANCE ABUSE	HUMAN SERVICES	\$ 24,810,230
93.969	GERIATRIC EDUCATION CENTERS	STATE COLLEGES & UNIVERSITIES	\$ 25,084
93.970	HEALTH PROFESSIONS RECRUITMENT FOR INDIANS	STATE COLLEGES & UNIVERSITIES	\$ 55,814
93.977	PREVENTIVE HLTH SERVICES_SEXUALLY TRANSMITTED DISEASES	HEALTH	\$ 978,588

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (Continued)			
93.991	PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT	HEALTH	\$ 1,515,900
93.994	MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT	HEALTH	\$ 8,633,170
U.S. CORPORATION FOR NATIONAL & COMMUNITY SERVICE			
94.004	LEARN AND SERVE AMERICA_SCHOOL AND COMMUNITY BASED	EDUCATION	\$ 157,210
94.005	LEARN AND SERVE AMERICA-HIGHER EDUCATION	STATE COLLEGES & UNIVERSITIES	\$ 504
94.007	PROGRAM DEVELOPMENT AND INNOVATION GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 26,016
U.S. SOCIAL SECURITY ADMINISTRATION			
Disability Insurance/SSI Cluster			
96.001	SOCIAL SECURITY_DISABILITY INSURANCE	EMPLOYMENT & ECONOMIC	\$ 25,096,360
Disability Insurance/SSI Cluster Total:			\$ 25,096,360
U.S. DEPARTMENT OF HOMELAND SECURITY			
Homeland Security Cluster			
97.067	HOMELAND SECURITY GRANT PROGRAM	PUBLIC SAFETY	\$ 20,880,603
Homeland Security Cluster Total:			\$ 20,880,603
97.001	PILOT DEMO-INTEROPERABLE EMERGENCY COMMUNICATIONS	PUBLIC SAFETY	\$ 39,603
97.008	NON-PROFIT SECURITY PROGRAM	PUBLIC SAFETY	\$ 12,220
97.012	BOATING SAFETY FINANCIAL ASSISTANCE	NATURAL RESOURCES	\$ 2,448,595
97.023	COMMUNITY ASSISTANCE	NATURAL RESOURCES	\$ 140,912
97.039	HAZARD MITIGATION GRANT	PUBLIC SAFETY	\$ 3,757,267
97.041	NATIONAL DAM SAFETY PROGRAM	NATURAL RESOURCES	\$ 115,778
97.042	EMERGENCY MANAGEMENT PERFORMANCE GRANTS	PUBLIC SAFETY	\$ 4,896,860
97.043	STATE FIRE TRAINING SYSTEMS GRANTS	STATE COLLEGES & UNIVERSITIES	\$ 12,000
97.045	COOPERATING TECHNICAL PARTNERS	NATURAL RESOURCES	\$ 505,282

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES - Unaudited
YEAR ENDED JUNE 30, 2012**

CFDA Number	Federal Program Name	State Agency	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY (Continued)			
97.047	PRE-DISASTER MITIGATION	PUBLIC SAFETY	\$ 897,695
97.052	EMERGENCY OPERATIONS CENTER	PUBLIC SAFETY	\$ 52,891
97.055	INTEROPERABLE EMERGENCY COMMUNICATIONS	PUBLIC SAFETY	\$ 1,360,492
97.056	PORT SECURITY GRANT PROGRAM	PUBLIC SAFETY	\$ 3,740,887
97.075	RAIL AND TRANSIT SECURITY GRANT PROGRAM	PUBLIC SAFETY	\$ 26,124
97.078	BUFFER ZONE PROTECTION PROGRAM (BZPP)	PUBLIC SAFETY	\$ 314,435
97.089	DRIVER'S LICENSE SECURITY GRANT	PUBLIC SAFETY	\$ 1,047,548
97.091	HOMELAND SECURITY BIOWATCH PROGRAM	POLLUTION CONTROL AGENCY	\$ 585,757

Non Major Program Total: \$ 759,258,518

The notes (referenced in parentheses) are an integral part of these statements.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2012

Notes to the Schedule of Expenditures of Federal Awards (Unaudited)

These notes provide disclosures relevant to the Schedule of Expenditures of Federal Awards presented on the preceding pages.

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The reporting policies for fiscal year 2012 conform to the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The required Schedule of Expenditures of Federal Awards is presented for the state's fiscal year ended June 30, 2012. The Schedule of Expenditures of Federal Awards is divided into two sections: major and non-major federal programs.

The auditor uses a risk-based approach as defined in OMB Circular A-133 to determine which federal programs are major programs. Programs expending \$30 million or more in federal awards are Type A programs and are considered major programs. Type B programs are programs expending less than \$30 million in federal awards. If the auditor assesses Type A programs as low-risk, the auditor may replace Type A programs by higher risk Type B programs as major programs.

For purposes of financial reporting, the Catalog of Federal Domestic Assistance (CFDA) number from the 2012 basic edition catalog identifies federal programs. The schedules are presented in numeric CFDA order within each federal agency, except for clusters of programs.

Federal guidelines require separate identification of expenditures of federal awards under the American Recovery and Reinvestment Act (ARRA) on the Schedule of Expenditures of Federal Awards. The prefix "ARRA" was included in the name of the federal program to provide this identification. Federal guidelines also require separate identification of expenditures of federal awards for research and development on the Schedule of Expenditures of Federal Awards. The prefix "R & D" was included in the name of the federal program to provide this identification.

Financial Reporting Entity of the State of Minnesota

The financial reporting entity for the state of Minnesota includes all state departments, agencies, institutions, and organizational units which are controlled by or dependent upon the Minnesota Legislature and/or its constitutional officers. The state, a primary government, has considered for inclusion all potential component units for which it may be financially accountable or other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the report to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be used in determining financial accountability. These criteria include the state's ability to appoint a voting majority of an organization's governing body and either the ability of the state 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.

The federal programs included in the schedule of expenditures of federal awards in this report are part of the state's primary government. The federal programs administered by discretely presented component units are not presented in this report, but in single audit reports issued by these entities.

Minnesota State Colleges and Universities (MnSCU), which is part of the primary government, consists of the following educational institutions:

Alexandria Technical & Community College	Minnesota State University, Moorhead
Anoka-Ramsey Community College	Minnesota West Community & Tech. College
Anoka Technical College	Normandale Community College
Bemidji State University	North Hennepin Community College
Central Lakes College	Northland Community & Technical College
Century College	Northwest Technical College
Dakota County Technical College	Pine Technical College
Fond du Lac Tribal & Community College	Rainy River Community College
Hennepin Technical College	Ridgewater College
Hibbing Community College	Riverland Community College
Inver Hills Community College	Rochester Community & Technical College
Itasca Community College	St. Cloud State University
Lake Superior College	St. Cloud Technical & Community College
Mesabi Range Community and Technical College	Saint Paul College
Metropolitan State University	South Central College
Minneapolis Community & Technical College	Southwest Minnesota State University
Minnesota State College – Southeast Technical	Vermilion Community College
Minnesota State Community & Technical College	Winona State University
Minnesota State University, Mankato	

Basis of Accounting

The state's Comprehensive Annual Financial Report and these supplemental schedules are presented in accordance with generally accepted accounting principles, following the accrual or modified accrual basis of accounting, as appropriate for the fund structure. Most federal activity is accounted for in the Federal Fund (a major governmental fund), but several other non-major special revenue funds (Trunk Highway, Municipal State-Aid Street, County State-Aid Highway, Natural Resources, Game and Fish, and Miscellaneous Special Revenue funds), major proprietary funds (Unemployment Insurance and State Colleges and Universities funds), and the General Fund (a major governmental fund), include federal activity. The Statewide Integrated Financial Tools (SWIFT) system is the primary source of financial information. Some state agencies maintain additional manual records or separate cost accounting systems to provide additional information.

Classification of Statement Information

Expenditures are presented for all federal programs and include amounts sub-granted to other state or local governmental units, nongovernmental organizations, or individuals. Sub-grant expenditures are recognized by the primary state agency sub-granting the funds, not by the state agency receiving a sub-grant from the primary state agency, except for portions of Temporary Aid for Needy Families (TANF) (CFDA 93.558). TANF sub-grants, which are transferred into the Social Services Block Grant (CFDA 93.667) and the Child Care Development Block Grant (CFDA 93.575), are included in those programs and not TANF.

Note 2 – Perkins and Nursing Student Loan Programs

Below is a summary of the loan activity for the Perkins Loans (CFDA 84.038) and Nursing Student Loans (NSL) (CFDA 93.364) programs during fiscal year 2012. These programs are administered by Minnesota State Colleges and Universities (MnSCU).

	Perkins	NSL
Loans Receivable, Beginning	\$ 33,049,788	\$ 9,846
Loan Repayments	(3,917,511)	(431)
Loan Cancellations	(450,179)	(2,910)
New Loans Issued	3,868,099	-
Loans Receivable, Ending	<u>\$ 32,550,197</u>	<u>\$ 6,505</u>
Allowance for doubtful accounts	<u>(2,757,367)</u>	<u>(4,301)</u>
Total Loans Receivable	<u>\$ 29,792,830</u>	<u>\$ 2,204</u>

Note 3 – Federal Direct Student Loan Program

MnSCU financial records provide information on various federal higher education student loan programs for which the state does not manage the federal funds.

Under the Federal Direct Student Loan (FDSL) program (CFDA 84.268), the federal government, rather than a private lender, provides the loan principal to the student. MnSCU distributed the following FDSL loans to students attending state colleges or universities during fiscal year 2012.

Federal Direct Student Loans Issued:	
Direct Federal Subsidized Stafford	\$ 369,170,374
Direct Federal Unsubsidized Stafford	386,950,360
Direct Federal Graduate PLUS	117,978
Direct Federal Parent Loans for Undergraduate Students	<u>15,638,176</u>
Total Federal Direct Student Loans	<u>\$ 771,876,888</u>

Note 4 – Rebates

The Supplemental Food Program for Women, Infants, and Children (WIC) Program (CFDA 10.557), administered through the Minnesota Department of Health, receives cash rebates from infant formula manufacturers. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2012, the state of Minnesota recognized a total rebate of \$25,439,179 on sales of formula to participants in the WIC program.

The Medical Assistance Program (CFDA 93.778), administered through the Minnesota Department of Human Services, receives cash rebates from drug labelers on sales of drugs to participants in the Medical Assistance Program. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2012, the state of Minnesota recognized \$92,897,551 as the federal share of the rebate.

Note 5 – Unemployment Insurance Program

For fiscal year 2012, expenditures for the Unemployment Insurance Program (CFDA 17.225) include federal and state unemployment insurance expenditures as well as federal administrative expenditures. As shown in the following table, some of these expenditures were funded by American Recovery and Reinvestment Act (ARRA) funds:

	<u>Non-ARRA Funds</u>	<u>ARRA Funds</u>	<u>Total</u>
State Unemployment Expenditures	\$ 817,978,456	\$ -	\$ 817,978,456
Federal Unemployment Expenditures	659,221,332	-	659,221,332
Federal Administrative Expenditures	<u>53,719,838</u>	<u>41,630</u>	<u>53,761,468</u>
Total Expenditures	<u>\$ 1,530,919,626</u>	<u>\$ 41,630</u>	<u>\$ 1,530,961,256</u>

The Unemployment Insurance Program serves workers who are unemployed through no fault of their own and are seeking reemployment. To receive benefits, claimants must be able to work, available for work, and actively seeking work. For audits and reporting under OMB Circular A-133, the U.S. Department of Labor requires that both federal and state unemployment insurance funds be considered federal awards for determining Type A (major) federal programs and for reporting expenditures of federal awards.

Note 6 – Water Quality Capitalization Grants

Water quality capitalization grants (CFDA 66.458) are used by states to create revolving funds to provide financing for construction of wastewater treatment facilities and implementation of other water quality management activities. Loans are administered from these funds by the State departments of Employment and Economic Development, Agriculture, and Pollution Control. The state’s loan programs are Tourism Septic Loan (TLP), Agriculture Best Management Practices (AG BMP), and Clean Water Partnership (CWP). A summary of the loan activity for fiscal year 2012 is shown below.

	<u>TLP</u>	<u>AG BMP</u>	<u>CWP</u>
Loans Receivable, Beginning	\$ 43,418	\$ 43,969,270	\$ 20,622,104
Loan Repayments	(6,805)	(5,829,473)	(2,990,214)
New Loans Issued	-	3,919,361	2,953,626
Interest Capitalized	-	-	187,969
Loans Receivable, Ending	<u>\$ 36,613</u>	<u>\$ 42,059,158</u>	<u>\$ 20,773,485</u>

Note 7 - Supplemental Nutrition Assistance Program (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households’ income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 10.95 percent of USDA’s total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

Note 8 – State Fiscal Stabilization Funds

The state received State Fiscal Stabilization Funds (SFSF) under the federal American Recovery and Reinvestment Act (ARRA). This one-time program has two components: the Education Stabilization Fund (CFDA 84.394) and the Government Services Fund (CFDA 84.397). Under the SFSF program, the U.S. Department of Education made awards directly to governors. The Governor of Minnesota then entered into interagency agreements with the University of Minnesota and Minnesota State Colleges and Universities. Minnesota State Colleges and Universities spent \$4,259,787 for CFDA 84.394 program purposes in FY2012.

Note 9 – Education Jobs Fund

The Education Jobs Fund (CFDA 84.410) is authorized under Public Law Number 111-226 and administered under the terms and conditions of Sections 14001 through 14013, and Title XV of Division A of the American Recovery and Reinvestment Act of 2009. The U.S. Department of Education made awards directly to governors. The Governor of Minnesota then entered into an interagency agreement with the Minnesota Department of Education, which spent \$17,825,934 for program purposes.

Note 10 – Airport Improvement Program

Minnesota Department of Transportation (MnDOT) is channeling Airport Improvement Program grants from the Federal Aviation Administration (FAA) to primary airports in accordance with Act 345, P.A. 1945. The FAA determined that MnDOT has no oversight responsibility for these grants to primary airports. The FAA agreed with MnDOT that primary airport expenditures will not be reported in the Schedule of Expenditures of Federal Awards (SEFA) due to primary airports, not MnDOT, having compliance responsibilities. However, other expenditures of the Airport Improvement Program are included in the Schedule of Expenditures of Federal Awards (SEFA) under CFDA 20.106.

Note 11 – CFDA Numbers

For certain programs, the correct CFDA number could not be determined. At times, state agencies receive federal grant funds from a federal agency with a program number instead of a CFDA number. When possible, a CFDA number was obtained for the program. Certain CFDA numbers reported are for programs no longer in operation. These programs had funds carried over from previous years. In other cases, an inexact number was assigned and the state agency was asked to work with the federal granting agency to obtain a valid CFDA number for the grant program.

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012**

Section I:

Summary of Auditor's Results

Financial Statements

Type of independent auditor's report issued: Unqualified

Internal control over financial reporting:

 Material weakness identified? X Yes No

 Significant deficiencies identified
 not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? X Yes No

Schedule of Expenditures of Federal Awards

Internal control over financial reporting:

 Material weakness identified? X Yes No

 Significant deficiencies identified
 not considered to be material weaknesses? Yes X No

Federal Awards

Internal control over major programs:

 Material weakness identified? X Yes No

 Significant deficiencies identified
 not considered to be material weaknesses? X Yes No

Type of auditor's report issued on compliance for major programs: Unqualified for all major programs, except for Temporary Assistance for Needy Families (CFDA 93.558, 93.714) and Medical Assistance (93.778), which were qualified.
Disclaimer of opinion on Schedule of Expenditures of Federal Awards for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X Yes No

Identification of Major Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$30.0 Million

Auditee qualified as low-risk auditee? Yes X No

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012
Section I: (continued)**

Major Programs Audited

<u>Federal Agency and Major Program Name</u>	<u>CFDA#</u>
U. S. Department of Agriculture	
<i>Supplemental Nutrition Assistance Program (SNAP) Cluster</i>	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grant for Supplemental Nutrition Program	10.561
 <i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
 Special Supplemental Nutrition Program for Women, Infants and Children	 10.557
Child and Adult Care Food Program	10.558
 U. S. Department of Defense	
National Guard Military Operations and Maintenance	12.401
 U. S. Department of Labor	
<i>Workforce Investment Act (WIA) Cluster</i>	
WIA-Adult Program	17.258
WIA-Youth Activities	17.259
ARRA - WIA-Youth Activities	17.259
WIA-Dislocated Workers	17.260
ARRA - WIA- Dislocated Workers	17.260
WIA-Dislocated Workers Formula Grants	17.278
 Unemployment Insurance	 17.225
ARRA - Unemployment Insurance	17.225
 U. S. Department of Transportation	
<i>Highway Planning and Construction Cluster</i>	
Highway Planning and Construction	20.205
ARRA - Highway Planning and Construction	20.205
R&D – Highway Planning and Construction	20.205
Recreational Trails Program	20.219
 Airport Improvement Program	 20.106
ARRA - Airport Improvement Program	20.106

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012
Section I: (continued)**

Major Programs Audited

<u>Federal Agency and Major Program Name</u>	<u>CFDA#</u>
U. S. Department of Education	
<i>Special Education Cluster</i>	
Special Education – Grants to States	84.027
Special Education - Preschool Grants	84.173
ARRA - Special Education – Grants to States	84.391
ARRA - Special Education - Preschool Grants	84.392
 <i>Student Financial Assistance Cluster</i>	
Federal Supplemental Education Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loans	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competitiveness Grant	84.375
National Science and Mathematics Access to Retain Talent Grant	84.376
Teacher Education Assistance for College and Higher Ed. Grants (TEACH)	84.379
Nursing Student Loans	93.364
 <i>Title I, Part A Cluster</i>	
Title 1 Grants to Local Education Agencies	84.010
ARRA - Title 1 Grants to Local Education Agencies	84.389
 <i>Vocational Rehabilitation Cluster</i>	
Rehabilitation Services - Vocational Rehabilitation Grants	84.126
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants	84.390
ARRA - Education Jobs Fund	84.410
 U. S. Department of Health & Human Services	
<i>Child Care and Development Fund (CCDF) Cluster</i>	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds	93.596
 <i>Medical Assistance Cluster</i>	
ARRA - Survey and Certification ASC-HAI	93.720
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers	93.777
Medical Assistance Program	93.778
 <i>Temporary Assistance for Needy Families (TANF) Cluster</i>	
Temporary Assistance for Needy Families	93.558
ARRA – Emergency Contingency Fund for TANF	93.714
 <i>Immunization Cluster</i>	
Immunization Grants	93.268
ARRA - Immunization Grants	93.712

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012
Section I: (continued)**

Major Programs Audited

<u>Federal Agency and Major Program Name</u>	<u>CFDA#</u>
U. S. Department of Health & Human Services (continued)	
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Foster Care Title IV-E	93.658
ARRA - Foster Care Title IV-E	93.658
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
U. S. Department of Homeland Security	
Disaster Assistance – Public Assistance	97.036

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012**

Section II:

Financial Statement Audit Findings

On May 17, 2013, we separately issued our *Report on Internal Control Over Statewide Financial Reporting* in accordance with *Government Auditing Standards*. (Office of the Legislative Auditor's Financial Audit Division, Report 13-06). This report may also be accessed electronically at: www.auditor.leg.state.mn.us/fad/pdf/fad1306.pdf. The report also includes responses from the individual agencies cited in the report.

The report contains five findings related to controls over the preparation of the State of Minnesota's financial statements and one finding related to federal cash draws that are required to be reported in accordance with *Government Auditing Standards*. Four of those findings related to federal awards, as explained in the following paragraphs.

Finding 1 related to the State not meeting the statutory requirement to compete its 2012 financial report by December 31, 2012. In addition, we cited that, as of May 1, 2013, the Department of Management and Budget had not finalized its Schedules of Expenditures of Federal Awards and did not meet the fiscal year 2012 Single Audit federal reporting deadline of March 31, 2013. See also Finding 1 in the Department of Management and Budget Federal Compliance Report – (Office of the Legislative Auditor's Financial Audit Division, Report 13-18).

Finding 3 related to errors in the preliminary financial statements and supporting information received from agencies used to prepare the financial statements. One section of this finding related to the Department of Education overstating the Federal Fund education aids accounts payable by \$87 million. Another section of this finding related to the Department of Employment and Economic Development overstating the Unemployment Insurance Fund liability by \$15 million and understating the fund's accounts receivable by \$6.3 million (CFDA 17.225). The Department of Management and Budget corrected the errors, identified as audit adjustments, in the published fiscal year 2012 financial statements. Other undetected and uncorrected errors in the Federal Fund could have an impact on the accuracy of the Schedules of Expenditures of Federal Awards.

