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Fiscal Year 2003
Annual Report

to the

Governor
&
Legislature

Introduction

The Public Facilities Authority (Authority) provides financial assistance to municipalities through the Water Pollution Control Revolving Fund, Drinking Water Revolving Fund, Transportation Revolving Loan Fund and the Wastewater Infrastructure Funding program for construction of vital infrastructure. In addition, the Authority administers a County Credit Enhancement Program to provide AA+/AA1 bond ratings on county General Obligation bonds related to law enforcement facilities, social and human services buildings, and solid waste facilities. The Department of Trade and Economic Development provides the administrative support to operate the programs of the Authority. The Authority works closely with the Minnesota Pollution Control Agency, the Minnesota Department of Health, and the Department of Transportation in financing wastewater, drinking water and transportation related projects. These agencies are responsible for establishing priorities and undertaking the technical and regulatory compliance work on projects being considered for financing by the Authority.

Water Pollution Control Revolving Fund

In 1987, the Minnesota Legislature created the Authority with a mandate to establish the Water Pollution Control Revolving Fund. The program was designed to provide below-market rate financing in perpetuity for the financing of municipal wastewater treatment and collection facilities. Minnesota's revolving fund has AAA/AAA/Aaa ratings by Standard & Poor's Corporation, Fitch IBCA, and Moody's Investor Service. The practical effect of the Authority's funds and management practices has been to minimize the cost of borrowing for Minnesota municipalities and their taxpayers and ratepayers.

The Authority leverages State and Federal seed money through revenue bond sales. The Authority issued \$100,000,000 in Water Pollution Control Revolving Fund Bonds in FY 2002 for a total of \$1,102,962,116.65 since the first issue in 1989. The Fund has an outstanding balance of \$709,575,012 as of June 30, 2003. During fiscal year 2003 the Authority made 17 loans for \$175,099,841 to municipalities and provided \$2,000,000 for a variety of nonpoint source pollution projects administered by the Department of Agriculture and MPCA. Exhibit 1 contains lists of projects financed during state fiscal year 2003.

Wastewater Infrastructure Funding Program

The Wastewater Infrastructure Funding (WIF) program was created to be used in combination with the Water Pollution Control Revolving Fund and was later modified to also match grant funds provided by the US Department of Agriculture's Rural Development loan and grant programs to keep wastewater projects affordable.

In fiscal year 2003, the Authority awarded a total of 4 grants for \$2,732,836. . The Authority has also reserved \$4,601,836 for 3 projects that have met the program requirements under Mn. Laws 2000, Ch.492, Art.1, Sec. 22, Subd. 3 and \$15,000,000 for 5 communities that meet the requirements of Mn. Law 2003, Ch. 20, Sec. 12, Subd. 3. We expect awarded these funds following final technical approvals by MPCA and bidding of the projects by the communities.

Drinking Water Revolving Fund

The Authority made 26 loans for \$52,876,376 using a combination of State match funds, Federal capitalization grants and AAA/AAA/Aaa rated Drinking Water Revolving Fund Revenue Bonds. Two projects also received \$1,000,000 in grants from Federal funds for principal forgiveness under the Disadvantaged Community provisions of the Federal Safe Drinking Water Act. A listing of the loans made in fiscal year 2003 is in Exhibit 3.

Transportation Revolving Loan Fund Program

This program was created during the 1997 Legislature in response to the new federal initiative to create State Infrastructure Banks as a way to develop innovative financing of transportation projects to help address the growing gap between transportation needs and funding availability. During fiscal year 2003 the Legislature remove \$8.2 million dollars from the fund. Which eliminate any opportunity for making loans.

Financial Condition of the Authority's Revolving Funds

The 2003 annual audit of the Authority is in Exhibit 4. The PFA remains in excellent financial health. All three Funds have bonds outstanding and are highly rated. All PFA Bonds outstanding have AAA ratings by at least two national bond rating agencies with the one exception of the \$20,450,000 in Transportation Revenue Bonds for a closed pool of nine municipalities that were rated Aa2 by Moody's Investor Services.

Exhibit 1

Water Pollution Control Revolving Fund
List of Projects Financed during State Fiscal Year 2003

Borrower	Loan Commitment		
	Date	Rate	Amount
Duluth, City of (Fondulac)	7/15/2002	1.000%	\$ 364,195
Dassel, City of	7/18/2002	1.380%	1,666,300
Montrose, City of-2nd	8/14/2002	2.740%	4,209,000
Lake City, City of-4th	8/30/2002	2.990%	4,800,000
St Peter, City of-2nd	9/5/2002	2.040%	7,260,850
Red Wing, City of-4th	9/10/2002	3.740%	2,100,000
Chandler, City of	9/11/2002	1.000%	1,470,000
Shafer, City of-2nd	9/12/2002	1.630%	1,167,000
Western Lk Superior SD-7th	10/22/2002	3.240%	3,250,000
Avon, City of	11/8/2002	1.820%	8,016,196
Hibbing, City of	12/10/2002	1.740%	9,847,450
Metropolitan Council-13th	12/19/2002	3.383%	100,000,000
Belle Plaine, City of	1/21/2003	1.990%	10,754,000
Montgomery, City of	1/23/2003	1.000%	8,801,945
Montrose, City of-3rd	1/23/2003	2.740%	1,566,000
Little Falls, City of	1/27/2003	1.240%	4,248,645
Albany, City of	4/17/2003	3.490%	1,324,014
Battle Lake, City of	6/10/2003	1.000%	1,749,246
Wheaton, City of	6/26/2003	2.240%	2,505,000
total binding commitments state fiscal year 2003, WPCRF			\$ 175,099,841

Exhibit 2

Wastewater Infrastructure Funding Program List of Projects Financed during State Fiscal Year 2003

<u>Grantee</u>	<u>Date</u>	<u>Grant Amount</u>
South Haven	7/24/2002	\$ 925,000
Delavan	10/30/2002	723,500
Dayton-2nd	12/27/2002	363,336
Crane Lake Area SD	6/27/2003	721,000
<u>total grants state fiscal year 2003, WIF</u>		<u>\$ 2,732,836</u>

Exhibit 3

Drinking Water Revolving Fund List of Projects Financed during State Fiscal Year 2003

Borrower / Grantee	Loan / Grant Commitment		
	Date	Rate	Amount
Loans:			
Alexandria, City of	7/9/2002	3.380%	\$ 1,146,700
Wadena, City of	7/9/2002	2.670%	2,617,891
Keewatin, City of	7/29/2002	2.880%	500,000
Dawson, City of	8/20/2002	3.320%	914,497
Pine River, City of	9/13/2002	1.630%	167,260
Cloquet, City of	9/17/2002	3.380%	2,077,005
New Prague, City of	9/23/2002	3.630%	3,150,000
Lakefield, City of	9/24/2002	2.880%	2,461,570
Sebeka, City of	10/10/2002	1.130%	266,300
Deer River, City of	10/15/2002	1.630%	322,131
Glyndon, City of	10/24/2002	2.380%	959,000
Coleraine, City of	10/28/2002	2.380%	1,572,375
Clearwater, City of-1st	11/20/2002	2.130%	686,486
Kenyon, City of	12/4/2002	3.240%	224,000
Breitung Township-2nd	12/11/2002	2.490%	117,500
Minneapolis, City of	12/12/2002	2.819%	27,400,000
Osakis, City of	12/16/2002	2.920%	666,377
Ottertail, City of	1/9/2003	1.170%	1,536,000
Fertile, City of	1/13/2003	1.130%	1,200,000
Arlington, City of	1/22/2003	2.990%	110,000
Dalton, City of	3/6/2003	2.680%	134,711
Staples, City of	3/18/2003	1.490%	1,400,000
Gilbert, City of	4/23/2003	2.880%	159,650
Cass Lake, City of	5/14/2003	1.990%	626,693
Battle Lake, City of	6/10/2003	1.490%	1,392,230
Jordan, City of-2nd	6/18/2003	2.819%	1,068,000
Grants:			
Coleraine, City of	10/28/2002	n/a	500,000
Ottertail, City of	1/9/2003	n/a	500,000
total binding commitments state fiscal year 2003, DWRF			\$ 53,876,376

Exhibit 4

Water Pollution Control Revolving Fund
List of Projects Financed during State Fiscal Year 2003

<u>Borrower</u>	<u>Loan Commitment</u>		
	<u>Date</u>	<u>Rate</u>	<u>Amount</u>
<u>total binding commitments state fiscal year 2003, TRLF</u>			<u>\$ -</u>

Exhibit 5

Minnesota Public Facilities Authority
Audit Report for the Fiscal Year Ended June 30, 2003

Minnesota Public Facilities Authority
(A Component Unit of the State of Minnesota)

Financial and Compliance Reports
June 30, 2003

Minnesota Public Facilities Authority
(A Component Unit of the State of Minnesota)

Financial and Compliance Reports
June 30, 2003

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Minnesota Public Facilities Authority
St. Paul, Minnesota

We have audited the accompanying statement of net assets of the Minnesota Public Facilities Authority (the Authority), a component unit of the State of Minnesota, as of June 30, 2003, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority for the year ended June 30, 2002, as restated for the matter discussed in Note 9 to the financial statements, were audited by other auditors, whose report dated October 15, 2002 (November 26, 2003, as to the restatement), expressed an unqualified opinion on those statements.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2003, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying supplemental schedule of expenditures of federal awards for the year ended June 30, 2003, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
November 26, 2003

Management's Discussion and Analysis

This section of the Minnesota Public Facilities Authority's (the Authority) annual financial report presents a discussion and analysis of the financial condition as of and financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the financial statements and notes following this section.

Introduction and Discussion of the Authority's Operations:

The Authority was created in 1987 by the State of Minnesota under Minnesota Statutes, Chapter 446A. The Minnesota Department of Trade and Economic Development provides administrative staff and support services to the Authority. The Authority provides low interest loans and some grants to Minnesota municipalities to help finance infrastructure for clean water, drinking water, and transportation projects. Federal grants and state appropriations received by the Authority may be used directly or leveraged with proceeds of the Authority's revenue bonds.

The Authority has issued tax-exempt revenue bonds the proceeds of which are deposited into four separate bond funds. Revenues and assets of each bond fund are separately pledged to the holders of that fund's bonds for debt service payments. Assets and revenues of the Authority outside of the bond funds are not pledged, and are used for grant and loan programs and general administration.

Financial Statement Presentation:

The basic financial statements following Management's Discussion and Analysis consist of those required for a special purpose governmental entity engaged in business-type activities:

- *Statement of Net Assets* - This is presented in the format of assets (financial and capital resources) less liabilities equals net assets. The portion of net assets that is reported as restricted has constraints on its use due to bond resolutions and or enabling legislation.
- *Statement of Revenues, Expenses, and Changes in Fund Net Assets* - This statement presents the accrual basis operations and the resulting change in fund net assets of the Authority for the fiscal year.
- *Statement of Cash Flows* - This statement presents useful information regarding the sufficiency of cash flows to meet debt service requirements, because it includes cash flows such as principal received on loans and principal paid on bonds.

Statements for the fiscal year ended June 30, 2003 are followed by statements for the fiscal year ended June 30, 2002 to allow comparison of the Authority's financial position and results of operations for the current and prior fiscal years.

These statements are prepared on the accrual basis and present information on the Authority's overall financial position and results of operations. Assets and revenues of the separate funds contained within these statements are generally restricted as to use and the reader should not assume they might be used in any aggregate manner.

The Authority defines each of its four funds under separate bond resolutions as major funds for financial reporting purposes, with all other accounts and activities outside of these bond resolutions reported in the Other Fund.

A summary of the major funds reported by the Authority follows. A more detailed description of each is presented later in the section headed *Analysis of Individual Funds' Balances and Transactions for Bond Funds*.

- *Clean Water Bond Fund (CWBF)*: In conjunction with the Minnesota Pollution Control Agency (MPCA), the Authority provides loans from the fund to municipalities for wastewater treatment projects certified by the MPCA.
- *Drinking Water Bond Fund (DWBF)*: In conjunction with the Minnesota Department of Health, the Authority provides loans for public drinking water facilities.
- *Transportation Bond Funds (TBF)*: Two separate closed resolutions have been created to make loans in cooperation with the Minnesota Department of Transportation: (1) TBF Series 1999A and (2) TBF Series 2001.
- *Other*: all of the Authority's non revenue bond activity and accounts are aggregated in the Other Fund.

Within each of the bond funds, the Authority uses bond proceeds, federal capitalization grants, and state matching funds to make loans, pay for the costs of issuing debt, and to fund debt service reserve accounts when used. Federal capitalization grants and state matching grants within these funds are recognized as contributed capital. Net loan repayments and investment earnings provide the necessary cash flow to pay the required debt service on the bonds.

The operations in the Other Fund consist of administrative costs paid by a portion of the loan repayments or by federal grant funds, and grant and loan programs funded through interest earnings, loan repayments, and federal grants and state appropriations, recognized in these accounts primarily as revenue.

Condensed Financial Information:

The following page presents condensed financial statement information as of and for the fiscal years ended June 30, 2003 and 2002.