Finding 4 related to employees having inappropriate access to the state's business systems or having the ability to perform incompatible duties without mitigating controls. Two sections of this finding related specifically to the Child Support Enforcement Program (CFDA 93.563) and the Medical Assistance Program (CFDA 93.778), administered at the Department of Human Services. A portion of this finding also related to the Department of Education and could impact their administration of federal programs.

Finding 6 related to the state's new accounting system not providing the specific information agencies needed to draw federal reimbursements in compliance with federal requirements. One

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012**

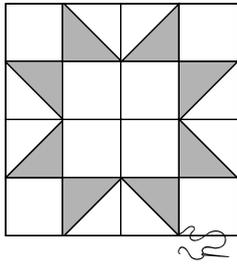
section of this finding related to the Department of Human Services potentially requesting incorrect reimbursement amounts from the federal government. Other agencies delayed their draws until they had better information.

On December 21, 2012, an external public accounting firm for the Minnesota State Colleges and Universities, a part of the primary government of the State of Minnesota, separately issued a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Minnesota State Colleges and Universities' financial statements. Their report contained no findings. Their report may be accessed electronically at:
www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/docs/2012systemwide.pdf

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2012**

**Index of Section III
Federal Program Audit Findings and Questioned Costs**

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(Note 1)

CFDA NO.	PROGRAM NAME	STATE AGENCY	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Agriculture (Note 5)			(Note 2)					
10.551	Supplemental Nutrition Assistance Program (Note 6)	Human Services	13-05	2	M	A,B,E	Insufficient monitoring of resolution of income discrepancies	P
10.551	Supplemental Nutrition Assistance Program (Note 6)	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
10.551	Supplemental Nutrition Assistance Program (Note 6)	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
10.551	Supplemental Nutrition Assistance Program (Note 6)	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
10.551	Supplemental Nutrition Assistance Program (Note 6)	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.553	School Breakfast Program	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
10.553	School Breakfast Program	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
10.553	School Breakfast Program	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
10.553	School Breakfast Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.555	National School Lunch Program	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
10.555	National School Lunch Program	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
10.555	National School Lunch Program	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
10.555	National School Lunch Program	Education	13-14	3	S	C	No identification and monitoring of internal controls ensuring compliance.	P
10.555	National School Lunch Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.556	Special Milk Program for Children	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
10.556	Special Milk Program for Children	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
10.556	Special Milk Program for Children	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
10.556	Special Milk Program for Children	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.557	Special Supp. Nutrition Program for Women, Infants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.558	Child and Adult Care Food Program	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
10.558	Child and Adult Care Food Program	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
10.558	Child and Adult Care Food Program	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
10.558	Child and Adult Care Food Program	Education	13-14	3	S	C	No identification and monitoring of internal controls ensuring compliance	P
10.558	Child and Adult Care Food Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.559	Summer Food Service Program	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
10.559	Summer Food Service Program	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
10.559	Summer Food Service Program	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
10.559	Summer Food Service Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
10.561	Supplemental Nutrition Assistance Administration	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
10.561	Supplemental Nutrition Assistance Administration	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
10.561	Supplemental Nutrition Assistance Administration	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
10.561	Supplemental Nutrition Assistance Administration	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
10.561	Supplemental Nutrition Assistance Administration	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
U.S. Department of Defense								
12.401	National Guard Military Operations and Maintenance	Military Affairs	13-09	1	S	B	Insufficient review of payroll reports	P
12.401	National Guard Military Operations and Maintenance	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P

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CFDA NO.	PROGRAM NAME	STATE AGENCY	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Energy								
81.041	State Energy Program	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$49,808
81.041	ARRA - State Energy Program	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$281,248
81.042	Weatherization for Low-Income Persons	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$42,326
81.042	ARRA - Weatherization for Low-Income Persons	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$131,655
81.128	ARRA - Energy Efficiency and Cons Block Grant	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$18,181
U.S. Department of Labor								
17.225	Unemployment Insurance	Employment and Economic Development	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
17.225	Unemployment Insurance	Employment and Economic Development	13-08	2	S	H	Noncompliance with period of availability requirements	\$213,660
17.225	Unemployment Insurance	Employment and Economic Development	13-08	3	S	B	Insufficient controls to ensure accurate indirect cost charges	\$77,088
17.225	Unemployment Insurance	Employment and Economic Development	13-08	4	S	B	Overpayment of extended benefits to four unemployment recipients	\$24,500
17.225	Unemployment Insurance	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
17.225	Unemployment Insurance	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.225	ARRA - Unemployment Insurance	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.258	Workforce Investment Act-Adult	Employment and Economic Development	13-08	1	S	B	Insufficient monitoring of federal program expenditures	P
17.258	Workforce Investment Act-Adult	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
17.258	Workforce Investment Act-Adult	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.259	Workforce Investment Act-Youth	Employment and Economic Development	13-08	1	S	B	Insufficient monitoring of federal program expenditures	P
17.259	Workforce Investment Act-Youth	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
17.259	Workforce Investment Act-Youth	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.259	ARRA - Workforce Investment Act-Youth	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.260	Workforce Investment Act-Dislocated Workers	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.260	ARRA-Workforce Investment Act-Dislocated Workers	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
17.278	WIA - Dislocated Worker Formula Grants	Employment and Economic Development	13-08	1	S	B	Insufficient monitoring of federal program expenditures	P
17.278	WIA - Dislocated Worker Formula Grants	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
17.278	WIA - Dislocated Worker Formula Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
U.S. Department of Transportation								
(Note 3)								
20.106	Airport Improvement Program	Transportation	13-17	1	S	M	Noncompliance with subrecipient monitoring and notification requirements	P
20.106	Airport Improvement Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
20.106	ARRA - Airport Improvement Program	Transportation	13-17	1	S	M	Noncompliance with subrecipient monitoring and notification requirements	P
20.106	ARRA - Airport Improvement Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P

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U.S. Department of Transportation (continued)			(Note 3)					
20.205	Highway Planning and Construction	Transportation	13-17	1	S	M	Noncompliance with subrecipient monitoring and notification requirements	P
20.205	Highway Planning and Construction	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
20.205	ARRA - Highway Planning and Construction	Transportation	13-17	1	S	M	Noncompliance with subrecipient monitoring and notification requirements	P
20.205	ARRA - Highway Planning and Construction	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
20.205	R&D -- Highway Planning and Construction	Transportation	13-17	1	S	M	Noncompliance with subrecipient monitoring and notification requirements	P
20.205	R&D -- Highway Planning and Construction	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
20.205	Highway Planning and Construction	Transportation	DOT-13	II	S	B	Contract change costs coded incorrectly	P
20.219	Recreational Trails Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
U.S. Department of Education			(Note 4)					
84.007	Federal Supplemental Educational Opportunity Grants	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.007	Federal Supplemental Educational Opportunity Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.010	Title I - Grant to Local Education Agencies	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.010	Title I - Grant to Local Education Agencies	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
84.010	Title I - Grant to Local Education Agencies	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.010	Title I - Grant to Local Education Agencies	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.027	Special Education - State Grants	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.027	Special Education - State Grants	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
84.027	Special Education - State Grants	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.027	Special Education - State Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.033	Federal Work Study Program	Minnesota State Colleges and Universities	CLA-12	1	S	N	One college did not report a reading tutor in the FISAP	P
84.033	Federal Work Study Program	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.033	Federal Work Study Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.038	Federal Perkins Loans	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.038	Federal Perkins Loans	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.063	Federal Pell Grant Program	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.063	Federal Pell Grant Program	Minnesota State Colleges and Universities	CLA-12	3	S	N	One college did not properly report the disbursement date for a PELL grant award	P
84.063	Federal Pell Grant Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.126	Vocational Rehabilitation	Employment and Economic Development	13-08	5	S	B	Insufficient controls over monitoring and reporting financial activity	P
84.126	Vocational Rehabilitation	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
84.126	Vocational Rehabilitation	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.173	Special Education - Preschool Grants	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.173	Special Education - Preschool Grants	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
84.173	Special Education - Preschool Grants	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.173	Special Education - Preschool Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P

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U.S. Department of Education (continued)			(Note 4)					
84.268	Federal Direct Student Loans	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.268	Federal Direct Student Loans	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.367	Improving Teacher Quality State Grants	Education	13-14	1	S		No documented internal control structure ensuring compliance	P
84.375	Academic Competitiveness Grants	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.375	Academic Competitiveness Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.376	National Science and Mathematics Talent Grants	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.376	National Science and Mathematics Talent Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.379	Teacher Education Assistance for College and Higher Edt	Minnesota State Colleges and Universities	CLA-12	2	S	N	One college did not report changes in governance timely	P
84.379	Teacher Education Assistance for College and Higher Edt	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.389	ARRA - Title I - Grant to Local Education Agencies	Education (Note 5)	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.389	ARRA - Title I - Grant to Local Education Agencies	Education (Note 5)	13-14	1	S		No documented internal control structure ensuring compliance,	P
84.389	ARRA - Title I - Grant to Local Education Agencies	Education (Note 5)	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.389	ARRA - Title I - Grant to Local Education Agencies	Management and Budget (Note 5)	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.390	ARRA - Vocational Rehabilitation	Employment and Economic Development	13-08	5	S	B	Insufficient controls over monitoring and reporting financial activity	P
84.390	ARRA - Vocational Rehabilitation	Employment and Economic Development	13-08	6	S	F	Insufficient monitoring of equipment purchased with federal funds	P
84.390	ARRA - Vocational Rehabilitation	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.391	ARRA - Special Education - Grants to States	Education (Note 5)	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.391	ARRA - Special Education - Grants to States	Education (Note 5)	13-14	1	S		No documented internal control structure ensuring compliance,	P
84.391	ARRA - Special Education - Grants to States	Education (Note 5)	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.391	ARRA - Special Education - Grants to States	Management and Budget (Note 5)	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.392	ARRA - Special Education - Preschool Grants	Education (Note 5)	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.392	ARRA - Special Education - Preschool Grants	Education (Note 5)	13-14	1	S		No documented internal control structure ensuring compliance,	P
84.392	ARRA - Special Education - Preschool Grants	Education (Note 5)	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.392	ARRA - Special Education - Preschool Grants	Management and Budget (Note 5)	13-18	1	M		Noncompliance with single audit reporting requirements	P
84.410	ARRA - Education Jobs	Education	13-06	3	S		Inaccurate reporting of Federal education aids accounts payable and Unemployment Fund liability	P
84.410	ARRA - Education Jobs	Education	13-14	1	S		No documented internal control structure ensuring compliance,	P
84.410	ARRA - Education Jobs	Education	13-14	2	S	B	Noncompliance with review and monitoring of payroll reports	P
84.410	ARRA - Education Jobs	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.364	Nursing Student Loans	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
U.S. Department of Health & Human Services								
93.268	Immunization Grants	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.525	State Plan and Establish Grants for ACA Exchange	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$172,417

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U.S. Department of Health & Human Services (continued)								
93.558	Temporary Assistance for Needy Families	Health	12-24	1	M	A,B,M	Noncompliance with grant agreement using funds for unallowable costs	\$260,094
93.558	Temporary Assistance for Needy Families	Health	12-24	2	M	A,B,M	Insufficient monitoring of recipient's use of grant funds	P
93.558	Temporary Assistance for Needy Families	Human Services	13-05	2	M	A,B,E	Insufficient monitoring of resolution of income discrepancies	P
93.558	Temporary Assistance for Needy Families	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.558	Temporary Assistance for Needy Families	Human Services	13-15	1	M	A,B,E	No documented internal control structure ensuring accurate eligibility determinations	P
93.558	Temporary Assistance for Needy Families	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
93.558	Temporary Assistance for Needy Families	Human Services	13-15	5	S	N	Department did not follow federal requirements for reducing cash assistance for noncooperation	P
93.558	Temporary Assistance for Needy Families	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
93.558	Temporary Assistance for Needy Families	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.558	Temporary Assistance for Needy Families	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.563	Child Support Enforcement	Human Services	13-06	4	S		Insufficient controls to ensure appropriate access to state business systems	P
93.563	Child Support Enforcement	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.563	Child Support Enforcement	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
93.563	Child Support Enforcement	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.563	Child Support Enforcement	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.568	Low-Income Home Energy Assistance	Commerce	13-07	1	S	B	Noncompliance in developing and monitoring indirect cost plans.	\$240,914
93.568	Low-Income Home Energy Assistance	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.575	Child Care and Development Block Grant	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.575	Child Care and Development Block Grant	Human Services	13-15	1	M	A,B,E	No documented internal control structure ensuring accurate eligibility determinations	P
93.575	Child Care and Development Block Grant	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P
93.575	Child Care and Development Block Grant	Human Services	13-15	3	S	N	No monitoring of counties' efforts to detect fraudulent child care payments	P
93.575	Child Care and Development Block Grant	Human Services	13-15	6	S	L	Did not submit accurate federal financial reports	P
93.575	Child Care and Development Block Grant	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
93.575	Child Care and Development Block Grant	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.575	Child Care and Development Block Grant	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	1	M	A,B,E	No documented internal control structure ensuring accurate eligibility determinations	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	3	S	N	No monitoring of counties' efforts to detect fraudulent child care payments	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	6	S	L	Did not submit accurate federal financial reports	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
93.596	Child Care Mandatory and Matching Fund	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.596	Child Care Mandatory and Matching Fund	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.658	Foster Care - Title IV-E	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.658	Foster Care - Title IV-E	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
93.658	Foster Care - Title IV-E	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
93.658	Foster Care - Title IV-E	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.658	Foster Care - Title IV-E	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.658	ARRA-Foster Care - Title IV-E	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P

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U.S. Department of Health & Human Services (continued)								
93.659	Adoption Assistance	Human Services	13-15	2	M		No documented internal control structure ensuring compliance,	P
93.667	Social Services Block Grant	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.667	Social Services Block Grant	Human Services	13-15	7	S	B	Insufficient review of a key payroll report	P
93.667	Social Services Block Grant	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.667	Social Services Block Grant	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.712	ARRA-Immunization	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	13-15	1	M	A,B,E	No documented internal control structure ensuring accurate eligibility determinations	P
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	13-15	5	S		Department did not follow federal requirements for reducing cash assistance for noncooperation	P
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.714	ARRA-Emergency Contingency Fund for TANF	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.720	ARRA-Survey and Certification	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.767	Children's Health Insurance Program	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.767	Children's Health Insurance Program	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P
93.767	Children's Health Insurance Program	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.767	Children's Health Insurance Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.775	State Medical Fraud Control Units	Attorney General	13-15	2	M		No documented internal control structure ensuring compliance	P
93.775	State Medical Fraud Control Units	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.777	State Health Care Providers Survey	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.777	State Health Care Providers Survey	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P
93.777	State Health Care Providers Survey	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.777	State Health Care Providers Survey	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.778	Medical Assistance Program	Human Services	13-05	1	M	A,B,E	Noncompliance with federal eligibility requirements	P
93.778	Medical Assistance Program	Human Services	13-05	2	M	A,B,E	Insufficient monitoring of resolution of income discrepancies	P
93.778	Medical Assistance Program	Human Services	13-06	4	S		Insufficient controls to ensure appropriate access to state business systems	P
93.778	Medical Assistance Program	Human Services	13-06	6	S	C	Incomplete system information for agencies to draw timely and accurate federal reimbursements	P
93.778	Medical Assistance Program	Human Services	13-15	1	M	A,B,E	No documented internal control structure ensuring accurate eligibility determinations	P
93.778	Medical Assistance Program	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P
93.778	Medical Assistance Program	Human Services	13-15	8	S	M	Insufficient notification of federal award information to subrecipients	P
93.778	Medical Assistance Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P
93.959	Block Grants for Substance Abuse	Human Services	13-15	2	M		No documented internal control structure ensuring compliance	P

MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
STATEWIDE SINGLE AUDIT
SECTION III
SCHEDULE OF FEDERAL PROGRAM AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2012

(Note 1)

CFDA NO.	PROGRAM NAME	STATE AGENCY	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Homeland Security								
97.036	Disaster Grants - Public Assistance Program	Public Safety	13-11	1	S	M	Insufficient notification of federal award information to subrecipients	P
97.036	Disaster Grants - Public Assistance Program	Management and Budget	13-18	1	M		Noncompliance with single audit reporting requirements	P

Notes:

(Note 1) - This summary schedule highlights federal program audit findings presented in the Minnesota Office of the Legislative Auditor's federal compliance reports to the applicable state agencies. These reports may be accessed at www.auditor.leg.state.mn.us.

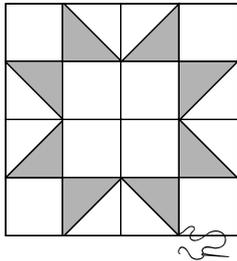
(Note 2) - The "RPT NO" column shows the report numbers in the format 0X-XX, and identifies individual agency reports; and the "FIND NO" are finding numbers within those reports. The finding identifies whether the internal control (INT CONT) is a Material (M) weakness or a Significant (S) deficiency and/or compliance (COMP REQ) requirement addressed (A-N). The financial impact of a finding is shown as procedural (P), non-quantifiable (NQ) or as a questioned cost.

(Note 3) - The Minnesota Department of Transportation (DOT) Office of Audit audited the department's federal programs. The "RPT NO" for DOT federal program findings are reported in DOT 13-800-79, and the "FIND NO" are finding numbers within DOT's report. A complete copy of the DOT Office of Audit Report is available at: <http://www.dot.state.mn.us/const/tools/references.html>

(Note 4) - CliftonLarson Allen, LLP (CLA) audited the Minnesota State Colleges and Universities financial statements and the federal financial aid cluster. The "RPT NO" for CliftonLarson Allen federal program findings are reported in CLA-12; and the "FIND NO" are finding numbers within CliftonLarson Allen's report.

(Note 5) - Programs funded by the American Recovery and Reinvestment Act include "ARRA" in the Program Name. The Department of Management and Budget did not report FY2012 federal expenditures for certain ARRA programs at the Department of Education [Title I (84.389), Special Education-Grants (84.391), and Special Education-Preschool (84.392)], while the Office of the Legislative Auditor included the programs for any findings in their Federal Compliance Reports. Therefore, the findings are included on this Schedule of Federal Program Audit Findings, even though the funding for these programs is discontinued in future years.

(Note 6) - Beginning in fiscal year 2010, the regular appropriated and American Recovery and Reinvestment Act benefits funded under the Supplemental Nutrition Assistance Program (SNAP) (CFDA 10.551) are no longer separately reported per federal requirements. Therefore, current audit findings for this program, regardless of funding source, are being reported under CFDA 10.551, Supplemental Nutrition Assistance Program.



**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)**

Report 12-24

State Agency: Minnesota Department of Health

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needed Families

Questioned Costs: \$260,094

Federal Project Nos./Award Year: Fiscal Year 2011 and 2012 Grant

Finding 12-24-1 *Noncompliance with grant agreement using funds for unallowable costs.*

- Evidence indicates that the executive director of the Sierra Young Family Institute used a significant amount of grant money for personal expenses and fabricated documents submitted to the Department of Health to conceal the nature of those expenses.**

Background:

During fiscal years 2011 through 2012, the Department of Health paid Sierra Young Family Institute \$328,993 from federal and state funds, as shown in Table 1.

**Table 1
Department of Health
Payments to Sierra Young Family Institute
July 1, 2010, through June 30, 2012**

<u>Source of Funding</u>	<u>Fiscal Years</u>		<u>Total</u>
	<u>2011</u>	<u>2012</u>	
Federal ¹	\$175,000	\$ 85,094	\$260,094
State ²	30,000	38,899	\$68,899
Total	<u>\$205,000</u>	<u>\$123,993</u>	<u>\$328,993</u>

¹ The source of the federal funding was from the Temporary Assistance for Needy Families Program (Catalog of Federal Domestic Assistance number 93.558). The federal government allows the state to use these moneys to target certain high-risk populations, such as adolescents and adolescent parents.

² The department granted money from the state's General Fund as part of its appropriation for its Eliminating Health Disparities Initiative, established in *Minnesota Statutes* 2011, 145.928.

Source: State of Minnesota's accounting records.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

As stated in the department's grant agreement, Sierra Young Family Institute was to:

“ (1) Work towards closing the gap in the health status of African Americans/Africans in Minnesota compared with whites in the following priority health areas: teen pregnancy prevention; and (2) Mobilize and organize its own community's resources in effective and creative ways to: implement effective activities that reduce racial/ethnic disparities; promote the health and quality of life of individuals and communities; build own community's strengths and assets to address health issues; build and strengthen partnerships and working relationships among community members, faith-based organizations, culturally-based organizations, social service organizations, community nonprofit organizations, tribal governments, community health boards, community clinics and other health care providers, the Minnesota Department of Health, and other state agencies; support culturally-relevant activities; and focus on prevention and early detection.”

The executive director of Sierra Young Family Institute told us the organization accomplished the grant's objectives by conducting a series of training sessions for groups of at-risk minority youth. The executive director also told us that she focused the training sessions on helping participants to make better life choices, overcome daunting life challenges, and obtain a sense of power over their lives. Generally, the department reimbursed the organization monthly based on the executive director's claim of costs incurred.

Finding and Recommendation:

Approximately 87 percent of the money deposited into Sierra Young Family Institute's bank account from July 2010 through July 2012 came from the Department of Health grant. We analyzed how the organization used this money by reviewing its monthly bank statements and cancelled checks. The executive director told us that all activity in this account was grant-related. Based on our analysis, Table 2 (on the next page) categorizes the organization's expenses.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Table 2
Sierra Young Family Institute
Expenses by Category
July 1, 2010, through July 30, 2012

<u>Category</u>	<u>Fiscal Years</u>		<u>Total</u>
	<u>2011</u>	<u>2012</u>	
Executive Director's Family/Other Individuals	\$58,710	\$47,213	\$105,923
Mortgage/Rent	15,795	27,593	43,388
Retail Stores	17,617	20,316	37,933
Loan Repayments	13,497	3,065	16,562
Checks to Executive Director	10,400	11,920	22,320
Contractual Payments	10,050	12,689	22,739
Telephone	8,187	9,532	17,719
ATM/Other Withdrawals	7,828	8,962	16,790
Auto Financing	7,932	8,310	16,242
Legal Expenses	7,374	7,279	14,653
Insurance	6,664	7,748	14,412
Iowa State University	6,167	0	6,167
Auto-Related Expense	4,883	934	5,817
Utilities	2,774	2,896	5,670
Dental Services	2,201	2,349	4,550
Food/Restaurants	2,200	4,852	7,052
Miscellaneous ¹	2,979	9,435	12,414
Gasoline	1,261	1,377	2,638
Hotels	535	1,730	2,265
Bank and Other Fees/Credit Card Payments	208	899	1,107
Total	\$187,262	\$189,099	\$376,361

¹Miscellaneous includes transfers to other accounts, data entry services, mail/shipping services, parking, printing, impound lot, monthly identity protection fee, license bureau, Cpap.com, and a pawn shop transaction.

Source: Sierra Young Family Institute's subpoenaed bank account statements and cancelled checks.

The executive director did not provide us with documentation to substantiate which, if any, of these costs were reasonable and necessary to achieve the purposes of the grant. Many of the transactions appeared to be for personal expenses, including the following examples:

- **Payments of \$95,810 to family members.** The executive director stated that several family members provided grant-related services to the organization under contract. However, there was no evidence to support hours worked or services provided. The Department of Health requires prior approval of any subcontracts the organization enters into. The department could find no evidence in its files that the department had approved contracts for the executive director's family members. In addition, the executive director could not provide us with evidence to support payments made from grant money to the executive director's husband. She acknowledged that he did not provide "direct services" related to the grant but asserted that he provided transportation to training locations.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

- **Rent payments for son's apartment.** The executive director stated that these payments, made directly to the management company, totaling \$6,050, were payments for services the son provided to the organization, but she could not provide documentation to support the claim.
- **Payments to high-end retailers.** The executive director could not substantiate a grant-related purpose for payments to certain retailers, including the following: \$731 to Handbags by Miche; \$247 to 7 For All Mankind, a designer jeans retailer; and \$323 to Dillard's, a department store.
- **Repayment of loans.** The executive director noted on checks totaling \$16,562 that the payments were to repay a loan. The executive director told us that the payments were to reimburse an individual who had purchased supplies and curriculum on behalf of organization. The executive director did not provide us with any documentation to support this explanation.
- **Checks made out to the executive director.** The executive director could not adequately explain the basis for \$22,320 in checks she made payable to herself.
- **ATM and Other Withdrawals.** The executive director stated that some of the group trainers did not have bank accounts, so she withdrew cash from the bank account and paid them in cash; these withdrawals totaled \$16,790. Although she asserted that she obtained receipts from the individuals to support the cash payments, she did not provide us with any documentation to support this claim.
- **Payment to Cpap.com.** We could not find a grant-related purpose for \$713 in expenditures to a vendor that provides supplies and equipment predominately for sleep apnea.
- **Payment to Saint Paul impound lot.** We could not find a grant-related purpose for this \$273 expenditure.
- **Payment to a pawn shop.** We could not find a grant-related purpose for this \$420 expenditure.
- **Payment to a license bureau.** We could not find a grant-related purpose for this \$208 expenditure.

In addition, we could not find evidence that contractors hired to provide program services actually performed those services. We were also unable to identify individuals that were served by or benefited from the program.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Finally, some of the documentation Sierra Young Family Institute submitted to the department was fabricated. The credit union confirmed to us that a July 2010 bank statement the organization provided to the department in September 2010 did not correspond to an account at the credit union. The credit union also confirmed to us that the format of the statement was not consistent with its statements.

Knowing that the bank statement had been fabricated and because of other concerns identified by the Department of Health, we were skeptical about the integrity of any documentation Sierra Young Family Institute provided to the department. As a result, we looked more closely at the documentation the organization provided as part of the department's grant oversight review and noted certain inconsistencies. For example, payroll reports for two different payroll periods identified the same paycheck numbers. In addition, the documentation for online orders, totaling \$7,126.89, from two different companies appeared to use the same fonts and formats. An invoice from a management company for leased space identified the company's address as an apartment building. These inconsistencies may be indications of additional fabrication of documentation the organization provided to the department.

Recommendation

- *The Department of Health should work with the appropriate authorities to recover from the Sierra Young Family Institute grant money used for costs that it cannot show were reasonable and necessary to accomplish the purposes of the grant.*

Minnesota Department of Health Response:

The department agrees with the finding and recommendation. We notified the Bureau of Criminal Apprehension and the U.S. Department of Health and Human Services about this situation several months ago and continue to cooperate with them on this case. The implementation of this recommendation could take some time depending on the course of legal action other authorities choose to take. We will use every means at our disposal to attempt to recover funds from Sierra Young Family Institute.

Persons Responsible:

Dave Orren, Chief Legal Counsel
Abigail Read, Chief Financial Officer
Jose Gonzalez, Director of the Office of Minority and Multicultural Health

Expected Completion Date:

On Going

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 12-24

State Agency: Minnesota Department of Health

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needed Families

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: Fiscal Year 2011 and 2012 Grant

Finding 12-24-2 *Insufficient monitoring of recipient's use of grant funds*

2. The Department of Health did not effectively monitor Sierra Young Family Institute's use of grant funds or its program accomplishments.

The Department of Health missed opportunities to question the integrity of claims Sierra Young Family Institute submitted for reimbursement and to verify whether the organization was performing the services mandated in the grant agreement. The department did not effectively use information it obtained through a financial reconciliation of one reimbursement request and a site visit, both of which are grant monitoring procedures required by state policy.¹

Financial Reconciliation. In September 2010, the department performed a financial reconciliation to ensure that Sierra Young Family Institute had sufficient, acceptable documentation to support that the costs claimed for reimbursement were allowable to achieve the purposes of the grant. The department requested the organization provide documentation to support its July 2010 reimbursement request for \$26,815. The executive director provided an overall recap of each expense category on the reimbursement request, a bank statement, payroll reports, and invoices to support the transactions described on the recap and shown on the bank statement.

The Department of Health employee who performed the reconciliation did not have sufficient financial or audit skills, knowledge, and experience to assess whether the organization's documentation adequately supported the costs claimed and whether these costs were allowable to accomplish the purposes of the grant. As a result, the employee did not identify the following inconsistencies and inaccuracies in the information the organization provided:

¹ Department of Administration, Office of Grants Management Policy 08-10.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

- The payroll payment dates shown on the bank statement (July 12, 2010, and July 28, 2010) did not correspond to the time periods of the supporting payroll reports (July 5 through July 17, 2010, and July 18 through July 31, 2010).
- The payroll reports were heavily redacted (eliminating payroll information for 17 of the 22 employees on each report). The payroll report totals agreed with the bank statement, however, the totals of the unredacted portions of the reports did not agree with the reimbursement request, differing by \$1,450.80. In addition, there was nothing to adequately support claimed fringe benefits of \$2,718.
- Two receipts, one for \$310.05 and the other for \$476.45, were not sufficiently legible to determine what was purchased and determine whether the costs were reasonable and necessary to accomplish the program's objectives. In addition, the date on the \$310.05 receipt was six days later than the transaction recorded on the bank statement.
- The organization did not explain how \$111.75 for other types of program expenses were allowable to accomplish the program's objectives. In addition, these costs appeared to not be eligible for reimbursement because they occurred before the start of the grant period.
- Other than an invoice for \$1,000 to support a reimbursement request for accounting services, there was no explanation of the type of services or when they were provided.
- The invoice supporting the \$356.25 rental space costs did not state where the rental space was located or how the organization used the space to accomplish the purposes of the grant.

The employee performing the financial reconciliation did make note of some items and requested additional documentation; however, when the additional documentation did not resolve the issues, we saw no evidence that the employee escalated the issues to management or reported the deficiencies.

Site Visit. Another opportunity to assess Sierra Young Family Institute's compliance with the grant occurred in 2012 when department staff met with the executive director for a site visit. In addition to an opportunity to assess the organization's financial management capabilities, a site visit is intended to provide the department with information about the quality and extent of services the organization is providing to meet the objectives of the grant, as required by state policy. The site visit had the following deficiencies:

- The site visit did not take place at Sierra Young Family Institute's office. As a result, the department staff was unable to interact with other Sierra Young Family Institute staff, review financial or program files, examine documentation supporting outcomes, or assess

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

the sufficiency of the organization's management and administrative structure, tools, and resources to achieve the grant's objectives.

- The employees performing the site visit noted "the organization appears to have limited staff capacity" and questioned Sierra Young Family Institute's ability to effectively serve the high numbers of program participants cited by the executive director. The department recommended that the organization contract with experienced professionals to assist in program delivery and HIV/AIDS testing; however, the file had no evidence to show the employees reported these concerns to higher management in the department.

If the financial reconciliation and the site visit had been effective, the department could have intensified its oversight by performing additional and more rigorous financial reconciliations and site visits; withholding future reimbursements; or, if necessary, terminating the grant. Instead, the department extended the grant period twice, first from June 30, 2011, to September 30, 2011, and later to June 30, 2012, and increased the grant amount from \$205,000 to \$374,899, before realizing the seriousness of Sierra Young Family Institute's deficiencies.²

Recommendations

- *The Department of Health should strengthen its policies and procedures so that grant recipients' site visits and financial reconciliations are effective to ensure that uses of grant money are reasonable and necessary to achieve the purposes of the grants.*
- *The Department of Health should ensure that employees who perform financial reconciliations and site visits have sufficient skills, knowledge, and experience to determine whether the information provided by grant recipients supported that the costs were reasonable and necessary to accomplish the purposes of the grants.*

Minnesota Department of Health Response:

Recommendation #1:

The department accepts this finding and agrees with the recommendation. The department did conduct a financial reconciliation and site visit for this grant as required by Office of Grants Management policy 08-10. The department will take what it has learned from this experience and will enhance the policies and procedures already in place to make monitoring more effective.

² The department did not fully disburse the grant; as shown in Table 1, the department's payments to Sierra Young Family Institute totaled \$328,993.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Persons Responsible: Alyssa Haugen, Grants Management Coordinator
Amy Jorgenson, Director of Internal Audit

Expected Completion Date: June 30, 2013

Recommendation #2:

The department agrees with this recommendation and will conduct training sessions for our grant managers to ensure they are consistently trained and learn how and to whom to report any concerns.

Persons Responsible: Alyssa Haugen, Grants Management Coordinator
Amy Jorgenson, Director of Internal Audit

Expected Completion Date: June 30, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-05

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.778 Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-05-1 *Noncompliance with federal eligibility requirements*

1. The Department of Human Services did not comply with federal and state requirements to verify the social security numbers and income reported by participants of MinnesotaCare.

The department did not verify social security numbers or income reported by participants of the MinnesotaCare program. The federal government requires the state to have a data exchange process that cross-checks social security numbers and income for recipients of federal programs.³ In addition, state statute requires the department to use electronic file matches as the “primary method” to verify income reported by MinnesotaCare participants.⁴ The department did not include MinnesotaCare participants in the file matches it performed for other cash, food, and medical benefit programs because it could not easily integrate MinnesotaCare data, recorded on one computer system, with the information for those programs, recorded on another computer system.

Although department management has known since at least 2003 that it was not in compliance with the federal or state file match requirements for MinnesotaCare participants, it did not develop a way to effectively validate reported social security numbers and income to other government data, such as from the Internal Revenue Service, Social Security Administration, and the Department of Employment and Economic Development. Department management had believed HealthMatch would fix the problem; the department has not determined how it will comply with the file matching requirements in the state’s proposed health insurance exchange, designed in accordance with the Affordable Care Act.

³ Social Security Act, section 1137; 42 CFR sections 435.948 and 435.953.

⁴ *Minnesota Statutes* 2012, 256L.05, subd. 2.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

During fiscal year 2012, the state paid about \$526 million for medical benefits on behalf of about 129,000 participants in the MinnesotaCare program; the federal government funded about 44 percent of the costs, or \$234 million.

Recommendation

- *The department should verify social security numbers and income reported by MinnesotaCare participants to other government data.*

Minnesota Department of Human Services Response:

The department agrees with the finding and recommendation. The department will work to develop the needed IT capacity and related policies and procedures in this area.

Person Responsible: Karen Gibson, Director of Health Care Eligibility and Access

Expected Completion Date: January 1, 2014

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-05

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
93.558	Temporary Assistance for Needy Families (TANF)
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-05-2 *Insufficient monitoring of resolution of income discrepancies*

2. The Department of Human Services did not effectively monitor resolution of social security number and income discrepancies for several public assistance programs.

The department did not effectively monitor how county social service workers resolved discrepancies identified by electronic file matches of social security numbers and reported income amounts to other government data for participants of Medical Assistance, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance programs.⁵ The number of discrepancies between information reported by program participants and data recorded in federal and state databases rose from about 165,000 in fiscal year 2010 to nearly 240,000 in fiscal year 2012. Although reports indicated that the department complied with federal requirements to resolve at least 80 percent of the discrepancies within 45 days, the department had not monitored whether the file matching process was effective to ensure that participants were eligible for the benefits they received.

Following are some deficiencies in the file matching and discrepancy resolution process:

- The department did not assess how effective the file matching process was in identifying valid discrepancies that resulted in changes to benefits. Other than tracking that the discrepancy was resolved, to show that it had satisfied the federal requirement, it did not measure the number of discrepancies found to be invalid (resulting in no change to the benefits provided) or the number of valid discrepancies that resulted in benefit changes.

⁵ Code of Federal Domestic Assistance numbers for these programs are 93.778, 93.558, and 10.551, respectively.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

- The department did not monitor whether county social service workers took appropriate action to determine the validity of the discrepancy and to adjust, as necessary, a participant's eligibility. For example, the department did not use resolution data to identify county social service workers who had higher than normal rates of invalid discrepancies, perhaps indicating a lack of effort to appropriately resolve the discrepancy and resulting in a continuation of benefits to ineligible recipients.
- Also, for the Medical Assistance program, the department did not effectively quantify the benefit overpayments identified by valid file matching discrepancies. Although the department required county social service workers to report Medical Assistance overpayments identified as a result of the file matching process, the department did not know whether this information was complete or accurate. The department did not use the information to monitor if county social service workers assessed whether valid discrepancies were attempts by program participants to fraudulently obtain benefits.
- The department had not adjusted criteria used in the file matching process since 2005.⁶ For example, the criteria for an income discrepancy could be defined as a difference exceeding \$5,000 between the income reported by the participant and the income recorded to the Internal Revenue Service. If the criteria are set too low, too many invalid discrepancies will need to be reviewed by county social service workers, taking time away from other work. If the criteria are set too high, benefits provided to ineligible participants would not be detected.

Recommendation

- *The department should assess the effectiveness of the electronic file matching process and county social service workers' resolution of discrepancies to verify the eligibility of public assistance and medical program participants.*

Minnesota Department of Human Services Response:

The department agrees with the finding and recommendation. We will evaluate the income eligibility verification process and procedures, including thresholds used for identifying discrepancies, and make the necessary adjustments. Additionally, we will work to identify and implement controls that provide proper oversight on the county's efforts to resolve identified income discrepancies.

Persons Responsible: Erin Sullivan-Sutton, Assistant Commissioner for Children and Family Services
Scott Leitz, Assistant Commissioner for Health Care Administration

Expected Completion Date: September 30, 2013

⁶ With federal approval, 42 Code of Federal Regulations, section 435.948, allows the department to establish discrepancy thresholds for each of its verification data matches.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-06

State Agency: Minnesota Department of Management and Budget

Federal Agency: U.S. Department of Health and Human Services (Federal Cognizant Agency)

CFDA Numbers/Program Names: See Report 13-18 – Finding 1

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: Fiscal Year 2012 Grant Awards

Finding 13-06-1 *The state did not comply with federal requirements for filing its fiscal year 2012 Single Audit report.*

- 1. The Department of Management and Budget did not finalize financial statements in order to report the state’s financial operations to the Legislature in a timely manner.**

Financial statement Finding 1 reported in Report on Internal Control Over Financial Reporting. See Section II for details related to the Minnesota Department of Management and Budget.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-06

State Agency: Minnesota Department of Education
Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Education
U.S. Department of Labor

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
17.225	Unemployment Insurance
84.010	Title I – Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.389	ARRA – Title I – Grants to Local Education Agencies
84.391	ARRA – Special Education – Grants to States
84.392	ARRA – Special Education – Preschool Grants
84.410	ARRA – Education Jobs Fund

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-14 and 13-08

Finding 13-06-3 *Inaccurate reporting of Federal education aids accounts payable and Unemployment Insurance Fund liability and accounts receivable.*

3. Prior Finding Partially Resolved: The Department of Management and Budget and other state agencies did not have adequate internal controls to prevent and detect errors in the financial information used to compile the financial statements, including footnote disclosures.

Financial statement Finding 3 reported in Report on Internal Control Over Financial Reporting. See Section II for details related to the Minnesota Department of Education and the Minnesota Department of Employment and Economic Development.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-06

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.563 Child Support Enforcement
93.778 Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Federal Compliance Report 13-15.

Finding 13-06-4 *Insufficient controls to ensure appropriate access to state business systems.*

- 4. Prior Finding Partially Resolved: The departments of Education and Human Services had weaknesses in their internal controls to ensure appropriate access to state business systems.**

Financial statement Finding 4 reported in Report on Internal Control Over Financial Reporting. See Section II for details related to the Minnesota Department of Education and the Minnesota Department of Human Services.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-06

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.658	Foster Care
93.667	Social Services Block Grant
93.714	ARRA – Emergency Contingency Fund for TANF
93.767	Children’s Health Insurance Program
93.777	State Health Care Providers Survey
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Federal Compliance Report 13-15 Appendix A.

Finding 13-06-6 *Incomplete system information available for agencies to draw timely and accurate federal cash reimbursements.*

6. The Department of Management and Budget did not ensure that state agencies had the information they needed to draw federal reimbursement in compliance with federal requirements.

Financial statement Finding 6 reported in Report on Internal Control Over Financial Reporting. See Section II for details related to the Minnesota Department of Human Services.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-07

State Agency: Minnesota Department of Commerce

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

81.041	State Energy Program
81.041	ARRA – State Energy Program
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program
93.525	State Planning and Establishment Grants for the Affordable Care Act’s Exchanges
93.568	Low-Income Home Energy Assistance

Questioned Costs: \$949,338

Federal Project Nos./Award Year: # See Table 1 within Finding 13-07-1 below.

Finding 13-07-1 *Noncompliance in developing and monitoring annual indirect cost plans.*

- 1. The Department of Commerce did not obtain federal approval for the indirect cost rate it used for fiscal year 2012; it used the rate approved for the previous year as a basis for the \$949,338 of indirect costs it recovered from all federal programs, including \$240,914 from the Low-Income Home Energy Assistance Program.**

The department did not create and submit an indirect cost rate proposal to the Division of Cost Allocation of the U.S. Department of Health and Human Services for fiscal year 2012. The federal government requires annual proposals to be developed and submitted within six months after the close of the fiscal year for approved use in the next funding period.⁷ However, the department failed to submit a proposal or obtain provisional approval and continued to use the indirect cost rate of 14 percent that the federal government approved for fiscal year 2011. Indirect cost rates can fluctuate year-to-year, and the annual proposal is intended to justify the rate in effect for each fiscal year.

As shown in Table 1, on the following page, the department used the approved fiscal year 2011 14 percent indirect cost rate to recoup \$949,338 for fiscal year 2012 from all federal programs administered by the department, including \$240,914 from the Low-Income Home Energy

⁷ Office of Management and Budget, Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment E *State and Local Indirect Cost Rate Proposals*.