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Minnesota Public Facilities Authority
Condensed Financial Statement Information

Condensed Statements of Net Assets June 30, 2003 and 2002

	2003	2002
Assets:		
Cash, cash equivalents, and investments	\$ 472,975,901	\$ 422,959,163
Loans receivable	1,068,878,825	908,159,118
Other	25,752,422	28,946,861
Total assets	<u>1,567,607,148</u>	<u>1,360,065,142</u>
Liabilities:		
Interest payable on bonds	13,517,146	11,755,498
Bonds payable	814,188,161	696,453,275
Other	10,342,668	14,897,123
Total liabilities	<u>838,047,975</u>	<u>723,105,896</u>
Net Assets	<u>\$ 729,559,173</u>	<u>\$ 636,959,246</u>

**Condensed Statements of Revenues, Expenses, and Changes
in Fund Net Assets, Years ended June 30, 2003 and 2002**

	2003	2002
Operating Revenues:		
Interest on loans	\$ 33,799,200	\$ 29,902,550
Investment earnings	16,514,223	18,946,117
Grants, appropriations, and fees	22,036,328	3,589,514
Other	9,557,347	4,125,924
Total operating revenues	<u>81,907,098</u>	<u>56,564,105</u>
Operating Expenses:		
Interest on bonds	39,199,824	35,765,460
Other	24,895,856	20,108,926
Total operating expenses	<u>64,095,680</u>	<u>55,874,386</u>
Operating Income	17,811,418	689,719
Capital Contributions	74,788,509	51,608,174
Change in Net Assets	92,599,927	52,297,893
Net Assets at Beginning of Year	636,959,246	584,661,353
Net Assets at End of Year	<u>\$ 729,559,173</u>	<u>\$ 636,959,246</u>

Condensed Statements of Cash Flows, Years ended June 30, 2003 and 2002

	2003	2002
Operating Activities:		
Principal and interest received on loans	\$ 82,498,535	\$ 71,679,550
Operating grants, appropriations, and fees	21,869,878	3,606,289
Other	(24,300,657)	(19,429,493)
Net cash provided by operating activities	<u>80,067,756</u>	<u>55,856,346</u>
Non Capital Financing Activities:		
Capital contributions	74,788,509	51,608,174
Proceeds from sales of bonds	158,440,193	92,908,323
Payments to make loans	(211,076,042)	(167,476,095)
Principal and interest paid on bonds	(78,087,895)	(66,817,936)
Other payments	(226,493)	(280,715)
Net cash used in non capital financing activities	<u>(56,161,728)</u>	<u>(90,058,249)</u>
Investing Activities	<u>(19,821,613)</u>	<u>40,196,972</u>
Net increase in cash and cash equivalents	4,084,415	5,995,069
Cash and cash equivalents at beginning of year	196,013,576	190,018,507
Cash and cash equivalents at end of year	<u>\$ 200,097,991</u>	<u>\$ 196,013,576</u>

The following table summarizes certain activities during the fiscal years 2003 and 2002 for reference with the following discussion and analysis.

	<u>2003</u>	<u>2002</u>
Operating revenues and capital contributions from federal grants and state appropriations:		
Clean Water Bond Fund (CWBF):		
Clean water federal capitalization grants	\$ 49,362,993	\$ 25,265,797
State match		11,800,000
Drinking Water Bond Fund (DWBF):		
Drinking water federal capitalization grants	25,306,716	8,223,577
State match		6,200,000
Other Fund:		
Clean water federal capitalization grants		120,753
Drinking water federal capitalization grants	3,909,828	3,208,620
Transportation revolving loan fund federal grant	118,800	118,800
Other grant programs	18,125,000	275,635
	<u>\$ 96,823,337</u>	<u>\$ 55,213,182</u>
Bonds Payable (par):		
issued	\$ 150,000,000	\$ 90,450,000
redeemed	<u>(41,025,000)</u>	<u>(32,820,000)</u>
net increase	<u>\$ 108,975,000</u>	<u>\$ 57,630,000</u>
Loans Receivable:		
disbursed	\$ 211,076,042	\$ 167,476,095
repaid	<u>(50,356,335)</u>	<u>(43,237,001)</u>
net increase	<u>\$ 160,719,707</u>	<u>\$ 124,239,094</u>

Analysis of the Authority's Overall Financial Position and Results of Operations:

During the fiscal year ended June 30, 2003 assets increased by approximately \$207.5 million, primarily due to deposits of federal capitalization grants and the deposit of net proceeds from bond issuances. Liabilities increased by approximately \$115 million primarily due to new bond issuances of \$150,000,000 compared to redemptions of \$41,025,000 (par).

The drop in market interest rates affected the results of operations during fiscal year 2003. The weighted average interest rate on outstanding loan balances declined from 3.62% at June 30, 2002 to 3.48% at June 30, 2003. Interest income on loans increased, however, by 13%, as a result of the outstanding loan balance increasing approximately 18% during FY 2003.

Falling interest rates impacted investment earnings, which were 13% lower in fiscal year 2003 than in fiscal year 2002. The weighted average earnings rate (investment earnings ÷ average cash and investments balance) declined from 4.65% during fiscal year 2002 to 3.96% during fiscal year 2003.

The Authority made 45 loan commitments during fiscal year 2003 for approximately \$228 million, and 43 during fiscal year 2002 for approximately \$174 million.

Discussion of Long-term Debt Activity, Credit Ratings, and Debt Limitations:

During fiscal year 2003 the Authority issued Clean Water bonds of \$100,000,000 par and Drinking Water bonds of \$50,000,000 par, both in December 2002. During fiscal year 2002 the Authority issued Clean Water bonds of \$70,000,000 par in November 2001 and Transportation closed pool bonds of \$20,450,000 par in December 2001.

The Clean Water and Drinking Water bonds are rated triple A by Standard and Poor's (AAA), Moody's (Aaa), and Fitch Ratings (AAA). The Transportation Series 1999A bonds are also rated triple A by Standard and Poor's (AAA) and Moody's (Aaa). The Transportation Series 2001 bonds are rated Aa2 by Moody's.

The Authority's outstanding debt limit is \$1,000,000,000. The Authority bonds do not constitute a debt of the State of Minnesota or any agency or political subdivision thereof (other than the Authority). The principal amount of bonds outstanding at June 30, 2003 was \$813,880,000.

Analysis of Individual Funds' Balances and Transactions for Bond Funds:

This section will provide general information on each bond fund, followed by presentation and analysis of more detailed financial information.

Clean Water Bond Fund (CWBF): This fund is a part of the Authority's Clean Water State Revolving Fund, operated under the federal Clean Water program, CFDA #66.458. Initiated in 1989, fourteen series of bonds have been issued for \$1.1 billion, which includes \$221 million for refunding prior issues. Federal capitalization grant awards and state match appropriations through June 30, 2003 was approximately \$467 million, net of set-asides for administrative costs. The Authority has over the years transferred out approximately \$71 million from the CWBF for related but non-pledged programs known as non-point source programs. In fiscal years 2003 and 2002, the Authority transferred \$2 million and \$4 million, respectively, from net assets for these programs. This is reflected on the Statement of Revenues, Expenses, and Changes in Fund Net Assets as transfers out of the CWBF to the Other Fund. Prior to removing assets from the CWBF, the Authority must meet conditions defined in the fund's basic bond resolution. The CWBF has made 246 loan commitments to 168 borrowers for approximately \$1.2 billion. The largest borrower, at \$645 million in loan commitments at June 30, 2003, is the Metropolitan Council.

Drinking Water Bond Fund (DWBF): This fund is a part of the Authority's Drinking Water State Revolving Fund, operated under the federal Safe Drinking Water program, CFDA #66.468. Initiated in 1998, two series of bonds have been issued for \$71.5 million. Federal capitalization grant awards and state match appropriations through June 30, 2003 was approximately \$127 million, net of non-pledged set-asides. The fund has made 114 loan commitments to 104 borrowers for approximately \$172 million. The largest borrower, at \$16.5 million in loan commitments at June 30, 2003, is the City of Saint Paul.

Transportation Revenue Bond Funds: these two funds are closed, stand alone bond issuances with separate pledged accounts and loans:

The series 1999A bonds of \$17.08 million par were issued in March 1999. The Authority transferred \$4.1 million in cash into the fund at issuance, from its non-pledged accounts. One loan for \$21.025 million was made to the Metropolitan Council.

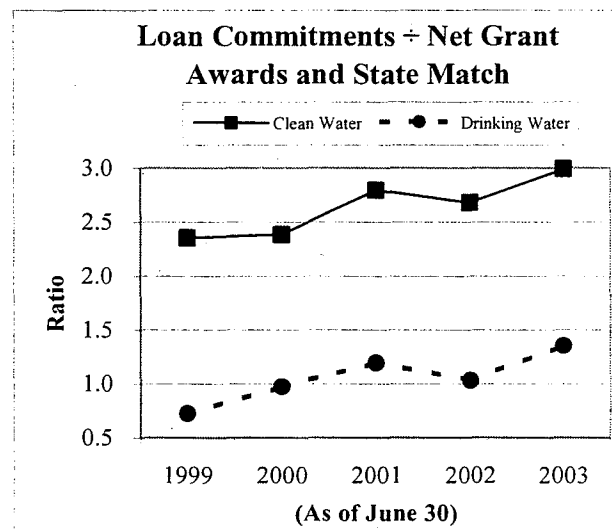
The series 2001 bonds of \$20.45 million par were issued in December 2001. The Authority transferred \$16.77 million in cash and loans receivable into the fund. Ten loan commitments totaling \$35.78 million form the loan pool pledged to these bonds, and a \$1.9 million debt service reserve account was also created from the assets transferred in.

Criteria used in evaluating the financial results and conditions of the bond funds include:

- The efficient use of contributed capital to accomplish the goal of making below market rate loans to program participants (CWBF and DWBF).
- The ability to generate cash flows sufficient to make debt service payments (all bond funds).

Analysis of the efficient use of federal capitalization grants and state match:

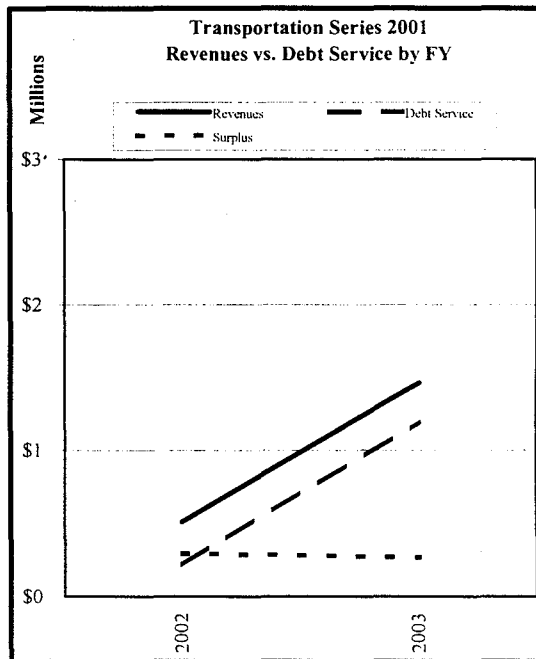
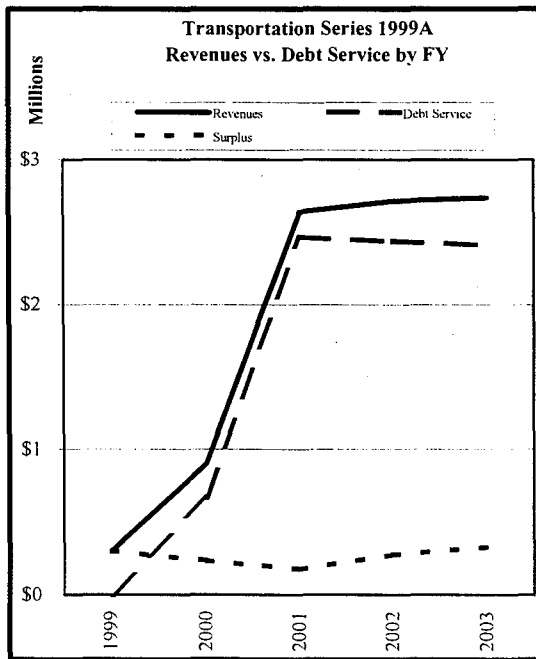
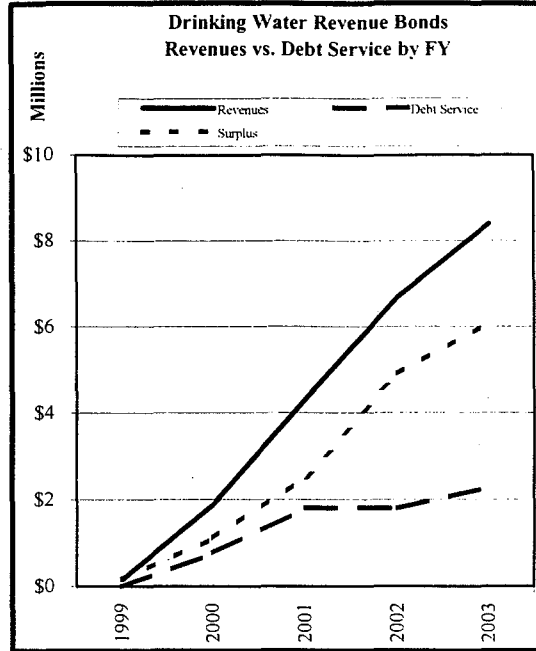
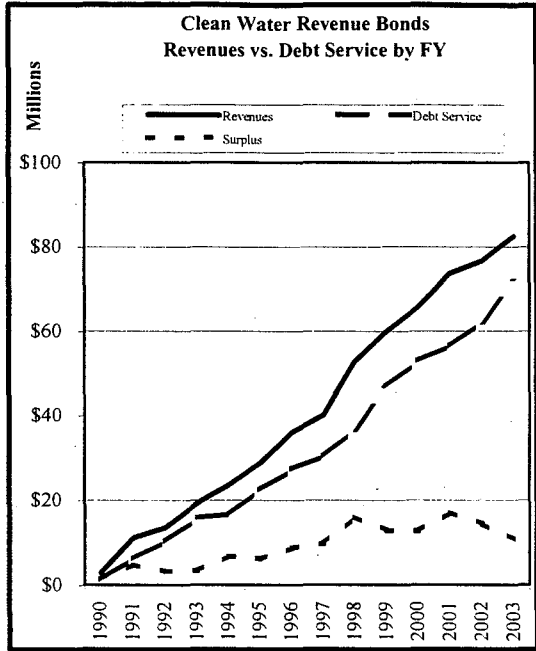
The amount of loans made by the CWBF and DWBF, compared to the net amount of federal capitalization grant awards and state match appropriations in the funds, gives a measure of the effective use of the capital contributions. Over time this ratio should grow as the programs grow in size and loan repayments become a larger portion of the available sources for new loans. Year to year this ratio may fluctuate depending on the timing of grant awards and match appropriations. The following chart displays the ratio at June 30th for the past five years. Because of the timing of awards, fiscal year 2002 recognized most of the awards for the entire two-year period of 2001-2002; this is the reason the ratio decreased from June 30, 2001 to June 30, 2002.