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Assistance Program. If the federal government approves a lower rate for fiscal year 2012, the department may have to repay the excess indirect cost charges already claimed.⁸

In addition, as of February 2013, the department had not prepared and submitted indirect cost rate proposals for fiscal years 2013 or 2014; these proposals should have been submitted by December 31, 2011, and December 31, 2012, respectively.

Table 1
Department of Commerce
Indirect Costs Charged to Federal Programs
Fiscal Year 2012

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Amounts</u>
Major Programs:		
93.568	Low-Income Home Energy Assistance ²	\$240,914
Non-Major Programs:		
81.041	State Energy Program ³	\$ 49,808
81.041	ARRA – State Energy Program ⁴	<u>281,248</u>
	Total State Energy Program	<u>\$331,056</u>
81.042	Weatherization Assistance for Low-Income Persons ⁵	\$ 42,326
81.042	ARRA – Weatherization Assistance for Low-Income Persons ⁶	<u>131,655</u>
	Total Weatherization Assistance	<u>\$173,981</u>
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program ⁷	\$ 18,181
93.525	State Planning and Establishment Grants for the Affordable Care Act's Exchanges ⁸	\$172,417
N/A	Other Non-Major Federal Programs	<u>\$ 12,789</u>
	Total	<u>\$949,338</u>

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

² Federal Grant Award #G-10B1MNLIEA, #G-11B1MNLIEA and #G-12B1MNLIEA.

³ Federal Grant Award #DE-FG26-07NT43166.

⁴ Federal Grant Award #DE-EE0000164.

⁵ Federal Grant Award #DE-EE0000653.

⁶ Federal Grant Award #DE-EE000103.

⁷ Federal Grant Award #DE-EE0000757.

⁸ Federal Grant Award #HBEIE110058 and #HBEIE120107.

Source: Auditor created from the Department of Commerce's accounting records for fiscal year 2012.

⁸ If the federal government approves a higher rate, the department will not be able to claim additional indirect costs because it had already expended the full federal award amount.

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Section III: Federal Program Audit Findings (Continued)

Recommendations

- *The Department of Commerce should work with the federal government to obtain approval for annual indirect cost rates for fiscal years 2012, 2013, and 2014, and to resolve differences caused by using the approved fiscal year 2011 indirect cost rate during fiscal years 2012 and 2013.*
- *The Department of Commerce should improve internal controls to ensure it submits indirect cost rate proposals by the federal deadline.*

Minnesota Department of Commerce Response:

The department agrees. An updated indirect cost proposal has been submitted to the federal government. The department will follow any and all guidance and recommendations offered by our federal regulators.

Updated procedures have been set in place to timely submit indirect cost plan proposals annually. All plans will be submitted prior to January 1, to take effect in the next fiscal year.

Person Responsible: Tim Jahnke, Chief Financial Officer

Expected Completion Date: Completed

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.258	Workforce Investment Act – Adult
17.259	Workforce Investment Act – Youth
17.278	Workforce Investment Act – Dislocated Workers Formula Grants

Questioned Costs: None – Procedural finding only

Federal Project Nos./Award Year: AA-21403-11-55-A-27

Finding 13-08-1 *Insufficient monitoring of federal program expenditures.*

1. Prior Finding Not Resolved: The Department of Employment and Economic Development did not monitor grant recipients for the Workforce Investment Act Cluster (CFDA 17.258, 17.259, and 17.278)⁹ and a scanned copy for one grant agreement was incomplete.

During fiscal year 2012, the department did not perform a fiscal review to monitor 4 of 20 grant recipients tested that received federal Workforce Investment Act funding. Federal program regulations require an annual fiscal review that includes a comparison of expenditures reported in the financial status reports to supporting source documentation.¹⁰ In fiscal year 2012, the four recipients received grant payments ranging from \$469,000 to \$2.4 million. In our 2011 audit, we reported that the department did not have the necessary evidence for monitoring two other grant recipients. Without financial monitoring, ineligible costs and noncompliance with federal regulations could occur without detection.

In addition, a scanned electronic image of a master grant agreement was incomplete and did not include the back-side of the document's pages. Once scanned, the department destroyed the original paper copy of the grant agreement. The grant involved \$750,000 of Workforce Investment Act-Adult (CFDA 17.258) and \$675,000 of Workforce Investment Act-Dislocated Worker (CFDA 17.278) funds. Without a full and complete copy, the department did not have evidence that management authorized the agreement and no assurance that the agreement contained all the required elements.

⁹ Federal Grant Award AA-21403-11-55-A-27.

¹⁰ Federal Workforce Investment Act, Title 1.b, Section 6.2.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Recommendations

- *The Department of Employment and Economic Development should annually monitor all grant recipients to provide management with assurance of compliance with federal requirements.*

- *The Department of Employment and Economic Development should develop quality control procedures to ensure that electronically scanned grant documents are a replica of the original paper grant agreement.*

Minnesota Department of Employment and Economic Development Response:

Since the conclusion of the auditor's field work, the Department has completed the fiscal review of 3 of the 4 grant recipients noted in the audit report. At this point in time, monitoring is complete for 19 of the 20 grant recipients. The remaining fiscal review for the 4th grant recipient has been assigned and will be conducted in June, which will bring the department to full compliance. The annual programmatic reviews had already been completed for all of the 20 grant recipients prior to the audit. A complete copy of the identified scanned electronic image of the master grant agreement has been placed in our tracking system and is a replica of the original paper grant agreement. The Department will implement a new tracking procedure to ensure that grant monitoring and annual fiscal and programmatic reviews are timely completed and that grantees will receive fiscal monitoring notification during the first month of each new state fiscal year. Bonnie Elsey, Workforce Development Division director, will oversee resolution of the finding by June 30, 2013.

Person Responsible: Bonnie Elsey, Workforce Development Division Director

Estimated Completion Date: June 30, 2013

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.225 Unemployment Insurance

Questioned Costs: \$213,660

Federal Project Nos./Award Year: UI-18028-09-55-A-27 and UI-19590-10-55-A-27

Finding 13-08-2 *Noncompliance with period of availability requirements.*

- 2. The Department of Employment and Economic Development paid expenses totaling \$213,660 after the federal period of availability for two unemployment insurance (CFDA 17.225) grant awards.**

For two grant awards,¹¹ the department used federal funds to pay for \$213,660 of program expenses occurring after the expiration of the period of availability. The federal government makes federally-funded grant awards available to the department for a specified period of time. The department did not request a federal extension for permission to use the funds for an additional period of time.

Recommendation

- *The Department of Employment and Economic Development should work with the federal government to resolve the costs charged after the period of the grant award*

Minnesota Department of Employment and Economic Development Response:

The payment identified was delayed because the vendor did not deliver the equipment in a timely manner and the department wanted to ensure that the equipment was set up and working properly prior to payment. The department will ensure that program areas will closely monitor periods of availability for the grant award and payables staff will review project codes for grants scheduled to end to reduce the risk of payments after the period of availability for the grant award. In the future, it is expected that payments will be made within the period of availability for the grant

¹¹ Federal Grant Awards: UI-18028-09-55-A-27 and UI-19590-10-55-A-27.

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award or timely extensions will be requested as appropriate. Julie Freeman, chief financial officer, will oversee resolution of the finding by September 30, 2013.

Person Responsible: Julie Freeman, Chief Financial Officer

Estimated Completion Date: September 30, 2013

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Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.225 Unemployment Insurance

Questioned Costs: \$77,088

Federal Project Nos./Award Year: UI-18028-09-55-A-27 and UI-19590-10-55-A-27

Finding 13-08-3 *Insufficient controls to ensure accurate indirect cost charges.*

3. The Department of Employment and Economic Development overcharged the federal unemployment insurance (CFDA 17.225) program for \$77,088 of indirect costs.

The department did not have effective internal controls ensuring that indirect cost charges to the federal unemployment insurance program were correct. As a result, the department overcharged the program by \$68,088 for agency indirect costs and \$9,000 for statewide indirect costs. In July 2011, the state implemented a new accounting system that automated indirect cost allocations and periodically charged agency and statewide indirect costs to each program. However, the department did not verify that the accounting system allocations were accurate or required adjustment.

Agency and statewide indirect costs are authorized charges to federal programs. Agency indirect costs reimburse the state's General Fund for central support services, such as accounting, purchasing, and computer services provided by the department for its federal programs. Statewide indirect cost recoveries reimburse the state's General Fund for state-funded central services, such as use of the state's accounting and payroll system, used to deliver federal programs.

Recommendation

- *The Department of Employment and Economic Development should resolve the overpaid amount in fiscal year 2012 and develop controls that ensure indirect costs are accurately charged to federal programs.*

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Minnesota Department of Employment and Economic Development Response:

The final indirect cost rate was approved by the Department of Labor late in the state fiscal year. DEED had to make adjustments to ensure that payroll expenditures aligned with the approved rate. DEED also had to factor in the timing of the Minnesota Management and Budget (MMB) cost allocation process to ensure that project codes were correctly charged. There was a stringent timeframe to complete this work prior to fiscal year close. The implementation of the new SWIFT system / functionality impacted the timeliness of the MMB cost allocation process and required fine tuning the processes to improve performance and cycle time. The cost allocation process has been occurring more timely and streamlined now so it is expected this process will go more smoothly in the future. Also, to further mitigate this risk in the future, DEED plans to implement a payroll adjustment deadline to allow adequate time for adjustments and prevent a recurrence. The indirect cost overcharges represent approximately .13% of the total budget. Julie Freeman, chief financial officer, will oversee resolution of this finding by September 30, 2013.

Person Responsible: Julie Freeman, Chief Financial Officer

Estimated Completion Date: September 30, 2013

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Schedule of Findings and Questioned Costs
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Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.225 Unemployment Insurance

Questioned Costs: \$24,500

Federal Project Nos./Award Year:

Federal Grant numbers are not used for unemployment insurance benefits.

Finding 13-08-4 *Overpayment of extended benefits to four unemployment recipients.*

4. Prior Finding Not Resolved: The Department of Employment and Economic Development did not identify and recover \$24,500 of overpaid unemployment insurance (CFDA 17.225) benefits to four applicants.

The department overpaid two unemployed applicants a total of \$14,716 in federal emergency unemployment benefits¹² and also overpaid \$9,784 in state unemployment to two other applicants during fiscal year 2012. The overpayments occurred when department staff made errors when manually establishing applicant accounts and posting federal emergency and state benefits in the system. While the department generated reports to ensure the applicant accounts were set up on the correct benefit program for effective dates, the reports were not designed to identify the types of errors that staff made when entering the data. Because of the errors, the department paid the unemployed workers for more weeks of eligibility than allowed by program requirements. In our fiscal year 2011 audit we reported a similar concern with manual updates made by staff. Improved monitoring or an independent review would provide management with assurance that the department staff accurately updated the applicant accounts for the proper period and benefit amount.

Recommendations

- *The Department of Employment and Economic Development should recover the \$24,500 of unemployment benefit overpayments to the four applicants identified.*

¹² Federal Emergency Unemployment Compensation Program (Tier 3) benefits were available to workers who had exhausted regular unemployment insurance benefits during periods of high unemployment.

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Section III: Federal Program Audit Findings (Continued)

- *The Department of Employment and Economic Development should develop controls providing for an independent review of benefits manually posted by staff, or improve queries or exception reports that allow the department to detect benefits paid to unemployed workers that exceed the number of weeks allowed by each benefit program.*

Minnesota Department of Employment and Economic Development Response:

In response to the last year's overpayment finding, DEED developed a control report which identifies applicants with maximum benefit amounts above the limit. Although under the overarching umbrella of overpayment, this year's overpayment finding is unrelated to the prior year finding. Overpayment determinations have been issued and federal funds will be repaid when collected from the applicants. DEED will implement an additional control report to help ensure that the overpayment scenario identified during the audit work is not repeated. During SFY 2012, the Minnesota Unemployment Insurance (UI) Program paid benefits on regular state Unemployment Insurance plus multiple federal programs. The federal rules governing priority and timeline for programs are very complex and moving applicants between programs requires manual intervention. DEED accurately establishes thousands of benefit accounts using manual intervention. The four overpaid accounts amount to 0.0016% of the \$1.5 billion of benefits paid during the fiscal year. Rick Caligiuri, Unemployment Insurance Division director, will oversee resolution of the finding by September 30, 2013.

Person Responsible: Rick Caligiuri, Unemployment Insurance Division Director

Estimated Completion Date: September 30, 2013

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Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.126 Vocational Rehabilitation
84.390 ARRA – Vocational Rehabilitation

Questioned Costs: None – Procedural finding only

Federal Project Nos./Award Year: H126A120032-12B

Finding 13-08-5 *Insufficient controls over monitoring and reporting financial activity.*

5. The Department of Employment and Economic Development’s grants funded from the federal Vocational Rehabilitation Cluster (CFDA 84.126 and 84.390) had financial control weaknesses.

The department had some weaknesses in financial controls over grants paid from the Vocational Rehabilitation Cluster. Beyond specific federal program requirements, the federal government requires the department to follow state-level control and compliance requirements. We tested the two largest grants, with awards totaling \$162,000 and \$159,449, and the department had the following weaknesses in its oversight of these two grants:

- **Expenditures incurred prior to encumbrance of grant funds** – The department reimbursed the grantees for costs incurred before the department had encumbered the funds in the accounting system. For one grant, the department created the encumbrance on November 2, 2011, for an amount which included \$27,794 of reimbursed costs incurred from October 1, 2011, to December 31, 2011. For the other grant, the department encumbered funds on October 14, 2011, for an amount that included reimbursement of \$16,301 for expenditures incurred between October 1, 2011, and December 31, 2011. State statutes require an encumbrance in the accounting system before obligations are incurred to ensure sufficient monies are set aside.¹³

¹³ *Minnesota Statutes* 2012, 16A.15, subd. 3(a).

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- **Lack of financial reconciliations** – For both grants tested, the department did not perform a financial reconciliation, as required by state policy.¹⁴ A financial reconciliation involves a comparison of a grantee’s request for payment for a given period with supporting documentation for that request, such as invoices and payroll records. Not performing the financial reconciliations diminishes accountability and greatly increased the risk that grantees could be reimbursed for unallowable expenditures without detection.
- **Lack of quarterly progress reports** – In one grant, the department reimbursed \$49,000 to the grantee without receiving their quarterly progress report. State policy requires that departments review the grantee’s request for reimbursement against progress reports.¹⁵ The policy also states that departments should not make grant payments on grants with past due progress reports.
- **Grant spending budgets** – The department reimbursed a grantee for expenditures that exceeded the approved budget categories. While the grantee did not receive more than the \$162,000 budgeted, travel expenditures exceeded the budget by \$2,843 (22%) and professional development expenditures exceeded the \$250 budget by \$2,752 (1100%). Department staff told us they require a revised budget from the grantee when expenditures exceed the approved budgeted line item amounts by 10 percent or more. The grant contract allowed the department, upon written request from the grantee, to approve budget modifications without amending the grant as long as the modifications do not cause the total grant amount to be exceeded. However, the grantee did not submit a budget revision request to the department.

Recommendation

- *The Department of Employment and Economic Development should improve controls over Vocational Rehabilitation grants by:*
 - *reimbursing grantees costs for expenditures incurred after grant funds are encumbered;*
 - *performing the required financial reconciliations during the grant period;*
 - *ensuring that grantees submit progress reports prior to reimbursing them;*
and
 - *requiring grantees to submit budget modifications when individual line item expenditures exceed the approved budget.*

¹⁴ Department of Administration, Office of Grants Management, Policy 08-10 requires a financial reconciliation, at least once during the grant period, for grants exceeding \$50,000.

¹⁵ Department of Administration, Office of Grants Management, Policy 08-08.

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Minnesota Department of Employment and Economic Development Response:

DEED will reinforce the need for grant coordinators to communicate with financial services staff to ensure that grantees do not perform services prior to the effective date of each grant agreement or the date on which funds have been encumbered. Grantees shall be notified that reimbursements are delayed pending submission of progress reports. DEED will perform financial reconciliations as outlined under Office of Grants Management policy or seek exceptions. Appropriate staff will receive grantee monitoring training and current practices will be assessed to determine oversight gaps. While one grantee exceeded expenditures for two budget categories, all of the costs were allowable and within the total budget. DEED will require grantees to seek approval for budget category adjustments prior to cost reimbursement. Kim Peck, Vocational Rehabilitation Services Director, will oversee resolution of the finding by December 31, 2013.

Person Responsible: Kim Peck, Vocational Rehabilitation Services Director

Estimated Completion Date: December 31, 2013

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Report 13-08

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor
U.S. Department of Education

CFDA Numbers/Program Names:

17.225	Unemployment Insurance
17.258	Workforce Investment Act – Adult
17.259	Workforce Investment Act – Youth
17.278	Workforce Investment Act – Dislocated Workers Formula Grants
84.126	Vocational Rehabilitation
84.390	ARRA – Vocational Rehabilitation

Questioned Costs: None – Procedural finding only

Federal Project Nos./Award Year:

Federal grant numbers are not relevant for this procedural finding.

Finding 13-08-6 *Insufficient monitoring of equipment purchased with federal funds.*

6. The Department of Employment and Economic Development did not properly update federal equipment purchases in the state’s accounting system.

The department did not properly identify most federally-funded equipment purchases in the state’s new asset management module.¹⁶ For 321 of 352 asset purchases, totaling \$2.6 million for fiscal year 2012, there were no individual asset tag numbers, custodian, or specific locations assigned to each piece of equipment. Furthermore, the department recorded a purchase of 28 computer laptops as one asset in the module. The federal government requires the department to follow state-level procedures, including maintaining equipment records and safeguarding equipment with a physical inventory at least once every two years.¹⁷ Without specific identification and detailed locations, the department will be unable to complete an effective physical asset inventory.

¹⁶ Unemployment Insurance (CFDA 17.225), Workforce Investment Act Cluster (CFDA 17.258, 17.259, and 17.278), and Vocational Rehabilitation Cluster (CFDA 84.126 and 84.390).

¹⁷ Office of Management and Budget A-133 (June 2012), Compliance Requirement E - Equipment and Real Property Management.

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Section III: Federal Program Audit Findings (Continued)

Recommendation

- *The Department of Employment and Economic Development should update equipment identification, custodian, and locations in the asset management module.*

Minnesota Department of Employment and Economic Development Response:

DEED updated its asset management policy and procedures in August 2012 and will ensure that staff with asset management responsibility have clear expectations and are properly trained. A list of the identified assets has been obtained and DEED will make the corrections in the asset management module within SWIFT to include the missing information and to itemize the assets that were not broken out. Also, DEED will ensure that assets purchased for client use are assigned the proper category and account code to prevent inclusion in the SWIFT asset management module as a state-owned asset. All of these changes will assist in facilitating an accurate physical inventory. Julie Freeman, chief financial officer, will oversee resolution of the finding by December 31, 2013.

Person Responsible: Julie Freeman, Chief Financial Officer

Estimated Completion Date: December 31, 2013

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Report 13-09

State Agency: Minnesota Department of Military Affairs

Federal Agency: U.S. Department of Defense

CFDA Numbers/Program Names:

12.401 National Guard Military Operations and Maintenance Projects

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: # W912LM-04-2-1000

Finding 13-09-1 *Insufficient review of payroll reports*

1. The Department of Military Affairs did not review a key report to validate certain payroll transactions (CFDA 12.401, Grant W912LM-04-2-1000).

The department did not review the self service time entry audit report for any of the pay periods in fiscal year 2012. The report identifies two types of time reporting exceptions – employees who did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. State policy states that “the best control over the integrity of employees’ payroll information is achieved when employees prepare their own timesheets and supervisors, who have direct knowledge of employees’ work, review and approve timesheets.”¹⁸

To mitigate the risk that the payroll hours included on the self service time entry audit report may not reflect hours actually worked or authorized for payment, the policy requires state agencies to review, at a minimum, a representative sample of transactions appearing on the report each pay period and perform a comprehensive review of the report each quarter.

Payroll costs comprise about 30 percent of the National Guard Military Operations and Maintenance Projects. Review of the self service time entry audit report is an important control to ensure the accuracy of the department’s payroll costs.

Recommendation

- *The Department of Military Affairs should review the self service time entry audit report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*

¹⁸ Minnesota Management and Budget Policy PAY0017.

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Minnesota Department of Military Affairs Response:

The department concurs with the recommendation. We have implemented a review process for the payroll personnel to perform a comprehensive review of the “Self Service Time Entry Audit Report” each pay period. Moreover, the report will be reviewed by the agency’s military auditor during the auditor’s internal payroll audits.