Analysis of historical cash flow sufficiency to make debt service payments:

The following charts show each bond fund's cash flow history to date in meeting debt service payments. Annual total bond fund revenues, debt service, and net surplus are charted.

Charts of each fund's cash flow history to date in meeting debt service payments
 (note differing scales on the charts)



Financial ratios: the following table presents financial ratios regarding financial position and ability to generate cash flows sufficient to pay debt service requirements.

		Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001
Current ratios	June 30, 2003	6.78	16.53	1.20	4.41
	June 30, 2002	3.88	17.59	1.69	24.48
Debt ratios	June 30, 2003	0.58	0.36	0.78	0.55
	June 30, 2002	0.59	0.16	0.75	0.55
Operating Income ratios	FY 2003	1.43	2.09	0.78	1.22
	FY 2002	1.33	3.24	0.76	1.34
Debt Service Coverage ratios	FY 2003	1.15	3.49	1.14	1.22
	FY 2002	1.23	3.73	1.11	2.04

current ratio: $\text{current assets} \div \text{current liabilities}$
debt ratio: $\text{debt} \div \text{assets}$
operating income ratio: $\text{operating revenues} \div \text{operating expenses}$
debt service coverage ratios: $(\text{loan repayments} + \text{investment interest}) \div (\text{debt service on bonds})$

Even though the operating income ratio for the Transportation Series 1999A fund is less than 1, the cash flows are sufficient to pay debt service because the outstanding loan balance is greater than the outstanding bonds. This fact is reflected in the debt service coverage ratio, which includes principal repayments as well as interest. Principal repaid on the loan exceeds the bond principal requirements and more than overcomes the lower interest earned on the loan. This financing was structured such that repayments on the \$21.025 million loan made to the Metropolitan Council are sufficient to pay debt service on the bonds issued of \$17.080 million.

Analysis of Individual Funds' Balances and Transactions for Non-Bond Funds:

The Other Fund includes grant and loan programs not funded with Authority bond proceeds, and the administrative costs for the Authority including costs of the Department of Trade and Economic Development, the Minnesota Pollution Control Agency (PCA), and the Department of Health. These costs are funded partially from federal grants and partially from the fee portion of loans repayments.

The Authority, through inter-agency agreements, sub-grants some of its assets to Health, PCA, and the Department of Agriculture. The assets are from federal grant awards or from net assets removed from the CWBF. When the agencies make expenditures under the sub-grants, the assets set aside for the sub-grants are reduced and a grant expense is recorded. The following chart shows the activity during the fiscal year:

Sub-Grants Allocations & Expenditures	MPCA Clean Water Partnership	Dept of Agriculture Best Management Practices	Dept of Health Drinking Water Set-Asides
	New allocations	1,000,000	1,000,000
Expenditures	2,772,879	3,543,923	2,301,849

The \$1 million each allocations for the Clean Water Partnership program and the Best Management Practices program are from transfers-out of net assets of the CWBF. The drinking water set-asides originated from federal capitalization grant awards.

Several grant programs are reported in the Other Fund, including the Wastewater Infrastructure Funding program (WIF) and the Disadvantaged Community Grants Program.

Discussion of Facts and Conditions Expected to Have a Significant Impact on Financial Position and or Results of Operations:

The Authority adopts an annual Intended Use Plan (IUP) for the Clean Water program and for the Drinking Water program. The IUPs identify which projects may be considered for funding during the fiscal year, based on priority lists established by the MPCA for Clean Water projects and by the Department of Health for Drinking Water projects. The Authority reviews the long term funding capacity of the Clean Water Bond Fund and the Drinking Water Bond Fund when determining the level of funding for the annual IUPs. In fiscal years 2002 and 2003 the Authority intentionally approved a level of funding that exceeded the long-term sustainable capacity of the Bond Funds. It did so knowing that existing needs across the State to make improvements to wastewater and drinking water systems was substantial and with the intention that the increased funding level would be temporary so as to preserve the Bond Funds' long-term capacity to fund high priority projects throughout the State. The Authority anticipates that funding levels will drop for the fiscal year 2005 IUPs.

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Minnesota Public Facilities Authority
Statement of Net Assets
June 30, 2003

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 92,601,792	\$ 35,934,333	\$ 289,179	\$ 2,713,715	\$ 68,558,972	\$ 200,097,991
Investments	40,387,443	30,582,490				70,969,933
Loans receivable	172,283,000	6,157,000	2,345,000	1,381,000	3,678,000	185,844,000
Federal grants receivable					166,669	166,669
Accrued interest receivable:						
Investments	3,783,242	161,087		35,541		3,979,870
Loans	10,806,100	1,266,100	147,000	325,500	290,300	12,835,000
Securities lending collateral					4,868,188	4,868,188
Total current assets	319,861,577	74,101,010	2,781,179	4,455,756	77,562,129	478,761,651
Noncurrent assets:						
Investments	192,643,857	7,367,379		1,896,741		201,907,977
Loans receivable	702,738,897	120,319,306	12,015,000	31,189,066	16,772,556	883,034,825
Deferred bond issuance costs	3,265,959	340,657	91,876	204,203		3,902,695
Total noncurrent assets	898,648,713	128,027,342	12,106,876	33,290,010	16,772,556	1,088,845,497
Total assets	1,218,510,290	202,128,352	14,888,055	37,745,766	94,334,685	1,567,607,148
LIABILITIES						
Current liabilities:						
Accounts payable					1,883,131	1,883,131
Interest payable on bonds	11,882,567	1,142,054	162,525	330,000		13,517,146
Arbitrage rebate liability	1,823,716		253,586			2,077,302
Compensated absences payable					56,966	56,966
Bonds payable	33,440,000	3,340,000	1,905,000	680,000		39,365,000
Securities lending collateral					4,868,188	4,868,188
Total current liabilities	47,146,283	4,482,054	2,321,111	1,010,000	6,808,285	61,767,733
Noncurrent liabilities:						
Bonds payable	676,135,012	68,783,749	9,730,748	20,173,652		774,823,161
Arbitrage rebate liability	1,210,110		28,176			1,238,286
Compensated absences payable					218,795	218,795
Total liabilities	724,491,405	73,265,803	12,080,035	21,183,652	7,027,080	838,047,975
NET ASSETS						
Restricted by bond resolutions	494,018,885	128,862,549	2,808,020	16,562,114		642,251,568
Restricted by legislation					85,564,251	85,564,251
Unrestricted					1,743,354	1,743,354
Total net assets	\$ 494,018,885	\$ 128,862,549	\$ 2,808,020	\$ 16,562,114	\$ 87,307,605	\$ 729,559,173

See accompanying notes to the financial statements

Minnesota Public Facilities Authority
Statement of Net Assets
June 30, 2002

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 88,354,037	\$ 14,976,546	\$ 988,976	\$ 12,302,871	\$ 79,391,146	\$ 196,013,576
Investments	31,774,760					31,774,760
Loans receivable	40,000,000	4,000,000	2,280,000	528,000	308,000	47,116,000
Federal grants receivable					218	218
Accrued interest receivable:						
Investments	4,520,525	11,745		35,541		4,567,811
Loans	9,842,000	947,000	169,000	164,000	56,000	11,178,000
Securities lending collateral					9,398,300	9,398,300
Pre-paid expenses					70,744	70,744
Total current assets	<u>174,491,322</u>	<u>19,935,291</u>	<u>3,437,976</u>	<u>13,030,412</u>	<u>89,224,408</u>	<u>300,119,409</u>
Noncurrent assets:						
Investments	191,303,405	1,970,681		1,896,741		195,170,827
Loans receivable	718,667,294	99,244,044	14,360,000	23,301,111	5,470,669	861,043,118
Deferred bond issuance costs	3,200,712	191,091	108,623	231,362		3,731,788
Total noncurrent assets	<u>913,171,411</u>	<u>101,405,816</u>	<u>14,468,623</u>	<u>25,429,214</u>	<u>5,470,669</u>	<u>1,059,945,733</u>
Total assets	<u>1,087,662,733</u>	<u>121,341,107</u>	<u>17,906,599</u>	<u>38,459,626</u>	<u>94,695,077</u>	<u>1,360,065,142</u>
LIABILITIES						
Current liabilities:						
Accounts payable					1,661,194	1,661,194
Interest payable on bonds	10,907,758	328,215	187,192	332,333		11,755,498
Arbitrage rebate liability	1,730,877					1,730,877
Compensated absences payable					20,000	20,000
Bonds payable	32,385,000	805,000	1,850,000	200,000		35,240,000
Securities lending collateral					9,398,300	9,398,300
Total current liabilities	<u>45,023,635</u>	<u>1,133,215</u>	<u>2,037,192</u>	<u>532,333</u>	<u>11,079,494</u>	<u>59,805,869</u>
Noncurrent liabilities:						
Bonds payable	609,634,596	18,952,368	11,647,973	20,978,338		661,213,275
Arbitrage rebate liability	1,496,796	158,475	267,530			1,922,801
Compensated absences payable					163,951	163,951
Total liabilities	<u>656,155,027</u>	<u>20,244,058</u>	<u>13,952,695</u>	<u>21,510,671</u>	<u>11,243,445</u>	<u>723,105,896</u>
NET ASSETS						
Restricted by bond resolutions	431,507,706	101,097,049	3,953,904	16,948,955		553,507,614
Restricted by legislation					81,359,909	81,359,909
Unrestricted					2,091,723	2,091,723
Total net assets	<u>\$ 431,507,706</u>	<u>\$ 101,097,049</u>	<u>\$ 3,953,904</u>	<u>\$ 16,948,955</u>	<u>\$ 83,451,632</u>	<u>\$ 636,959,246</u>

See accompanying notes to the financial statements

Minnesota Public Facilities Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
for the Year Ended June 30, 2003

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
Operating revenues:						
Interest on loans	\$ 27,278,432	\$ 3,325,259	\$ 417,389	\$ 808,877	\$ 1,969,243	\$ 33,799,200
Investment earnings	14,481,924	1,033,497	6,703	289,046	703,053	16,514,223
Net increase, fair value of investments	8,980,797	355,963				9,336,760
Federal grants-operating					3,909,828	3,909,828
State appropriations and fees					18,126,500	18,126,500
Securities lending income					220,587	220,587
Total operating revenues	<u>50,741,153</u>	<u>4,714,719</u>	<u>424,092</u>	<u>1,097,923</u>	<u>24,929,211</u>	<u>81,907,098</u>
Operating expenses:						
Interest on bonds	35,532,082	2,229,172	541,430	897,140		39,199,824
Salaries and employee benefits					2,014,283	2,014,283
Other general operating	60,885	26,763		2,447	492,641	582,736
Grants					22,088,127	22,088,127
Securities lending rebate and fees					210,710	210,710
Total operating expenses	<u>35,592,967</u>	<u>2,255,935</u>	<u>541,430</u>	<u>899,587</u>	<u>24,805,761</u>	<u>64,095,680</u>
Operating income (loss)	<u>15,148,186</u>	<u>2,458,784</u>	<u>(117,338)</u>	<u>198,336</u>	<u>123,450</u>	<u>17,811,418</u>
Capital Contributions:						
Federal Grants	49,362,993	25,306,716			118,800	74,788,509
State Match						-
Total capital contributions	<u>49,362,993</u>	<u>25,306,716</u>	<u>-</u>	<u>-</u>	<u>118,800</u>	<u>74,788,509</u>
Transfers in (out)	(2,000,000)		(1,028,546)	(585,177)	3,613,723	-
Change in net assets	62,511,179	27,765,500	(1,145,884)	(386,841)	3,855,973	92,599,927
Total net assets:						
Beginning of year	431,507,706	101,097,049	3,953,904	16,948,955	83,451,632	636,959,246
End of year	<u>\$ 494,018,885</u>	<u>\$ 128,862,549</u>	<u>\$ 2,808,020</u>	<u>\$ 16,562,114</u>	<u>\$ 87,307,605</u>	<u>\$ 729,559,173</u>