Person Responsible: CW2 Ben LaBelle, Comptroller, Department of Military Affairs

Expected Completion Date: Completed

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Section III: Federal Program Audit Findings (Continued)

Report 13-11

State Agency: Minnesota Department of Public Safety

Federal Agency: U. S. Department of Homeland Security

CFDA Numbers/Program Names:

97.036 Disaster Grants – Public Assistance Program

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: 1648DRMNP00000001, 1717DRMNP00000001, 1772DRMNP00000001, 1830DRMNP00000001, 1900DRMNP00000001, 1921DRMNP00000001, 1941DRMNP00000001, 1982DRMNP00000001, 1990DRMNP00000001, 4009DRMNP00000001

Finding 13-11-1 *Insufficient notification of federal award information to subrecipients*

1. The Department of Public Safety did not adequately notify its subrecipients about federal grant information and requirements.

The department did not provide subrecipients with federal grant information, including the grant’s “code of federal domestic award” number, award name, name of the federal awarding agency, and the applicable compliance requirements at the time of the grant award, as required by federal regulations. Before fiscal year 2012, the department communicated this information to subrecipients through formal grant agreements. However, when the department stopped issuing formal grant agreements in fiscal year 2012, it did not develop another way to communicate this federal award information to the subrecipients.

Recommendation

- *The department should provide all required federal award information to subrecipients.*

Minnesota Department of Public Safety Response:

The Department of Public Safety agrees with the audit regarding this finding and has corrected this omission. Federal grant award information is now included in all payment letters which are sent to the applicants. Branch procedures have been developed which identify step by step processes which must be followed to ensure grant compliance requirements.

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The person responsible for making this change was John Moore, the Branch Director of Recovery and Mitigation. These changes will be completely implemented by June 30, 2013. We believe that by taking these steps, as addressed above, the department will reduce or eliminate any further occurrences as were identified in this audit.

Person Responsible: John Moore, Branch Director of Recovery and Mitigation

Expected Completion Date: June 30, 2013

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-14

State Agency: Minnesota Department of Education

Federal Agency: U. S. Department of Agriculture
U. S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title I – Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality State Grants
84.389	ARRA – Title I – Grants to Local Education Agencies
84.391	ARRA – Special Education – Grants to States
84.392	ARRA – Special Education – Preschool Grants
84.410	ARRA – Education Jobs Fund

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-14 Appendix A

Finding 13-14-1 *No documented internal control structure ensuring compliance*

1. Prior Finding Not Resolved: The Minnesota Department of Education did not identify, analyze, and document its internal controls related to compliance with federal requirements.

The department has made little progress since 2009, when we first reported this deficiency, to complete a comprehensive risk assessment regarding internal controls over compliance with federal single audit requirements for its major federal programs.¹⁹ In response to the prior finding we repeated in our 2012 audit report, the department created a position for an internal auditor, hired an employee into that position in April 2012, and assigned the employee the

¹⁹ This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to the Improving Teacher Quality State Grants federal program (CFDA 84.367), which a major program in fiscal years 2008 through 2011 but not in fiscal year 2012, and the State Fiscal Stabilization Fund – Education State Grants, Recovery Act federal program (CFDA 84.394A), which was a major program in fiscal year 2010.

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Section III: Federal Program Audit Findings (Continued)

responsibility to develop a comprehensive internal control structure; however, work on that task did not begin until July 2012.

The federal Office of Management and Budget, Circular A-133, outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The circular requires the state to maintain internal controls over federal programs and to follow up and take corrective action on audit findings.²⁰ In addition, state policy requires agencies to document its internal control procedures over financial management activities (including compliance with federal program requirements), including the department's analysis of risks, and periodic evaluation of control procedures to ensure they are adequately designed, properly implemented, and functioning effectively.

The findings in this report identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk for these deficiencies, designed control procedures to address significant risk, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should complete its review and documentation of the risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.*

Minnesota Department of Education Response:

The department is in agreement with findings 1 and 2 and 3, and will implement the recommendations.

The Department of Education is continuing efforts to implement agency-wide risk assessment and internal control program. The implementation of these programs will result in programs that are better managed with oversight and control procedures embedded in the MDE organization. The processes include the development of a new format of tools for performing risk and internal control analysis and testing within a broad array of agency-wide business process areas. This will allow for a more thorough review and ultimately strengthen the overall risk management and internal control environment for the agency.

²⁰ U.S. Office of Management and Budget Circular A-133, Subpart C – Auditees, Section 300.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Progress steps made include the following:

- An Internal Auditor position was recruited and hired April 25, 2012. The position is housed in the Agency Finance and Operations division, and is responsible for agency-wide efforts with risk assessment, internal control, and internal audit functions.
- The agency has revisited and updated its annual certification report to Minnesota Management and Budget (MMB) for the state fiscal year ended 2012. This is in compliance with the requirements under state statute (MN Statute §16A.057 and Statewide Operating Policy 0102-01), which also includes the Control Environment Self-Assessment Tool. Information and data for the completion of these two documents were gathered from all program directors and reviewed by management.
- The agency Internal Audit Unit has developed risk assessment and internal control program tools designed to facilitate the review of these functions on an agency-wide basis.
- A risk assessment policy for the agency was developed and approved with issuance to all agency personnel as of September 13, 2012. The policy establishes protocols including roles and responsibilities for adhering to a program that achieves compliance requirements.
- Project plans have been outlined for the tasks of conducting and completing a risk assessment and internal control review for the agency. The results and feedback from the risk assessment, the first step in the process, will be incorporated in the internal control program.
- The risk assessment program has completed its initial review of three pilot business process areas and identified other priority areas for the next step in the risk assessment process.
- The internal control review is to occur upon completion of the risk assessment process.

Due to the complexity and breadth of achieving agency-wide risk assessment and internal control review, MDE is targeting full completion of an initial cycle of risk and internal control review by June 30, 2014. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Person Responsible: Al Louismet, Agency Finance Director

Estimated Completion Date: June 30, 2014

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-14

State Agency: Minnesota Department of Education

Federal Agency: U. S. Department of Agriculture
U. S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title I – Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.389	ARRA – Title I – Grants to Local Education Agencies
84.391	ARRA – Special Education – Grants to States
84.392	ARRA – Special Education – Preschool Grants
84.410	ARRA – Education Jobs Fund

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-14 Appendix A

Finding 13-14-2 *Noncompliance with review and monitoring of payroll reports*

2. The Minnesota Department of Education did not comply with federal standards for payroll documentation.

The department did not require periodic certifications for employees paid entirely from a single federal program stating that they worked solely on that program for the period covered by the certification. The federal government requires this certification to ensure that the work of employees paid with federal grant money was for the purposes of the grant. Office of Management and Budget Circular A-87²¹ requires certifications for these employees at least semi-annually.

²¹ Office of Management and Budget Circular A-87 establishes that payroll expenditures are allowable costs of federal programs provided that they are consistent with costs of similar work paid from non-federal sources and establishes required standards for payroll documentation.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Recommendation

- *The department should develop and implement procedures to ensure that it periodically obtains certifications from employees paid entirely from a single federal program that they worked solely on that program, in compliance with federal standards.*

Minnesota Department of Education Response:

The department is in agreement with findings 1 and 2 and 3, and will implement the recommendations.

The agency is in-process with the design of a new format for time and effort reporting that includes semi-annual certification for all sole federal program funded staff. This newly designed process would be semi-automated from SWIFT/SEMA4 records to report time record data to all necessary staff on an after-the-fact basis; include correction transactions; and provide validation. The semi-annual certification process would then be administered from the same database of information to provide accurate certifications. The agency is targeting implementation for payroll beginning July 17, 2013. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Person Responsible: Al Louismet, Agency Finance Director

Estimated Completion Date: July 17, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-14

State Agency: Minnesota Department of Education

Federal Agency: U. S. Department of Agriculture

CFDA Numbers/Program Names:

10.555 National School Lunch
10.558 Child and Adult Care Food Program

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-14 Appendix A

Finding 13-14-3 *No identification and monitoring of internal controls ensuring compliance.*

- 3. The Department of Education miscalculated the amount of interest owed by the federal government to the state for late reimbursements of federal program costs; it overstated the amount as about \$36,500, but the correct amount was about \$100.**

The department did not have sufficient internal controls to ensure that it accurately calculated (and reported to the Department of Management and Budget) the amount of interest the federal government owed the state due to late reimbursement of federal program costs. The department incorrectly calculated a claim of \$36,517 for fiscal year 2012 because it used an annual interest rate (instead of a daily interest rate) to calculate the interest owed on the unreimbursed daily balances. We recalculated the amount of interest owed using the daily interest rate and determined that the correct amount was about \$100. The error might have been detected if the department had performed a secondary review of the calculation. After we informed the department of the error, it reported the corrected amount to the Department of Management and Budget for inclusion in the state’s federal cash management annual report filed with the United States Treasury.

Recommendation

- *The department should develop and implement procedures to ensure that it accurately calculates and reports its federal interest liability claims.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Minnesota Department of Education Response:

The department is in agreement with findings 1 and 2 and 3, and will implement the recommendations.

The department will include in its procedures, a secondary review of the calculation, by the unit supervisor, when completing the calculation of the amount of interest the federal government owed the state due to late reimbursements. The finding will be resolved by June 30, 2013. Resolution of this finding is the responsibility of Al Louismet, Agency Finance Director.

Person Responsible: Al Louismet, Agency Finance Director

Estimated Completion Date: June 30, 2013

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)**

Report 13-14

State Agency: Minnesota Department of Education

**Appendix A
Major Federal Programs
Minnesota Department of Education
Fiscal Year 2012**

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Award Number</u>
	<u>Child Nutrition Cluster:</u> ²	
10.553	School Breakfast	2MN300061
10.555	National School Lunch	Same as above
10.556	Special Milk Program for Children	Same as above
10.559	Summer Food Service Program for Children	Same as above
10.558	Child and Adult Care Food	2MN300061
	<u>Title 1 Cluster</u>	
84.010	Title 1 Grants to Local Education Agencies	S010A110023-11B, S010A100023A, S010A090023A
84.389A	Title 1 Grants to Local Education Agencies, Recovery Act	S389A090023A
	<u>Special Education Cluster:</u>	
84.027	Special Education – Grants to States	H027A110087-11B, H027A100087A, H027A090087A
84.173	Special Education – Preschool Grants	H173A110086, H173A100086, H173A090086
84.391A	Special Education – Grants to States, Recovery Act	H391A090087A
84.392A	Special Education – Preschool Grants, Recovery Act	H392A090086A
84.410A	Education Jobs Fund	S410A100024-10A

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. The federal government requires separate reporting of American Recovery and Reinvestment Act (ARRA) funds. All CFDA numbers followed by an "A" are ARRA funds

²A cluster of programs is a grouping of closely related programs that have similar compliance requirements and is treated as a single program for audit purposes.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families (TANF)
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.714	ARRA – Emergency Contingency Fund for TANF
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-1 *No documented internal control structure ensuring compliance*

1. Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.

The department designed but did not fully implement quality control reviews over eligibility as part of its oversight to ensure it provided federal program benefits only to eligible recipients for its fiscal year 2012 Temporary Assistance for Needy Families programs (CFDA 93.558 and 93.714) and Child Care Cluster (CFDA 93.575 and 93.596).²² The department delegated to the counties the responsibility to meet with recipients applying for assistance and determine the appropriate benefits. To verify the accuracy of the county workers' benefit determinations and redeterminations, the department selected random statistical samples of recipient cases and verified that county workers had accurately determined eligibility; however, due to staff turnover at the department, it had not completed the fiscal year 2012 sample cases by January 2013. The department referred errors found during the quality control review to the counties and referred any suspected fraud to the department's Office of Inspector General.

The objective of our testing was to determine whether the department's quality control review was effective in identifying errors made by the county workers and to determine the extent of errors made by county workers. As explained in the following bullets, the department continued to have a higher risk of noncompliance with federal eligibility requirements because it had not implemented its control procedures for fiscal year 2012 eligibility verifications for two of its major federal programs:

²² See Appendix A for the federal award numbers for these programs.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

- **Temporary Assistance for Needy Families:** As of December 2012, the department had selected for eligibility review 240 case files related to benefits provided in fiscal year 2012. The department began reviewing the cases, but it had not completed its reviews of the cases or reached conclusions about whether eligibility decisions made by county workers complied with the program's federal requirements.²³ We tested 25 of the 240 case files the department included in its testing sample; however, the department had only reviewed 6 of those 25 cases at the time we requested the files. We found no errors in the eligibility determination for the 25 files we tested; however, because the department was significantly behind in their reviews for this program, its internal controls were not effective to ensure consistent compliance with the eligibility requirements.
- **Child Care Cluster:** For fiscal year 2012, the department selected 276 child care cases for review. As of January 2013, the department had reviewed many but not all of the case files. We selected 40 of the 276 case files the department selected for review; the department had reviewed 33 of those 40 files. For 1 of 40 files we tested, the county case worker and the department's first and second level reviewers miscalculated the participant's income, resulting in an undetected overpayment of \$26 each month.

In addition, the department did not adequately monitor certain eligibility determination overrides done by county workers in the eligibility systems for the Medical Assistance (CFDA 93.778), Temporary Assistance for Needy Families, and Child Care Assistance programs. When county workers encountered unusual or extenuating circumstances, they could override the automated system's benefit determinations. The automated systems provided override reports for the counties to review, but the Department of Human Services did not ensure counties reviewed the reports as a way to verify that the overrides were appropriate. Since March 2012, the department designed a database to enable them to generate reports to analyze and monitor the counties' override activity for these programs to identify unusual trends, errors, or potential fraud. However, as of January 2013, the department had not finalized the database reports or made the database available to the department's program staff.

Recommendations

- *The department should ensure that its quality review process detects and resolves eligibility discrepancies.*
- *The department should continue to implement controls to monitor the specific eligibility overrides related to the Medical Assistance, Temporary Assistance for Needy Families, and Child Care Assistance programs.*

²³ See the Office of Management and Budget A-133 Compliance Supplement, Temporary Assistance to Needy Families, part 4, letter E, for a list of the federal eligibility requirements.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Minnesota Department of Human Services Response:

Agency Response to Audit Recommendation #1-1

The department agrees with this finding and recommendation. We will continue to refine and improve our process of conducting eligibility reviews for all federal programs, and will resolve this issue for our Temporary Assistance for Needy Families and Child Care Assistance programs.

Person Responsible: Gary L. Johnson, Director of Internal Audits

Estimated Completion Date: December 31, 2014

Agency Response to Audit Recommendation #1-2

The department agrees with this recommendation. A bulletin to counties identifying available reports for monitoring overrides and providing instructions for county supervisors will be published in the summer of 2013.

Persons Responsible: Mary Orr, Director of Community Partnerships and Child Care Services
Mark Toogood, Director of Transition to Economic Stability
Karen Gibson, Director of Health Care and Eligibility and Access

Estimated Completion Date: September 30, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.658	Foster Care
93.659	Adoption Assistance
93.714	ARRA – Emergency Contingency Fund for TANF
93.767	Children’s Health Insurance Program
93.777	State Health Care Providers Survey
93.778	Medical Assistance
93.959	Block Grants for Substance Abuse

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-2 *No documented internal control structure ensuring compliance*

2. Prior Finding Not Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

The department has made little progress since 2009, when we first reported this deficiency, to develop and document a comprehensive risk assessment regarding internal controls over compliance with federal single audit requirements for its major federal programs.²⁴ In response to the prior finding we repeated in our March 2012 audit report, the department estimated that it would resolve the finding by March 31, 2013. Although in fiscal year 2012, it did complete a

²⁴ This finding affects all major federal programs identified in Table 1 except the Social Services Block Grant. See Appendix A, on page 13, for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal years 2010 through 2012, including Adoption Assistance (CFDA 93.659) and Substance Abuse (CFDA 93.959).

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings (Continued)

comprehensive risk assessment for the federal Social Services Block Grant Program, it had not done so for any of its other major federal programs listed in Table 1, including Medical Assistance, for which it received over \$4.6 billion in fiscal year 2012.

The federal Office of Management and Budget, Circular A-133, outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The circular requires the state to maintain internal controls over federal programs and to follow up and take corrective action on audit findings.²⁵ In addition, state policy requires agencies to document its internal control procedures over financial management activities (including compliance with federal program requirements), including the department's analysis of risks and periodic evaluation of control procedures to ensure they are adequately designed, properly implemented, and functioning effectively.²⁶

The findings in this report identify deficiencies in the department's internal control procedures and significant ongoing noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk for these deficiencies, designed control procedures to address significant risk, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should complete its review and documentation of its risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.*

Minnesota Department of Human Services Response:

The department agrees that we have not resolved the prior finding with regard to conducting risk assessments regarding internal controls over compliance with federal single audit requirements for our major federal programs. Since 2009, when this finding was first reported, the department has hired an enterprise risk management coordinator, chartered an Enterprise Risk Management Planning Team, and invested in considerable training (in conjunction with the Minnesota Management and Budget (MMB) Internal Controls and Accountability Unit) within the department on Risk Assessment Methodology and Internal Control Awareness.

While there is substantial work ahead, the department has made significant progress in terms of building capacity and momentum for meeting this requirement. As noted, the department did

²⁵ U.S. Office of Management and Budget Circular A-133, subpart C - Auditees, section .300(b).

²⁶ Department of Management and Budget Policy 0102-01, *Internal Controls*.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

complete a comprehensive risk assessment of the federal Social Services Block Grant Program in 2012, and the assessment of SNAP is currently underway. The department has developed a multi-year risk assessment plan to be submitted to MMB as part of our annual Control Environment Self-Assessment. By December 2014, the department anticipates completing all major federal program risk assessments except for Medical Assistance (MA). MA risk assessments are being planned using the MITA business architecture to map the high-level process and identify core functions/processes used to administer the program and deliver services. Some MA risk assessments may be done in conjunction with MNsure risk assessments.

Person Responsible: Greg Gray, Chief Compliance Officer

Estimated Completion Date: December 31, 2015

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-3 *No monitoring of counties' efforts to detect fraudulent child care payments*

3. Prior Finding Partially Resolved: The Department of Human Services did not adequately monitor the counties' efforts to detect fraudulent child care payments and ensure they properly recovered the payments.

The department did not have adequate controls in place to monitor whether the counties identified and collected fraudulent payments from the Child Care Assistance Program (CFDA 93.575 and 93.596).²⁷ The department delegated the fraud detection and payment collection responsibilities to the counties but did not adequately monitor the counties to ensure they followed the department's procedures for detecting fraud and recovering wrongful payments.²⁸ Federal regulations require the state to recover fraudulent child care payments from the party responsible for committing the fraud.²⁹

In response to our prior finding, the department estimated that it would resolve the finding by September 30, 2012. Since our last audit, the department designed monitoring controls over the counties' fraud detection and payment collections; however, as of February 2013, the department had not implemented those controls. Without adequate monitoring controls, the department could not ensure the counties were complying with the federal regulations.

²⁷ See Appendix A for the federal award numbers for these programs.

²⁸ Child Care Assistance Program Policy Manual, Chapters 4 and 14.

²⁹ 45 Code of Federal Regulations, section 98.60(i).

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Recommendation

- *The department should complete its implementation of controls to ensure counties are making adequate efforts to identify and collect fraudulent child care payments.*

Minnesota Department of Human Services Response:

The department agrees with the finding and recommendation. The department will complete implementation of controls to ensure counties are making adequate efforts to identify and collect fraudulent child care payments including:

- Reinforcing, through instructions to counties, the process for making referrals to the Fraud Prevention Investigation (FPI) program or county criminal investigation staff;
- Providing guidance to counties on implementation of actions related to child care payments authorized under Minnesota Statutes, section 119B.13, subdivision 6(d);
- Monitoring reports at the state level to identify potential fraudulent payments and the recovery of overpayments;
- Providing instructions to counties for monitoring reports to ensure overpayments are recovered; and
- Implementing 2013 legislative changes related to child care provider fraud.

Persons Responsible:

Mary Orr, Director of Community Partnerships and Child Care Services
Vicki Kunerth, Deputy Inspector General

Estimated Completion Date:

December 31, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance for Needy Families (TANF)
93.714 ARRA – Emergency Contingency Fund for TANF

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-5 *The department did not reduce cash assistance when recipients refused to cooperate with child support enforcement requirements*

5. The Department of Human Services did not consistently reduce recipients’ cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements.

The department did not reduce Temporary Assistance for Needy Families (CDFA 93.558 and 93.714) cash assistance benefits for 4 of 25 recipients tested who refused to cooperate with child support enforcement requirements.³⁰ Federal regulations require state agencies to reduce recipients’ cash assistant benefits by no less than 25 percent when the recipient refuses to cooperate with establishing paternity, or establishing, modifying or enforcing a support order with respect to a child of the recipient.³¹ The department used the child support enforcement system to send notification messages to county workers through the department’s eligibility system when custodial parents initially refused to cooperate with child support enforcement requirements; however, because of an error in computer programming, those notification messages were not sent when the recipient’s case file in the child support enforcement system predated the recipient’s case file in the eligibility system. Federal regulations allow the federal Department of Health and Human Services to penalize states for failure to substantially comply with these sanction requirements.³²

³⁰ See Appendix A, on page 13, for the federal award numbers for these programs.