See accompanying notes to the financial statements

Minnesota Public Facilities Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
for the Year Ended June 30, 2002

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
Operating revenues:						
Interest on loans	\$ 24,941,854	\$ 2,766,687	\$ 433,362	\$ 262,771	\$ 1,497,876	\$ 29,902,550
Investment earnings	16,429,038	480,028	32,553	444,036	1,560,462	18,946,117
Net increase, fair value of investments	3,502,252	87,262				3,589,514
Federal grants-operating					3,605,008	3,605,008
State appropriations and fees					1,500	1,500
Securities lending income					519,416	519,416
Total operating revenues	44,873,144	3,333,977	465,915	706,807	7,184,262	56,564,105
Operating expenses:						
Interest on bonds	33,609,819	1,019,946	608,015	527,680		35,765,460
Salaries and employee benefits	51,807				1,533,913	1,585,720
Other general operating	12,173	8,984	2,834		409,158	433,149
Grants					17,589,772	17,589,772
Securities lending rebate and					500,285	500,285
Total operating expenses	33,673,799	1,028,930	610,849	527,680	20,033,128	55,874,386
Operating income (loss)	11,199,345	2,305,047	(144,934)	179,127	(12,848,866)	689,719
Capital Contributions:						
Federal Grants	25,265,797	8,223,577			118,800	33,608,174
State Match	11,800,000	6,200,000				18,000,000
Total capital contributions	37,065,797	14,423,577	-	-	118,800	51,608,174
Transfers in (out)	(4,000,000)			16,769,828	(12,769,828)	-
Change in net assets	44,265,142	16,728,624	(144,934)	16,948,955	(25,499,894)	52,297,893
Total net assets:						
Beginning of year	387,242,564	84,368,425	4,098,838		108,951,526	584,661,353
End of year	\$ 431,507,706	\$ 101,097,049	\$ 3,953,904	\$ 16,948,955	\$ 83,451,632	\$ 636,959,246

See accompanying notes to the financial statements

Minnesota Public Facilities Authority
Statement of Cash Flows
for the Year Ended June 30, 2003

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
Operating activities:						
Interest received on loans	\$ 26,314,332	\$ 3,006,159	\$ 439,389	\$ 647,377	\$ 1,734,943	\$ 32,142,200
Principal received on loans	40,334,821	4,680,519	2,280,000	528,523	2,532,472	50,356,335
Federal grants - operating					3,743,378	3,743,378
State appropriations and fees					18,126,500	18,126,500
Payments to employees					(1,769,399)	(1,769,399)
Payments to vendors	(60,886)	(26,763)		(2,446)	(540,303)	(630,398)
Payments to grantees					(9,626,838)	(9,626,838)
Payments to sub-grantees					(12,274,022)	(12,274,022)
Net cash provided (used) by operating activities	<u>66,588,267</u>	<u>7,659,915</u>	<u>2,719,389</u>	<u>1,173,454</u>	<u>1,926,731</u>	<u>80,067,756</u>
Non capital financing activities:						
Capital contributions:						
Federal	49,362,993	25,306,716			118,800	74,788,509
State						-
Proceeds from sale of bonds	105,138,055	53,302,138				158,440,193
Payments for bond issuance costs	(135,170)	(91,323)				(226,493)
Interest paid on bonds	(33,899,989)	(1,604,331)	(561,575)	(997,000)		(37,062,895)
Principal paid on bonds	(38,170,000)	(805,000)	(1,850,000)	(200,000)		(41,025,000)
Payments to make loans	(156,689,424)	(27,912,781)		(9,269,479)	(17,204,358)	(211,076,042)
Cash transfers	(2,000,000)		(1,028,546)	(585,177)	3,613,723	-
Net cash provided (used) by non capital financing activities	<u>(76,393,535)</u>	<u>48,195,419</u>	<u>(3,440,121)</u>	<u>(11,051,656)</u>	<u>(13,471,835)</u>	<u>(56,161,728)</u>
Investing activities:						
Investment interest	15,925,598	711,923	20,935	289,046	712,930	17,660,432
Purchases of investments	(130,238,046)	(55,607,385)				(185,845,431)
Proceeds from sale and maturities	128,365,471	19,997,915				148,363,386
Net cash provided (used) by investing activities	<u>14,053,023</u>	<u>(34,897,547)</u>	<u>20,935</u>	<u>289,046</u>	<u>712,930</u>	<u>(19,821,613)</u>
Net increase (decrease) in cash and cash equivalents	4,247,755	20,957,787	(699,797)	(9,589,156)	(10,832,174)	4,084,415
Cash and cash equivalents:						
Beginning of year	88,354,037	14,976,546	988,976	12,302,871	79,391,146	196,013,576
End of year	<u>\$ 92,601,792</u>	<u>\$ 35,934,333</u>	<u>\$ 289,179</u>	<u>\$ 2,713,715</u>	<u>\$ 68,558,972</u>	<u>\$ 200,097,991</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 15,148,186	\$ 2,458,784	\$ (117,338)	\$ 198,336	\$ 123,450	\$ 17,811,418
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Principal received on loans	40,334,821	4,680,519	2,280,000	528,523	2,532,472	50,356,335
Interest paid on bonds	33,899,989	1,604,331	561,575	997,000		37,062,895
Investment interest	(15,925,598)	(711,923)	(20,935)	(289,046)	(712,930)	(17,660,432)
Net increase, investments fair value	(8,980,797)	(355,963)				(9,336,760)
Net amortization	1,557,521	(202,755)	4,522	(97,526)		1,261,762
Changes in assets and liabilities:						
Accrued revenues	(226,817)	(468,442)	22,000	(161,500)	(330,007)	(1,164,766)
Accrued expenses	780,962	655,364	(10,435)	(2,333)	313,746	1,737,304
Net cash provided (used) by operating activities	<u>\$ 66,588,267</u>	<u>\$ 7,659,915</u>	<u>\$ 2,719,389</u>	<u>\$ 1,173,454</u>	<u>\$ 1,926,731</u>	<u>\$ 80,067,756</u>

See accompanying notes to the financial statements

Minnesota Public Facilities Authority
Statement of Cash Flows
for the Year Ended June 30, 2002