³¹ 45 Code of Federal Regulations, section 264.30.

³² 45 Code of Federal Regulations, section 264.31.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Recommendation

- *The department should ensure it sanctions the cash assistance benefits for recipients that do not cooperate with the child support enforcement requirements.*

Minnesota Department of Human Services Response:

The department agrees with the finding and recommendation. The department will complete implementation of controls to ensure counties are making adequate efforts to appropriately modify cash assistance payments to meet child support enforcement requirements. These will include DHS staff monitoring of monthly reports to assure appropriate case actions are taken, working with MN.IT for programming PRISM to produce an alert or edit that would remind or require the child support worker to remove sanctions in appropriate MFIP re-application situations, and notifying MFIP and Child Support staff to remind them of sanction policy when a client reapplies for MFIP.

Persons Responsible:

Mark Toogood, Director of Transition to Economic
Stability
Jeff Jorgenson, Director of Child Support Enforcement
Division

Estimated Completion Date:

December 31, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-6 *Did not submit accurate federal financial reports*

6. The Department of Human Services submitted an erroneous financial report to the federal government for its Child Care Cluster Program.

The department overstated the total expenditures in the June 30, 2012, *Child Care and Development Fund Financial Report*³³ by \$2 million (CFDA 93.575 and 93.596³⁴). A formula error resulted in the department double-counting an amount it recorded in a line item, resulting in the fourth quarter's report being overstated by about \$2 million. Because of the formula error in the electronic worksheet the department used to prepare the report, the department erroneously reported expenditures at \$53.5 million instead of \$51.5 million. The department did not have an adequate review of the report to ensure its accuracy.

Recommendation

- *The department should ensure that it submits accurate financial reports to the federal government.*

Minnesota Department of Human Services Response:

The department agrees with this finding and recommendation and will continue to work at improving processes to complete and submit federal reports accurately and timely.

Person Responsible: Martin Cammack, Financial Operations Director

Estimated Completion Date: December 31, 2013

³³ ACF – 696 report.

³⁴ See Appendix A for the federal award numbers for these programs.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.658	Foster Care
93.667	Social Services Block Grant

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-7 *Insufficient review of a key payroll report*

7. The Department of Human Services did not consistently review a key payroll report.

The department did not consistently review the self service time entry audit report from the state’s payroll system for its central office employees. The department used federal funds for payroll costs in the Temporary Assistance for Needy Families (CFDA 93.558), Supplemental Nutrition Assistance Administration (CFDA 10.561), Child Care Cluster (CFDA 93.575 and 93.596), Foster Care (CFDA 93.658), and Social Services Block Grant (CFDA 93.667) programs.³⁵ The report identifies two types of time reporting exceptions – employees who did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. The Department of Management and Budget’s policy states that, “The best control over the integrity of employees’ payroll information is achieved when employees prepare their own timesheets and supervisors, who have direct knowledge of employees’ work, review and approve timesheets.”³⁶

To mitigate the risk that the payroll hours included on the self service time entry audit report may not reflect hours actually worked or authorized for payment, the policy requires state agencies to review, at a minimum, a representative sample of transactions appearing on the report each pay period and perform a comprehensive review of the report each quarter.

³⁵ See Appendix A for the federal award numbers for these programs.

³⁶ Minnesota Management and Budget Policy PAY0017.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

During July 2011 through February 2012, the department did not review the payroll reports for its central office employees and, between March and June 2012, the department reviewed two of the four reports we asked about. By not reviewing this key payroll report, the department cannot ensure it correctly compensated its employees.

Recommendation

- *The Department of Human Services should review the self service time entry audit report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*

Minnesota Department of Human Services Response:

The Department agrees with this finding and recommendation. To address this finding we have developed bi-weekly checklists for use by payroll staff to ensure all required reports are reviewed. We have also documented the process to be followed when reviewing the self-service time entry audit report.

Person Responsible: Martin Cammack, Financial Operations Director

Estimated Completion Date: Completed

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.658	Foster Care
93.667	Social Services Block Grant
93.714	ARRA – Emergency Contingency Fund for TANF
93.767	Children’s Health Insurance Program
93.777	State Health Care Providers Survey
93.778	Medical Assistance

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: See Report 13-15 Appendix A

Finding 13-15-8 *Insufficient notification of federal award information to subrecipients*

8. Prior Finding Partially Resolved: The Department of Human Services did not obtain the Data Universal Numbering System (DUNS) numbers from its subrecipients and did not communicate all federal award information to some of its subrecipients.

The department did not obtain the Data Universal Numbering System (DUNS) numbers from its subrecipients for the following programs: Medical Assistance (CFDA 93.777 and 93.778), Children’s Health Insurance Program (CFDA 93.767), Child Care Cluster (CFDA 93.575 and 93.596), Child Support Enforcement (CFDA 93.563), Social Services Block Grant (CFDA 93.667), Foster Care (CFDA 93.658), Temporary Assistance for Needy Families (CFDA 93.558 and 93.714), and Supplemental Nutrition Assistance Program (CFDA 10.551 and 10.561).³⁷

³⁷ See Appendix A for the federal award numbers for these programs.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Federal regulations require state agencies to obtain the valid DUNS number from its subrecipients before issuing subawards.³⁸

In addition, the department did not identify the federal award information to some Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs subrecipients at the time of the grant award. Federal regulations require the department to provide the CFDA title and number along with the federal award name and number to all subrecipients as part of its subaward application process.³⁹ Since the last audit, the department implemented procedures to ensure it communicated the award name and numbers to the counties; however, it did not always inform the other subrecipients of the federal award information for these two federal programs.

Recommendations

- *The department should obtain the DUNS numbers from subrecipients when making subawards.*
- *The department should identify to the subrecipient, at the time of the award, the federal award name and number.*

Minnesota Department of Human Services Response:

The department agrees with the finding and recommendations to obtain the DUNS numbers from subrecipients when making subawards and will continue to work at implementing this process. The department agrees with the recommendation to provide the federal award name and number to subrecipients at the time of the grant award. This is currently done for counties and we will continue to work on expansion to include grantees other than counties.

Person Responsible: Marty Cammack, Financial Operations Director

Estimated Completion Date: December 31, 2013

³⁸ 2 Code of Federal Regulations, section 25.200, and Appendix A to 2 Code of Federal Regulations, section 25.

³⁹ 2 Code of Federal Regulations, section 176.210(c), and Office of Management and Budget A-133 Circular, section .400(d).

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-15

State Agency: Minnesota Department of Human Services

Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2012

CFDA¹	Program Name	Federal Award Number
	<u>Food and Nutrition Services Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	2011IS601842, 2011IS604542, 2011ID281142, 2011ID282142, 2012IS601842, 2012IS604542, 2012ID281142, 2012ID282142, 2012IS802642
10.561	Supplemental Nutrition Assistance Administration	2011IS251442, 2011IS803642, 2011IS251942, 2011IS252042, 2011IQ390342, 2011IE251842, 20118E251842, 2012IS251442, 2012IS803642, 2012IS251942, 2012IS252042, 2012IS750342, 2012IE251842, 2012IS820442, 2012IN254542
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	1102MNTANF, 1202MNTANF
93.714	Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs ARRA	1001MNTAN2
93.563	Child Support Enforcement	1004MN4004, 1104MN4004, 1204MN4005
	<u>Child Care Cluster</u>	
93.575	Child Care and Development Block Grant	1101MNCCDF
93.596	Child Care Mandatory and Matching Fund	1101MNCCDF, 1201MNCCDF
93.658	Foster Care – Title IV-E	1001MN1401, 1101MN1401, 1201MN1401
93.667	Social Services Block Grant	1101MNSOSR, 1201MNSOSR
93.767	Children's Health Insurance Program	1005MN5021, 1105MN5021
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	01-1101-MN-5050, 011301MN5050
93.777	State Health Care Providers Survey	1105MN5001, 1205MN5001
93.778	Medical Assistance Program	1105MN5028 (1105MN5MAP), 1105MN5048 (1105MN5ADM) 1205MN5MAP, 1205MN5ADM

Source: The state accounting system and staff at the Department of Human Services.

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

² A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

³ The American Recovery and Reinvestment Act (ARRA) funds were segregated to fulfill transparency guidelines.

Source: Department of Human Services' staff.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-17

State Agency: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Numbers/Program Names:

20.106 Airport Improvement Program
20.106 ARRA-Airport Improvement Program
20.205 Highway Planning and Construction Program
20.205 ARRA-Highway Planning and Construction Program
20.205 R&D-Highway Planning and Construction Program

Questioned Costs: None - Procedural Finding Only

Federal Project Nos./Award Year: Not relevant to procedural finding

Finding 13-17-1 *Noncompliance with subrecipient monitoring and notification requirements*

1. Prior Audit Finding Not Resolved: The Department of Transportation did not comply with federal requirements to review the results of subrecipients' audits and monitor corrective actions within certain timeframes.⁴⁰

As of May 2013, the Department of Transportation had not reviewed the findings in nine subrecipient audit reports or provided the subrecipients with its written management decisions about the effectiveness of the subrecipients' proposed corrective action plans to resolve findings, or to follow up on instances of repeated noncompliance. Federal requirements established that subrecipients should have submitted their audit reports for calendar year 2011 by September 30, 2012, and that the department should have completed its subrecipient monitoring responsibilities by March 31, 2013.⁴¹ The federal government established these deadlines to help ensure that subrecipients take timely corrective action to resolve findings that strengthen accountability over federal funds.

The department is a "pass through" entity, responsible to ensure that subrecipients use federal money in accordance with federal program requirements. The department must monitor that any subrecipient with federal grant expenditures exceeding \$500,000 obtains an audit of its financial

⁴⁰ Office of the Legislative Auditor's Financial Audit Division Report 12-08, *Federal Compliance Audit*, issued March 27, 2012, included a finding that the department had not issued written management decisions on findings included in calendar year 2010 subrecipient audit reports. Although the department addressed that finding by issuing written management decisions on subrecipient single audit findings for calendar year 2010, it continued to have deficiencies in monitoring subrecipients' single audit reports for calendar year 2011, as explained in Finding 1 above.

⁴¹ OMB Circular A-133, Part 3, Section M, Subrecipient Monitoring.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

statements and compliance with federal program requirements and submits the audit report to the department. Federal regulations require pass-through entities to monitor subrecipients' compliance with federal program requirements by reviewing, following up, and issuing management decisions on findings included in subrecipients' single audit reports.⁴²

Department staff told us that they had not completed the subrecipient monitoring responsibilities during fiscal year 2012 because they had not received, from the Department of Management and Budget, the calendar year 2011 report of grants to subrecipients.⁴³ The department also had difficulty generating its own expenditure reports because calendar year 2011 spanned two different state fiscal years where the state used different accounting systems. Finally, the department did not effectively coordinate between its Office of Financial Management and Office of Audit to oversee subrecipient monitoring responsibilities.

Recommendation

- *The department should strengthen its internal controls to ensure that it complies with federal subrecipient monitoring requirements.*

Minnesota Department of Transportation Response:

The Department of Transportation believes strongly in internal controls and concurs with this finding. The department is addressing this issue in the following manner:

The Department of Transportation has strengthened internal control over its subrecipient monitoring process by updating the current procedure to include additional monitoring and communication between the Office of Finance and the Office of Internal Audit to ensure the timely issuance of management decision letters as specified in OMB Circular A-133. Three management decision letters were required and issued on June 24, 2013 for calendar year 2011. Because these subrecipients have satisfactory corrective action plans in place to mitigate their findings, management decision letters did not recommend other actions or suspension of federal awards.

Persons Responsible: Tracy Hatch, Chief Financial Officer
Duane Leurquin, Office of Financial Management Director
Daniel Kahnke, Director, Office of Audit

Estimated Completion Date: June 2013

⁴² OMB Circular A-133.105 provides definitions of pass-through entity, subrecipient, and management decision.

⁴³ The Department of Management and Budget typically distributes reports to state agencies semi-annually to help determine which subrecipients received more than \$500,000 from the state and required monitoring. The reports, one by fiscal year and one by calendar year, showed the total federal subgrants received by each subrecipient from all state agencies combined. The Department of Management and Budget was delayed in providing the information during fiscal year 2012 because of complications with the implementation of the state's new accounting system.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report 13-18

State Agency: Minnesota Department of Management and Budget

Federal Agency: U.S. Department of Agriculture
U.S. Department of Defense
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Homeland Security
U.S. Department of Labor
U.S. Department of Transportation

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.557	Special Supp. Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
10.561	Supplemental Nutrition Assistance Program Administration
12.401	National Guard Military Operations and Maintenance Projects
17.225	Unemployment Insurance
17.225	ARRA – Unemployment Insurance
17.258	Workforce Investment Act – Adult
17.259	Workforce Investment Act – Youth
17.259	ARRA – Workforce Investment Act – Youth
17.260	Workforce Investment Act – Dislocated Workers
17.260	ARRA – Workforce Investment Act – Dislocated Workers
17.278	Workforce Investment Act – Dislocated Workers Formula Grants
20.106	Airport Improvement Program
20.106	ARRA – Airport Improvement Program
20.205	Highway Planning and Construction Program
20.205	ARRA – Highway Planning and Construction Program
20.205	R&D – Highway Planning and Construction Program
20.219	Recreational Trails Program
84.007	Federal Supplemental Education Opportunity Grants
84.010	Title I – Grant to Local Education Agencies
84.033	Federal Work Study Program
84.038	Federal Perkins Loans
84.063	Federal Pell Grant Program

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

84.027	Special Education – State Grants
84.126	Vocational Rehabilitation
84.173	Special Education – Preschool Grants
84.268	Federal Direct Student Loans
84.375	Academic Competitiveness Grants
84.376	National Science and Mathematics Talent Grants
84.379	Teacher Education Assistance for College and Higher Ed. Grants
84.389	ARRA – Title I – Grants to Local Education Agencies
84.390	ARRA – Vocational Rehabilitation
84.391	ARRA – Special Education – Grants to States
84.392	ARRA – Special Education – Preschool Grants
84.410	ARRA – Education Jobs Fund
93.268	Immunization Grants
93.364	Nursing Student Loans
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575	Child Care and Development Block Grant
93.596	Child Care and Development Mandatory and Matching Funds
93.658	Foster Care Title IV-E
93.658	ARRA – Foster Care Title IV-E
93.667	Social Services Block Grant
93.712	ARRA – Immunizations
93.714	ARRA – Emergency Contingency Fund for TANF
93.720	ARRA – Survey and Certification
93.767	Children’s Health Insurance Program
93.775	State Medicaid Fraud Control Units
93.777	State Health Care Providers Survey
93.778	Medical Assistance
97.036	Disaster Grants – Public Assistance Program

Questioned Costs: None - Procedural Finding Only

Federal Project Nos./Award Year: Not relevant to procedural finding

Finding 13-18-1 *Noncompliance with Single Audit reporting requirements*

- 1. The Department of Management and Budget did not finalize the Schedule of Expenditures of Federal Awards in order to submit its single audit report to the federal government in a timely manner.**

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

The department did not submit to the federal government the State of Minnesota's single audit report for fiscal year 2012 by the March 31, 2013, deadline.⁴⁴ The department missed the deadline because it did not adequately design, develop, and test the process to prepare the Schedule of Expenditures of Federal Awards. According to the department, the implementation of a new accounting system in July 2011 and a redesign of the financial and federal expenditure reporting processes resulted in the department being unable to produce and submit for audit federal expenditure schedules for fiscal year 2012 until the end of June 2013.

The department's difficulty in preparing its federal expenditure schedules increased the risk that material misstatements could occur without detection. Because of this increased risk, we concluded that we could not perform sufficient and appropriate audit procedures to support an opinion on the Schedule of Expenditures of Federal Awards. Our disclaimer of an audit opinion on the Schedule of Expenditures of Federal Awards is included in the single audit report for fiscal year 2012 submitted to the federal government in July 2013.

The annual single audit is an important way that the state is accountable for its use of federal money. In addition to the federal expenditure schedule, the single audit concludes on the sufficiency of the state's internal controls for its federal programs and on its compliance with a variety of general and specific federal program requirements. Notifying the federal government about internal control weaknesses and noncompliance by the deadline is fundamental to the timely resolution of the issues.

Recommendation

- *The Department of Management and Budget should re-evaluate its federal expenditure reporting process to ensure the timely completion of the state's federal single audit report.*

Minnesota Department of Management and Budget Response:

We agree with the recommendation and are highly committed to accurate and timely reporting of the state's federal single audit report. As you are aware, our new accounting and procurement system went live as our accounting system of record effective July 1, 2011. As a result, fiscal year 2012 was our first reporting cycle using the new system. We retired our stand-alone financial reporting system and developed new financial reporting processes using functionality imbedded in the new software.

The learning curve associated with a new system of this size and complexity was considerable. This impacted our internal staff as well as state agency personnel who contributed various items

⁴⁴ Office of Management and Budget Circular A-133, Section 320(a) requires a single audit of the state's compliance in administering federal awards and requires a single audit report be completed by nine months after the end of the fiscal year.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

necessary for reporting. Additionally, there was a substantial commitment of time to design, develop, and test the new reports and processes needed to produce both the state's Comprehensive Annual Financial Statement (CAFR) and the Schedule of Expenditures of Federal Awards (SEFA) through the state's accounting system. We are confident that the extra time we took to prepare, test, and complete the CAFR and SEFA resulted in complete and accurate reporting. We were pleased to again receive an unqualified (clean) opinion on the CAFR, including the federal fund.

The investment we made this year to complete the SEFA will ultimately result in improvements over the prior years. As both the CAFR and the SEFA are generated from the accounting system, the need for multiple reporting systems was eliminated. Thus, the entries made in the accounting system during the CAFR preparation of the federal fund that also impacted the SEFA are reported automatically into the SEFA report. This process eliminated the need for duplicate entry as required in the past and reduced the risk of material misstatement.

We realize the extra time we took to ensure that SEFA was complete and accurate caused delays. We regret the impact this had on your audit schedule and the resulting change in audit scope. We believe that the work performed to understand the accounting system and redesign the process will create efficiencies and allow us to issue the SEFA in a timely manner in future years. We will also continue to work with agencies to improve the timeliness and efficiency of obtaining necessary information. In addition, we will continue to work with agencies on their findings on internal controls over compliance and compliance with federal requirements.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: March 31, 2014

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)**

Report CLA-12

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.033 – Federal Work Study Program

Questioned Costs: None

Federal Project Nos./Award Year: Anoka Technical College - FWS - P033A112110

Finding CLA-12-1 *One college did not report a reading tutor in the Fiscal Operations Report and Application to Participate (FISAP)*

Condition – Employing Reading Tutors:

Anoka Technical College did not report a reading tutor in the Fiscal Operations Report and Application to Participate (FISAP).

Criteria:

Institutions participating in the Federal College Work Study program are required to employ at least one student as a reading tutor in a children/family literacy program.

Questioned Costs:

None

Possible Asserted Effect:

The college is not in compliance with the reading tutor requirements.

Auditors' Recommendation:

We recommend the Anoka Technical College implement procedures to assure at least one student is employed as a reading tutor in a children/family literacy program.

Minnesota State Colleges and Universities Response:

The college agrees with the auditor's recommendation and will review their procedures to assure that the Work Student Program employs at least one student as a reading tutor in a children/family reading program.

Person Responsible: Anoka Technical College - Lucy Ross, Financial Aid Director

Estimated Completion Date: April 1, 2013

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)**

Report CLA-12

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

- 84.007 – Federal Supplemental Education Opportunity Grants
- 84.033 – Federal Work Study Program
- 84.038 – Federal Perkins Loans
- 84.063 – Federal Pell Grant Program
- 84.268 – Federal Direct Student Loans
- 84.375 – Academic Competitiveness Grants
- 84.376 – National Science and Mathematics Talent Grants
- 84.379 – Teacher Education Assistance for College and Higher Education Grants

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year:

	Riverland
SEOG (84.007)	P007A112115
PELL (84.063)	P063P111661
FWS (84.033)	P033A112115
Direct Loan (84.268)	P268K121661

Finding CLA-12-2 *One college did not report changes in governance timely*

Condition – Reporting Changes to the Department of Education:

Riverland Community College did not timely report changes in governance within the required 10 days.

Criteria:

Changes in governance must be reported to the Department of Education within 10 days of the change.

Questioned Costs:

None

Possible Asserted Effect:

Changes in governance are not being reported to the Department of Education timely.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Auditors' Recommendation:

We recommend the Riverland Community College implement procedures to assure required communications to the Department of Education occur within the required timeframes.

Minnesota State Colleges and Universities Response:

The College agrees with the auditor's recommendation and will review their procedure to ensure that changes in governance are reported in a timely manner.

Person Responsible:

Riverland Community College

Judy Robeck, Financial Aid Director

Estimated Completion Date:

April 1, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

Report CLA-12

State Agency: Minnesota State Colleges and Universities

Federal Agency: U. S. Department of Education

CFDA Numbers/Program Names:

84.063 – Federal Pell Grant Program

Questioned Costs: None – Procedural Finding Only

Federal Project Nos./Award Year: Fond du Lac – PELL - P063P114828

Finding CLA-12-3 *One college did not properly report the disbursement date for a PELL grant award*

Condition – Reporting Disbursement to Common Origination and Disbursement (COD):

Fond du Lac Tribal and Community College did not properly report the disbursement date of a Pell disbursement in COD. The date the disbursement was posted to the student account was September 26, 2011 but COD showed the disbursement was disbursed on August 22, 2011.

Criteria:

Institutions must accurately report the disbursement date and amount of Pell awards to COD within 30 days of the actual disbursement.

Questioned Costs:

None

Possible Asserted Effect:

The institution is not properly reporting Pell disbursements to COD.

Auditors' Recommendation:

We recommend the Fond du Lac Tribal and Community College implement procedures to assure accurate information is timely reported to COD.

Minnesota State Colleges and Universities Response:

The College agrees with the auditor's recommendation and will review their procedure to ensure that all Pell award are accurately reported to COD within 30 days of actual disbursements.

Person Responsible:

Fond Du Lac Tribal and Community College

Dave Sutherland, Financial Aid Director

Estimated Completion Date:

April 1, 2013

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

MnDOT Office of Audit Report 13-800-79

State Agency: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Number/Program Name:

20.205 Highway Planning and Construction Program

Questioned Costs: None-Procedural Finding Only

Federal Project Nos./Award Year: 09MN(003)/2010

Finding DOT-13-II *Contract change costs coded incorrectly*

II. The department did not correctly code a contract change order for one project as non-participating in federal funding.

The department incorrectly coded a contract change order totaling \$1.4 million on the federal bill for one project as participating in federal funding. MnDOT Finance staff followed up with project personnel prior to paying the voucher and therefore prevented billing the federal government in error. However, MnDOT Finance relies on project staff to accurately code payment vouchers as participating or not participating in federal funding.

Recommendations

- *The Operations Division Director should advise districts to ensure that payment vouchers correctly document federal participation.*
- *The Director of the Office of Construction and Innovative Contracting and the Chief Financial Officer should develop internal controls to ensure contract change cost coding procedures accurately document federal participation.*

Minnesota Department of Transportation Response:

The Director of the Office of Construction and Innovative Contracting (OCIC) and the Chief Financial Officer will work together to develop internal controls to improve contract change cost coding procedures so that compliance requirements are met. OCIC proposes to modify contract change forms to include a federal funding participation indicator check box for field staff to indicate previous funding discussions with FHWA. OCIC will create a “one-pager” giving

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings (Continued)

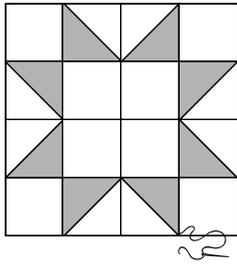
guidance to field personnel regarding involvement of FHWA in the Contract change process. OCIC will also direct project personnel to involve FHWA earlier in the contract change process on projects/changes for which FHWA wants advance approval. OCIC will update the Construction Tools–Contract Changes website to address information regarding FHWA concerns. For supplemental agreements of significant dollar value, the Office of Financial Management will have two staff review the agreement for proper assignment of either federal participation or non-participation.

Persons Responsible:

Mike Barnes, Operations Division Director
Tom Ravn, Construction & Innovative Contracting
Office Director
Duane Leurquin, Office of Finance Director

Estimated Completion Date:

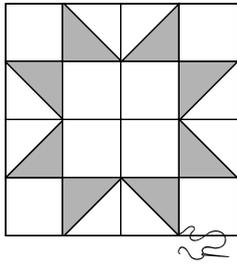
June 30, 2013



State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2012

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STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2012

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND. NO.	AUDIT REPORT FISCAL YR.
U.S. Department of Agriculture							
10.551	Supplemental Nutrition Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
10.551	Supplemental Nutrition Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
10.551	Supplemental Nutrition Assistance Program	Human Services	No independent review of payroll reports	1	10-11	10	2009
10.551	Supplemental Nutrition Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
10.551	Supplemental Nutrition Assistance Program	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
10.551	Supplemental Nutrition Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	2	11-13	6	2010
10.551	Supplemental Nutrition Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
10.551	Supplemental Nutrition Assistance Program	Human Services	No reconciliation of state's accounting system to bank account of federal funds related to EBT	1	12-07	5	2011
10.551	Supplemental Nutrition Assistance Program	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
10.551	Supplemental Nutrition Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
10.553	School Breakfast Program	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
10.553	School Breakfast Program	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
10.553	School Breakfast Program	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
10.553	School Breakfast Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	11-12	2	2010
10.553	School Breakfast Program	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
10.553	School Breakfast Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
10.555	National School Lunch Program	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
10.555	National School Lunch Program	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
10.555	National School Lunch Program	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
10.555	National School Lunch Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	11-12	2	2010
10.555	National School Lunch Program	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
10.555	National School Lunch Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
10.556	Special Milk Program for Children	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
10.556	Special Milk Program for Children	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
10.556	Special Milk Program for Children	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
10.556	Special Milk Program for Children	Education	Noncompliance with subrecipient monitoring and notification requirements	1	11-12	2	2010
10.556	Special Milk Program for Children	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
10.556	Special Milk Program for Children	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
10.558	Child and Adult Care Food Program	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
10.558	Child and Adult Care Food Program	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
10.558	Child and Adult Care Food Program	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
10.558	Child and Adult Care Food Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	11-12	2	2010
10.558	Child and Adult Care Food Program	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
10.558	Child and Adult Care Food Program	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
10.559	Summer Food Service Program for Children	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
10.559	Summer Food Service Program for Children	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
10.559	Summer Food Service Program for Children	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
10.559	Summer Food Service Program for Children	Education	Noncompliance with subrecipient monitoring and notification requirements	1	11-12	2	2010
10.559	Summer Food Service Program for Children	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
10.559	Summer Food Service Program for Children	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
10.561	State Admin Matching Grants for Supp Nutr	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
10.561	State Admin Matching Grants for Supp Nutr	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
10.561	State Admin Matching Grants for Supp Nutr	Human Services	No independent review of payroll reports	1	10-11	10	2009
10.561	State Admin Matching Grants for Supp Nutr	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
10.561	State Admin Matching Grants for Supp Nutr	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
10.561	State Admin Matching Grants for Supp Nutr	Human Services	Insufficient notification of federal award information to subrecipients	2	11-13	6	2010
10.561	State Admin Matching Grants for Supp Nutr	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
10.561	State Admin Matching Grants for Supp Nutr	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
10.561	State Admin Matching Grants for Supp Nutr	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
U.S. Department of Labor							
17.225	ARRA-Unemployment Insurance	Employment and Economic Development	No identification and recovery of overpaid \$25 supplement and certain benefit extensions	1	11-06	1	2010
17.225	ARRA-Unemployment Insurance	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.225	Unemployment Insurance	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.225	ARRA-Unemployment Insurance	Employment and Economic Development	No identification and recovery of overpaid \$25 supplemental benefit	1	12-03	3	2011
17.225	Unemployment Insurance	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.225	ARRA-Unemployment Insurance	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.225	Unemployment Insurance	Employment and Economic Development	Overpayment of extended benefits to one unemployment insurance recipient	2	12-05	5	2011
17.258	ARRA-WIA Adult Program	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.258	WIA Adult Program	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.258	WIA Adult Program	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.258	ARRA-Workforce Investment Act-Adult	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011

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U.S. Department of Labor (continued)							
17.258	WIA Adult Program	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	2	12-05	4	2011
17.258	ARRA-Workforce Investment Act-Adult	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	4	12-05	4	2011
17.259	ARRA-WIA Youth Activities	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.259	WIA Youth Activities	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.259	WIA Youth Activities	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.259	ARRA-Workforce Investment Act-Youth	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.259	WIA Youth Activities	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	2	12-05	4	2011
17.259	ARRA-Workforce Investment Act-Youth	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	4	12-05	4	2011
17.260	ARRA-WIA Dislocated Workers	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.260	WIA Dislocated Workers	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
17.260	ARRA-Workforce Investment Act-Dislocated Worker	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.260	ARRA-Workforce Investment Act-Dislocated Worker	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	4	12-05	4	2011
17.260	WIA Dislocated Workers	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.260	WIA Dislocated Workers	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	2	12-05	4	2011
17.277	Workforce Investment Act (WIA) Nat'l Emergency Grants	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.277	Workforce Investment Act (WIA) Nat'l Emergency Grants	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	4	12-05	4	2011
17.278	WIA Dislocated Worker Formula Grants	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
17.278	WIA Dislocated Worker Formula Grants	Employment and Economic Development	No documented support for expenditure monitoring of two subrecipients	2	12-05	4	2011
U.S. Department of Transportation							
20.106	Airport Improvement Program	Transportation	Written management decisions not issued	2	12-08	3	2011
20.106	ARRA - Airport Improvement Program	Transportation	Written management decisions not issued	2	12-08	3	2011
20.200	Highway Research and Development Program	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	11-11	1	2010
20.200	Highway Research and Development Program	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	12-08	1	2011
20.200	Highway Research and Development Program	Transportation	Inaccurate reporting of the status of prior audit findings	1	12-08	2	2011
20.205	Highway Planning and Construction	Transportation	Project oversight procedures need improvement	4	06-12	2	2005
20.205	Highway Planning and Construction	Transportation	Project oversight procedures need improvement	4	07-09	1	2006
20.205	Highway Planning and Construction	Transportation	Project oversight procedures not adequately followed	4	08-13	1	2007
20.205	Highway Planning and Construction	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	11-11	1	2010
20.205	Highway Planning and Construction	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	12-08	1	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	12-08	1	2011
20.205	Highway Planning/Research and Development	Transportation	Inaccurate reporting on the draft schedule of expenditures	5	12-08	1	2011
20.205	Highway Planning and Construction	Transportation	Inaccurate reporting of the status of prior audit findings	1	12-08	2	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Inaccurate reporting of the status of prior audit findings	1	12-08	2	2011
20.205	Highway Planning and Construction	Transportation	Written management decisions not issued	2	12-08	3	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Written management decisions not issued	2	12-08	3	2011
20.205	Highway Planning/Research and Development	Transportation	Written management decisions not issued	2	12-08	3	2011
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control for grading and base construction	4	DOT-09	1	2008
20.205	Highway Planning and Construction	Transportation	Noncompliance with concrete materials control requirements	4	DOT-09	3	2008
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control for grading and base construction	4	DOT-10	1	2009
20.205	Highway Planning and Construction	Transportation	Noncompliance with concrete materials control requirements	4	DOT-10	3	2009
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with materials control for bridge concrete and steel	4	DOT-11	1	2010
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control for bridge concrete and steel	4	DOT-11	1	2010
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with concrete materials control requirements	4	DOT-11	2	2010
20.205	Highway Planning and Construction	Transportation	Noncompliance with concrete materials control requirements	4	DOT-11	2	2010
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with materials control for grading and base construction	4	DOT-11	3	2010
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control for grading and base construction	4	DOT-11	3	2010
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with materials control requirements for bituminous pavement reclamation	4	DOT-11	4	2010
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with bridge and building removal requirements	4	DOT-11	5	2010
20.205	Highway Planning and Construction	Transportation	Noncompliance with bridge and building removal requirements	4	DOT-11	5	2010
20.205	Highway Planning and Construction	Transportation	Contractor intentional noncompliance with requirements	4	DOT-12	1	2011
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control for bridge and paving	4	DOT-12	2	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with materials control for bridge and paving	4	DOT-12	2	2011
20.205	Highway Planning and Construction	Transportation	Noncompliance with grading and base materials control	4	DOT-12	3	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with grading and base materials control	4	DOT-12	3	2011
20.205	Highway Planning and Construction	Transportation	Noncompliance with materials control requirements for bituminous pavement reclamation	4	DOT-12	4	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Noncompliance with materials control requirements for bituminous pavement reclamation	4	DOT-12	4	2011
20.205	Highway Planning and Construction	Transportation	Need to improve internal controls for agency sampling	4	DOT-12	5	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Need to improve internal controls for agency sampling	4	DOT-12	5	2011
20.205	Highway Planning and Construction	Transportation	Bridge removal requirements were not met	4	DOT-12	6	2011
20.205	ARRA-Highway Planning and Construction	Transportation	Bridge removal requirements were not met	4	DOT-12	6	2011

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U.S. Department of Energy							
81.042	ARRA-Weatherization Assistance for Low-Income Persons	Commerce	Inadequate monitoring of service provider compliance with certain federal requirements	1	11-10	1	2010
81.042	ARRA-Weatherization Assistance for Low-Income Persons	Commerce	No update of inventory records for equipment purchased with federal program funds	1	11-10	4	2010
81.042	Weatherization Assistance for Low-Income Persons	Commerce	No update of inventory records for equipment purchased with federal program funds	1	11-10	4	2010
81.042	ARRA-Weatherization Assistance for Low-Income Persons	Commerce	Inadequate controls ensuring contractor compliance with Davis Bacon Act	1	12-06	2	2011
81.042	ARRA-Weatherization Assistance for Low-Income Persons	Commerce	Inaccurate inventory records for equipment purchases with federal program funds	1	12-06	3	2011
81.042	Weatherization Assistance for Low-Income Persons	Commerce	Inaccurate inventory records for equipment purchases with federal program funds	1	12-06	3	2011
U.S. Department of Education							
84.007	Federal Supp Educational Opportunity Grants	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.007	Federal Supp Educational Opportunity Grants	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.010	Title I Grants to Local Educational Agencies	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
84.010	Title I Grants to Local Educational Agencies	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
84.010	Title I Grants to Local Educational Agencies	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
84.010	Title I Grants to Local Educational Agencies	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.027	Special Education_Grants to States	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
84.027	Special Education_Grants to States	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
84.027	Special Education_Grants to States	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
84.027	Special Education_Grants to States	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.033	Federal Work-Study Program	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.033	Federal Work-Study Program	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.038	Federal Perkins Loan	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.038	Federal Perkins Loan	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.063	Federal Pell Grant Program	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.063	Federal Pell Grant Program	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.126	Rehab Services_Vocational Rehab Grants	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
84.126	Rehab Services_Vocational Rehab Grants	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
84.126	Rehab Services_Vocational Rehab Grants	Employment and Economic Development	Inadequate control over supply and equipment purchases for clients	1	12-05	2	2011
84.126	Rehab Services_Vocational Rehab Grants	Employment and Economic Development	Costs incurred after end dates of employer grant agreement and client employment plan	1	12-05	3	2011
84.173	Special Education_Preschool Grants	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
84.173	Special Education_Preschool Grants	Education	No documented internal control structure ensuring compliance	1	10-08	1	2009
84.173	Special Education_Preschool Grants	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
84.173	Special Education_Preschool Grants	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.268	Federal Direct Student Loans	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.268	Federal Direct Student Loans	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.268	Federal Direct Student Loans	Minnesota State Colleges and Universities	One college did not provide exit counseling for all students	1	CLA-11	3	2011
84.367	Improving Teacher Quality State Grants	Education	Inadequate internal control structure over single audit requirements	2	09-08	1	2008
84.367	Improving Teacher Quality State Grants	Education	No documented internal control structure ensuring compliance	2	10-08	1	2009
84.367	Improving Teacher Quality State Grants	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
84.367	Improving Teacher Quality State Grants	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.375	Academic Competitiveness Grants	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.375	Academic Competitiveness Grants	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.376	National Science and Mathematics Access to Retain	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.376	National Science and Mathematics Access to Retain	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.379	Teacher Ed Assist for College and Higher Ed Grants	Minnesota State Colleges and Universities	Three colleges did not timely report changes in governance within the required ten days	1	CLA-11	1	2011
84.379	Teacher Ed Assist for College and Higher Ed Grants	Minnesota State Colleges and Universities	One college did not return Title IV funds timely	1	CLA-11	2	2011
84.389	ARRA-Title I Grants to Local Education Agencies	Education	No documented internal control structure ensuring compliance	2	11-12	1	2010
84.389	ARRA-Title I Grants to Local Education Agencies	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.390	ARRA-Rehab. Services_Vocational Rehab. Grants	Employment and Economic Development	No identification and monitoring of internal controls ensuring compliance	1	11-06	2	2010
84.390	ARRA-Vocational Rehabilitation	Employment and Economic Development	No documented internal controls over federal reporting and monitoring for compliance	1	12-05	1	2011
84.390	ARRA-Vocational Rehabilitation	Employment and Economic Development	Inadequate control over supply and equipment purchases for clients	1	12-05	2	2011
84.390	ARRA-Vocational Rehabilitation	Employment and Economic Development	Costs incurred after end dates of employer grant agreement and client employment plan	1	12-05	3	2011
84.410	ARRA - Education Jobs	Education	No documented internal control structure ensuring compliance	2	12-04	1	2011
84.410	ARRA - Education Jobs	Education	Noncompliance with subrecipient monitoring and notification requirements	1	12-04	2	2011
U.S. Department of Health and Human Services							
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.558	Temporary Assistance for Needy Families	Human Services	Inadequately addressing responsibility for monitoring accurate eligibility determinations	2	10-11	2	2009
93.558	Temporary Assistance for Needy Families	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	11-13	1	2010
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.558	Temporary Assistance for Needy Families	Human Services	Insufficient review of payroll reports	1	11-13	5	2010

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U.S. Department of Health and Human Services (continued)							
93.558	Temporary Assistance for Needy Families	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.558	Temporary Assistance for Needy Families	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	12-07	2	2011
93.558	Temporary Assistance for Needy Families	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.558	Temporary Assistance for Needy Families	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.558	Temporary Assistance for Needy Families	Human Services	Did not submit federal quarterly reports timely and error on Quarterly Report	1	12-07	11	2011
93.563	Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.563	ARRA-Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	4	10-11	1	2009
93.563	Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.563	ARRA-Child Support Enforcement	Human Services	No independent review of payroll reports	4	10-11	10	2009
93.563	Child Support Enforcement	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.563	ARRA-Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	4	11-13	2	2010
93.563	Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.563	ARRA-Child Support Enforcement	Human Services	Insufficient review of payroll reports	4	11-13	5	2010
93.563	Child Support Enforcement	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.563	ARRA-Child Support Enforcement	Human Services	Insufficient notification of federal award information to subrecipients	4	11-13	6	2010
93.563	Child Support Enforcement	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.563	Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.563	ARRA-Child Support Enforcement	Human Services	No documented internal control structure ensuring compliance	4	12-07	1	2011
93.563	Child Support Enforcement	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	1	12-07	3	2011
93.563	Child Support Enforcement	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.563	Child Support Enforcement	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.563	ARRA-Child Support Enforcement	Human Services	Insufficient notification of federal award information to subrecipients	4	12-07	10	2011
93.563	ARRA-Child Support Enforcement	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	4	12-07	3	2011
93.563	ARRA-Child Support Enforcement	Human Services	Insufficient review of payroll reports	4	12-07	8	2011
93.568	Low-Income Home Energy Assistance	Commerce	Inadequate monitoring of crisis emergency benefits paid to ineligible households	1	12-06	1	2011
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.575	Child Care and Development Block Grant	Human Services	Inadequately addressing responsibility for monitoring accurate eligibility determinations	2	10-11	2	2009
93.575	Child Care and Development Block Grant	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	11-13	1	2010
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.575	Child Care and Development Block Grant	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.575	Child Care and Development Block Grant	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.575	Child Care and Development Block Grant	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	12-07	2	2011
93.575	Child Care and Development Block Grant	Human Services	No monitoring of counties' efforts to detect fraudulent child care payments	2	12-07	4	2011
93.575	Child Care and Development Block Grant	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.575	Child Care and Development Block Grant	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.596	Child Care Mandatory and Matching Funds	Human Services	Inadequately addressing responsibility for monitoring accurate eligibility determinations	2	10-11	2	2009
93.596	Child Care Mandatory and Matching Funds	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	11-13	1	2010
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.596	Child Care Mandatory and Matching Funds	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.596	Child Care Mandatory and Matching Funds	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.596	Child Care Mandatory and Matching Funds	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	12-07	2	2011
93.596	Child Care Mandatory and Matching Funds	Human Services	No monitoring of counties' efforts to detect fraudulent child care payments	2	12-07	4	2011
93.596	Child Care Mandatory and Matching Funds	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.596	Child Care Mandatory and Matching Funds	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.658	Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.658	ARRA-Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	4	10-11	1	2009
93.658	Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.658	ARRA-Foster Care_Title IV-E	Human Services	No independent review of payroll reports	4	10-11	10	2009
93.658	Foster Care_Title IV-E	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.658	ARRA-Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	4	11-13	2	2010
93.658	Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.658	ARRA-Foster Care - Title IV-E	Human Services	Insufficient review of payroll reports	4	11-13	5	2010
93.658	Foster Care_Title IV-E	Human Services	Insufficient review of payroll reports	1	11-13	5	2010

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U.S. Department of Health and Human Services (continued)							
93.658	ARRA-Foster Care - Title IV-E	Human Services	Insufficient notification of federal award information to subrecipients	4	11-13	6	2010
93.658	Foster Care_Title IV-E	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.658	Foster Care_Title IV-E	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.658	ARRA-Foster Care - Title IV-E	Human Services	No documented internal control structure ensuring compliance	4	12-07	1	2011
93.658	Foster Care_Title IV-E	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	1	12-07	3	2011
93.658	Foster Care_Title IV-E	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.658	Foster Care_Title IV-E	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.658	ARRA-Foster Care - Title IV-E	Human Services	Insufficient notification of federal award information to subrecipients	4	12-07	10	2011
93.658	ARRA-Foster Care - Title IV-E	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	4	12-07	3	2011
93.658	ARRA-Foster Care - Title IV-E	Human Services	Insufficient review of payroll reports	4	12-07	8	2011
93.659	Adoption Assistance	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.659	Adoption Assistance	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.659	Adoption Assistance	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.659	Adoption Assistance	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.659	Adoption Assistance	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.659	Adoption Assistance	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.667	Social Services Block Grant	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.667	Social Services Block Grant	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.667	Social Services Block Grant	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.667	Social Services Block Grant	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.667	Social Services Block Grant	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.667	Social Services Block Grant	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.667	Social Services Block Grant	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.667	Social Services Block Grant	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.667	Social Services Block Grant	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.713	ARRA-Child Care and Development	Human Services	No documented internal control structure ensuring accurate eligibility determinations	4	11-13	1	2010
93.713	ARRA-Child Care and Development	Human Services	No documented internal control structure ensuring compliance	4	11-13	2	2010
93.713	ARRA-Child Care and Development	Human Services	Insufficient review of payroll reports	4	11-13	5	2010
93.713	ARRA-Child Care and Development	Human Services	Insufficient notification of federal award information to subrecipients	4	11-13	6	2010
93.713	ARRA-Child Care and Development	Human Services	No documented internal control structure ensuring compliance	4	12-07	1	2011
93.713	ARRA-Child Care and Development	Human Services	No documented internal control structure ensuring accurate eligibility determinations	4	12-07	2	2011
93.713	ARRA-Child Care and Development	Human Services	No monitoring of counties' efforts to detect fraudulent child care payments	4	12-07	4	2011
93.713	ARRA-Child Care and Development	Human Services	Insufficient review of payroll reports	4	12-07	8	2011
93.713	ARRA-Child Care and Development	Human Services	Insufficient notification of federal award information to subrecipients	4	12-07	10	2011
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	11-13	1	2010
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	No documented internal control structure ensuring accurate eligibility determinations	2	12-07	2	2011
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.714	ARRA-Emergency Contingency Fund for TANF	Human Services	Did not submit federal quarterly reports timely and error on Quarterly Report	1	12-07	11	2011
93.720	Survey and Certification	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.720	Survey and Certification	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.767	Children's Health Insurance Program	Human Services	Did not submit quarterly reports timely	4	07-08	5	2006
93.767	Children's Health Insurance Program	Human Services	Did not submit quarterly reports timely	4	08-12	6	2007
93.767	Children's Health Insurance Program	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.767	Children's Health Insurance Program	Human Services	Did not submit quarterly reports timely	4	09-10	6	2008
93.767	Children's Health Insurance Program	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.767	Children's Health Insurance Program	Human Services	Did not submit quarterly reports timely	4	10-11	8	2009
93.767	Children's Health Insurance Program	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.767	Children's Health Insurance Program	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.767	Children's Health Insurance Program	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.767	Children's Health Insurance Program	Human Services	Did not submit federal quarterly reports timely	4	11-13	8	2010
93.767	Children's Health Insurance Program	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.767	Children's Health Insurance Program	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.767	Children's Health Insurance Program	Human Services	Did not submit federal quarterly reports timely and error on Quarterly Report	1	12-07	11	2011
93.775	State Medicaid Fraud Control Units	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.775	State Medicaid Fraud Control Units	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.777	State Survey and Cert of Health Care Providers	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.777	State Survey and Cert of Health Care Providers	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2012

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND. NO.	AUDIT REPORT FISCAL YR.
U.S. Department of Health and Human Services (continued)							
93.777	State Survey and Cert of Health Care Providers	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.777	State Survey and Cert of Health Care Providers	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.777	State Survey and Cert of Health Care Providers	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.777	State Survey and Cert of Health Care Providers	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.777	State Survey and Cert of Health Care Providers	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.778	Medical Assistance Program	Human Services	Did not submit quarterly reports timely	4	07-08	5	2006
93.778	Medical Assistance Program	Human Services	Did not submit quarterly reports timely	4	08-12	6	2007
93.778	Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.778	Medical Assistance Program	Human Services	Did not submit quarterly reports timely	4	09-10	6	2008
93.778	ARRA-Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	4	10-11	1	2009
93.778	Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.778	ARRA-Medical Assistance Program	Human Services	Did not submit quarterly reports timely	4	10-11	8	2009
93.778	Medical Assistance Program	Human Services	Did not submit quarterly reports timely	4	10-11	8	2009
93.778	ARRA-Medical Assistance Program	Human Services	No independent review of payroll reports	4	10-11	10	2009
93.778	Medical Assistance Program	Human Services	No independent review of payroll reports	1	10-11	10	2009
93.778	ARRA-Medical Assistance Program	Human Services	Lack of adequate separation of duties	4	10-34	2	2010
93.778	Medical Assistance Program	Human Services	Lack of adequate separation of duties	1	10-34	2	2010
93.778	ARRA-Medical Assistance Program	Human Services	Lack of system change control standards	4	10-34	3	2010
93.778	Medical Assistance Program	Human Services	Lack of system change control standards	1	10-34	3	2010
93.778	ARRA-Medical Assistance Program	Human Services	Lack of logging or monitoring of system files	4	10-34	4	2010
93.778	Medical Assistance Program	Human Services	Lack of logging or monitoring of system files	1	10-34	4	2010
93.778	ARRA-Medical Assistance Program	Human Services	Unnecessary employee access to program subsystem	4	10-34	5	2010
93.778	Medical Assistance Program	Human Services	Unnecessary employee access to program subsystem	2	10-34	5	2010
93.778	ARRA-Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	4	11-13	2	2010
93.778	Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.778	ARRA-Medical Assistance Program	Human Services	Insufficient review of payroll reports	4	11-13	5	2010
93.778	Medical Assistance Program	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.778	ARRA-Medical Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	4	11-13	6	2010
93.778	Medical Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	1	11-13	6	2010
93.778	ARRA-Medical Assistance Program	Human Services	Did not submit federal quarterly reports timely	4	11-13	8	2010
93.778	Medical Assistance Program	Human Services	Did not submit federal quarterly reports timely	4	11-13	8	2010
93.778	Medical Assistance Program	Human Services	Lack of adequate separation of duties	2	12-03	2	2011
93.778	Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.778	Medical Assistance Program	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	1	12-07	3	2011
93.778	Medical Assistance Program	Human Services	Unnecessary employee access to program subsystem	2	12-03	2	2011
93.778	ARRA-Medical Assistance Program	Human Services	Lack of adequate separation of duties	4	12-03	2	2011
93.778	ARRA-Medical Assistance Program	Human Services	Unnecessary employee access to program subsystem	4	12-03	2	2011
93.778	ARRA-Medical Assistance Program	Human Services	No documented internal control structure ensuring compliance	4	12-07	1	2011
93.778	ARRA-Medical Assistance Program	Human Services	Allocated costs to programs that may not have been allowable for federal reimbursement	4	12-07	3	2011
93.778	Medical Assistance Program	Human Services	Lack of logging or monitoring of all system files	1	12-07	6	2011
93.778	ARRA-Medical Assistance Program	Human Services	Lack of logging or monitoring of system files	4	12-07	6	2011
93.778	Medical Assistance Program	Human Services	Lack of documentation related to system changes	1	12-07	7	2011
93.778	ARRA-Medical Assistance Program	Human Services	Lack of documentation related to system changes	4	12-07	7	2011
93.778	Medical Assistance Program	Human Services	Insufficient review of payroll reports	1	12-07	8	2011
93.778	ARRA-Medical Assistance Program	Human Services	Insufficient review of payroll reports	4	12-07	8	2011
93.778	Medical Assistance Program	Human Services	Inaccurate reporting of expenditures on SEFA and notes to Schedule	5	12-07	9	2011
93.778	ARRA-Medical Assistance Program	Human Services	Inaccurate reporting of expenditures on SEFA and notes to Schedule	4	12-07	9	2011
93.778	Medical Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	2	12-07	10	2011
93.778	ARRA-Medical Assistance Program	Human Services	Insufficient notification of federal award information to subrecipients	4	12-07	10	2011
93.778	Medical Assistance Program	Human Services	Did not submit federal quarterly reports timely and error on Quarterly Report	1	12-07	11	2011
93.778	ARRA-Medical Assistance Program	Human Services	Did not submit federal quarterly reports timely and error on Quarterly Report	4	12-07	11	2011
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	No documented internal control structure ensuring compliance	2	09-10	1	2008
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	No documented internal control structure ensuring compliance	2	10-11	1	2009
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	No documented internal control structure ensuring compliance	2	11-13	2	2010
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	Insufficient review of payroll reports	1	11-13	5	2010
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	No documented internal control structure ensuring compliance	2	12-07	1	2011
93.959	Block Grants - Prevention, Treatment of Substance Abuse	Human Services	Insufficient review of payroll reports	1	12-07	8	2011

**STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2012**

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND. NO.	AUDIT REPORT FISCAL YR.
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Note 1: Beginning in Fiscal Year 2010, the regularly appropriated and Recovery Act funded benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA 10.551) are no longer separately reported per federal requirements. Therefore, prior audit findings for this program, regardless of funding source, are being reported under CFDA 10.551, Supplemental Nutrition Assistance Program.

*CATEGORY OF CORRECTIVE ACTION TAKEN

1 - Findings have been fully corrected.

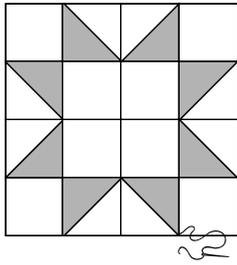
2 - Findings are not corrected or are only partially corrected.

3 - Corrective action taken was significantly different than previously reported.

4 - Audit findings are no longer valid or do not warrant further action.

5 - The Office of the Legislative Auditor disclaimed the opinion on the Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2012. No audit work was completed to assess the status of prior year findings related to the SEFA.

For Categories 2 and 3, please refer to Status of Prior Federal Program Audit Findings supplemental information for further details.



State of Minnesota

Financial and Compliance Report on Federally Assisted Programs Fiscal Year Ended June 30, 2012

Supplemental Information Status of Prior Federal Program Audit Findings

Below are explanations for findings not fully corrected or where the corrective action taken differs significantly from the previously-stated corrective action plan.

Report 09-08

State Agency: Minnesota Department of Education

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title 1 - Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality State Grants

Finding 09-08-1 *Inadequate internal control structure over single audit requirements.*

- 1. The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements.**

This finding is repeated in the current audit report. See Section III, Report 13-14, Finding 1, for the Department of Education's response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 09-10

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care and Development - Mandatory and Matching
93.658	Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Health Insurance Program
93.777	State Health Care Provider Survey
93.778	Medical Assistance
93.959	Substance Abuse

Finding 09-10-1 *No documented internal control structure ensuring compliance.*

- 1. The Department of Human Services did not identify, analyze, and document its internal controls related to business operations and the schedules of federal expenditures.**

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 2, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 10-08

State Agency: Minnesota Department of Education

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title 1- Grant to Local Education Agencies
84.027	Special Education - State Grants
84.173	Special Education - Preschool Grants
84.367	Improving Teacher Quality State Grants

Finding 10-08-1 No documented internal control structure ensuring compliance.

1. Prior Finding Partially Resolved: The Department did not identify, analyze, and document its internal controls over compliance with federal single audit requirements. (Prior Finding 09-08-1)

This finding is repeated in the current audit report. See Section III, Report 13-14, Finding 1, for the Minnesota Department of Education's response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 10-11

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.563	ARRA Child Support Enforcement
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care
93.658	ARRA Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.777	State Health Care Provider Survey
93.778	Medical Assistance
93.778	ARRA Medical Assistance
93.959	Block Grants for Substance Abuse

Finding 10-11-1 *No documented internal control structure ensuring compliance.*

1. Prior Finding Partially Resolved: The Department of Human Services did not identify, analyze, and document its internal controls related to business operations and the schedules of federal expenditures. (Prior Finding 09-10-1)

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 2, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 10-11

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development - Mandatory and Matching

Finding 10-11-2 *Inadequately addressing responsibility for monitoring accurate eligibility determinations.*

- 2. The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate eligibility determinations for some major federal programs.**

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 1, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 10-34

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.778 Medical Assistance

93.778 ARRA Medical Assistance

Finding 10-34-5 *Unnecessary employee access to program subsystem.*

5. Prior Finding Partially Resolved: The Department of Human Services did not have sufficient controls to limit, monitor, or prevent incompatible or unnecessary access to the Medical Assistance system and the cash and food benefits system.

This finding is repeated in the current audit report. See Section II for more information. Report 13-06 contains the Department of Human Services' response for Finding 4.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 11-12

State Agency: Minnesota Department of Education

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title I – Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality State Grants
84.389	ARRA – Title I – Grants to Local Education Agencies

Finding 11-12-1 *No documented internal control structure ensuring compliance.*

- 1. Prior Finding Partially Resolved: The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements.**

This finding is repeated in the current audit report. See Section III, Report 13-14, Finding 1, for the Department of Education's response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 11-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families (TANF)
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Matching
93.713	ARRA - Child Care and Development – Discretionary
93.714	ARRA – Emergency Contingency Fund for TANF

Finding 11-13-1 *No documented internal control structure ensuring accurate eligibility determinations.*

- 1. Prior Finding Not Resolved: The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determinations for three major federal programs.**

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 1, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 11-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Matching
93.658	Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.714	ARRA – Emergency Contingency Fund for TANF
93.767	Children’s Health Insurance Program
93.777	State Health Care Providers Survey
93.778	Medical Assistance
93.959	Block Grants for Substance Abuse

Finding 11-13-2 *No documented internal control structure ensuring compliance.*

2. Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 2, for the Department of Human Services’ response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 11-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.563	ARRA - Child Support Enforcement
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Matching
93.658	Foster Care
93.658	ARRA - Foster Care
93.667	Social Services Block Grant
93.713	ARRA – Child Care and Development
93.777	State Health Care Providers Survey
93.778	Medical Assistance
93.778	ARRA - Medical Assistance

Finding 11-13-6 *Insufficient notification of federal award information to subrecipients.*

6. The Department of Human Services did not communicate all federal award information to subrecipients for seven major federal programs.

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 8, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-03

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.778 Medical Assistance

93.778 ARRA-Medical Assistance

Finding 12-03-2 *Lack of adequate separation of duties.*

- 2. Prior Finding Partially Resolved: Several agencies allowed employees to have inappropriate access to state business systems or perform incompatible duties without establishing mitigating controls.**

This finding is repeated in the current audit report. See Section III, Report 13-06, Finding 4, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-03

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Human Services

CFDA Numbers/Program Names:

93.778 Medical Assistance

93.778 ARRA-Medical Assistance

Finding 12-03-2 *Unnecessary employee access to program subsystem.*

- 2. Prior Finding Partially Resolved: Several agencies allowed employees to have inappropriate access to state business systems or perform incompatible duties without establishing mitigating controls.**

This finding is repeated in the current audit report. See Section III, Report 13-06, Finding 4, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-04

State Agency: Minnesota Department of Education

Federal Agencies: U. S. Department of Agriculture
U. S. Department of Education

CFDA Numbers/Program Names:

10.553	School Breakfast Program
10.555	National School Lunch
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
84.010	Title I – Grant to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality State Grants
84.389	ARRA – Title I – Grants to Local Education Agencies
84.410	ARRA – Education Jobs Fund

Finding 12-04-1 *No documented internal control structure ensuring compliance.*

1. Prior Finding Not Resolved: The Department of Education did not identify, analyze, and document its internal controls over compliance with federal single audit requirements.

This finding is repeated in the current audit report. See Section III, Report 13-14, Finding 1, for the Department of Education’s response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-05

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.258	Workforce Investment Act – Adult
17.258	ARRA-Workforce Investment Act – Adult
17.259	Workforce Investment Act – Youth
17.259	ARRA-Workforce Investment Act – Youth
17.260	Workforce Investment Act – Dislocated Worker
17.260	ARRA-Workforce Investment Act – Dislocated Worker
17.277	Workforce Investment Act – National Emergency Grants
17.278	Workforce Investment Act – Dislocated Workers Formula Grants

Finding 12-05-4 No documented support for expenditure monitoring of two subrecipients.

- 4. The Department of Employment and Economic Development did not retain evidence of monitoring two subrecipients for the Workforce Investment Act Cluster (CFDA 17.258, 17.259, 17.260, 17.277 and 17.278).**

This finding is repeated in the current audit report. See Section III, Report 13-08, Finding 1, for the Department of Employment and Economic Development's response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-05

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.225 Unemployment Insurance

Finding 12-05-5 Overpayment of extended benefits to one unemployment insurance recipient.

- 5. The Department of Employment and Economic Development did not identify and recover overpaid federal unemployment insurance (CFDA 17.225) benefits to one applicant.**

This finding is repeated in the current audit report. See Section III, Report 13-08, Finding 4, for the Department of Employment and Economic Development's response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-07

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Number/Program Name:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.563	ARRA - Child Support Enforcement
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Match
93.658	Foster Care
93.658	ARRA - Foster Care
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.713	ARRA – Child Care and Development
93.714	ARRA – Emergency Contingency Fund for TANF
93.767	Children’s Health Insurance Program
93.777	State Health Care Providers Survey
93.778	Medical Assistance
93.778	ARRA - Medical Assistance
93.959	Block Grants for Substance Abuse

Finding 12-07-1 *No documented internal control structure ensuring compliance.*

1. Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 2, for the Department of Human Services’ response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-07

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance for Needy Families (TANF)
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Match
93.713	ARRA – Child Care and Development
93.714	ARRA – Emergency Contingency Fund for TANF

Finding 12-07-2 *No documented internal control structure ensuring accurate eligibility determinations.*

- 2. Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.**

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 1, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-07

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Match
93.713	ARRA - Child Care and Development

Finding 12-07-4 *No monitoring of counties' efforts to detect fraudulent child care payments.*

- 4. The Department of Human Services did not adequately monitor the counties efforts to detect fraudulent child care payments and ensure they properly recovered the payments.**

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 3, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-07

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	Supplemental Nutrition Assistance Program (SNAP) Administration
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.563	ARRA - Child Support Enforcement
93.575	Child Care and Development - Discretionary
93.596	Child Care and Development – Mandatory and Match
93.658	Foster Care
93.658	ARRA - Foster Care
93.667	Social Services Block Grant
93.713	ARRA – Child Care and Development
93.714	ARRA – Emergency Contingency for TANF
93.777	State Health Care Providers Survey
93.778	Medical Assistance
93.778	ARRA - Medical Assistance

Finding 12-07-10 *Insufficient notification of federal award information to subrecipients.*

10. Prior Finding Not Resolved: The Department of Human Services did not communicate all federal award information to the subrecipients and did not require subrecipients to provide the Data Universal Numbering System (DUNS) number.

This finding is repeated in the current audit report. See Section III, Report 13-15, Finding 8, for the Department of Human Services' response.

Supplemental Information (continued)
Status of Prior Federal Program Audit Findings

Report 12-08

State Agency: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Numbers/Program Names:

20.106	Airport Improvement Program
20.106	ARRA-Airport Improvement Program
20.205	Highway Planning and Construction Program
20.205	ARRA-Highway Planning and Construction Program
20.205	R&D-Highway Planning and Construction Program

Finding 12-08-3 *Written management decisions not issued.*

3. The Department of Transportation did not issue written management decisions on audit findings in subrecipient single audit reports.

This finding is repeated in the current audit report. See Section III, Report 13-17, Finding 1, for the Department of Transportation's response.