	Revenue Bond Funds					Totals
	Clean Water Bond Fund	Drinking Water Bond Fund	Transportation Series 1999A	Transportation Series 2001	Other	
Operating activities:						
Interest received on loans	\$ 23,891,854	\$ 2,551,687	\$ 438,362	\$ 98,771	\$ 1,461,875	\$ 28,442,549
Principal received on loans	36,406,618	3,704,623	2,220,000	912	904,848	43,237,001
Federal grants - operating					3,604,789	3,604,789
State appropriations and fees					1,500	1,500
Payments to employees	(185,805)				(1,503,335)	(1,689,140)
Payments to vendors	(62,121)	(8,985)	(2,834)		(286,222)	(360,162)
Payments to grantees					(8,571,008)	(8,571,008)
Payments to sub-grantees					(8,809,183)	(8,809,183)
Net cash provided (used) by operating activities	<u>60,050,546</u>	<u>6,247,325</u>	<u>2,655,528</u>	<u>99,683</u>	<u>(13,196,736)</u>	<u>55,856,346</u>
Non capital financing activities:						
Capital contributions:						
Federal	25,265,797	8,223,577			118,800	33,608,174
State	11,800,000	6,200,000				18,000,000
Proceeds from sale of bonds	71,793,712			21,114,611		92,908,323
Payments for bond issuance costs	(166,982)			(113,733)		(280,715)
Interest paid on bonds	(32,094,423)	(1,020,488)	(633,775)	(249,250)		(33,997,936)
Principal paid on bonds	(30,240,000)	(775,000)	(1,805,000)			(32,820,000)
Payments to make loans	(115,189,352)	(21,566,365)	(1,115,262)	(14,527,509)	(15,077,607)	(167,476,095)
Cash transfers	(4,000,000)			7,467,314	(3,467,314)	-
Net cash provided (used) by non capital financing activities	<u>(72,831,248)</u>	<u>(8,938,276)</u>	<u>(3,554,037)</u>	<u>13,691,433</u>	<u>(18,426,121)</u>	<u>(90,058,249)</u>
Investing activities:						
Investment interest	16,435,145	448,279	56,531	408,496	1,579,591	18,928,042
Purchases of investments	(128,579,230)			(1,896,741)		(130,475,971)
Proceeds from sale and maturities	151,744,901					151,744,901
Net cash provided (used) by investing activities	<u>39,600,816</u>	<u>448,279</u>	<u>56,531</u>	<u>(1,488,245)</u>	<u>1,579,591</u>	<u>40,196,972</u>
Net increase (decrease) in cash and cash equivalents	26,820,114	(2,242,672)	(841,978)	12,302,871	(30,043,266)	5,995,069
Cash and cash equivalents:						
Beginning of year	61,533,923	17,219,218	1,830,954		109,434,412	190,018,507
End of year	<u>\$ 88,354,037</u>	<u>\$ 14,976,546</u>	<u>\$ 988,976</u>	<u>\$ 12,302,871</u>	<u>\$ 79,391,146</u>	<u>\$ 196,013,576</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 11,199,345	\$ 2,305,047	\$ (144,934)	\$ 179,127	\$ (12,848,866)	\$ 689,719
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Principal received on loans	36,406,618	3,704,623	2,220,000	912	904,848	43,237,001
Interest paid on bonds	32,094,423	1,020,488	633,775	249,250		33,997,936
Investment interest	(16,435,145)	(448,279)	(56,531)	(408,496)	(1,579,591)	(18,928,042)
Net increase, investments fair value	(3,502,252)	(87,262)				(3,589,514)
Net amortization	1,265,295	(4,138)	(1,693)	(20,669)		1,238,795
Changes in assets and liabilities:						
Accrued revenues	(587,808)	(213,438)	5,000	(199,541)	(106,963)	(1,102,750)
Accrued expenses	(389,930)	(29,716)	(89)	299,100	433,836	313,201
Net cash provided (used) by operating activities	<u>\$ 60,050,546</u>	<u>\$ 6,247,325</u>	<u>\$ 2,655,528</u>	<u>\$ 99,683</u>	<u>\$ (13,196,736)</u>	<u>\$ 55,856,346</u>

See accompanying notes to the financial statements

Minnesota Public Facilities Authority

Notes to the Financial Statements

Years Ended June 30, 2003 And 2002

1. *Summary of Significant Accounting Policies*

The financial statements of the Minnesota Public Facilities Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The Authority has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Descriptions of the significant accounting policies follow:

Reporting Entity - The Minnesota Public Facilities Authority (the Authority) was created in 1987 by the State of Minnesota under Minnesota Statutes, Chapter 446A (the Act). Under the Act, the members of the Authority include the Commissioner of Trade and Economic Development, the Commissioner of Finance, the Commissioner of the Minnesota Pollution Control Agency (MPCA), the Commissioner of Agriculture, the Commissioner of Health, and the Commissioner of Transportation. The Commissioner of Trade and Economic Development serves as chair and chief executive officer of the Authority. These members serve as a result of their respective positions as commissioners, and their terms as members of the Authority coincide with their terms as commissioners. Pursuant to state law, commissioners may delegate and have delegated their duties as a member of the Authority in the event that the commissioner is unable to attend a meeting of the Authority.

The Minnesota Department of Trade and Economic Development (DTED) provides administrative staff and support services to the Authority. The MPCA and the Minnesota Department of Health also provide staff to administer, in cooperation with DTED, certain programs of the Authority.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, states that a primary government that appoints a voting majority of the organization's governing body, and either (1) is able to impose its will on the organization or (2) has the potential to receive specific financial burdens imposed on it by the organization, is financially accountable to that organization. Based on this criterion, the Authority is considered a discretely presented component unit of the State of Minnesota and is included in their basic financial statements.

The Authority is authorized to issue bonds. These bonds do not constitute a debt of the State of Minnesota or any agency or political subdivision thereof (other than the Authority).

Basis of Accounting - The Authority has determined that all of its funds shall be classified as proprietary funds and, as such, accounted for on a flow of economic resources measurement focus. All assets and liabilities (whether current or non current) associated with their activity are included on their statements of net assets. Proprietary fund measurement is focused upon determination of net income, financial position, and cash flows. The Authority's proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of

revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Fund Accounting – As a governmental entity the Authority organizes its accounts on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All of the Authority's funds are classified as proprietary funds. The Authority reports the following major proprietary funds:

Clean Water Bond Fund (CWBF) - The Authority receives federal capitalization grants under Title VI of the Federal Clean Water Act, and state matching grants. These funds are leveraged with proceeds from the Authority's revenue bonds to provide below-market-rate loans to municipalities and eligible political subdivisions to facilitate the construction of wastewater treatment facilities. Before the Authority can approve any particular loan, the MCPA must certify the applicant's project based on technical and environmental reviews.

Drinking Water Bond Fund (DWBF) - The Authority receives federal capitalization grants under Section 1452 of the Safe Drinking Water Act and state matching grants. These funds are leveraged with proceeds from the Authority's revenue bonds to provide below-market-rate loans to municipalities to finance costs of drinking water system infrastructure. Before the Authority can approve any particular loan, the Minnesota Department of Health must certify the applicants' projects based on technical and environmental reviews.

Transportation Bond Funds (TBF) - This program was initiated with a federal grant from the U.S. Department of Transportation to the Minnesota Department of Transportation (MnDOT) and state matching grants. The Authority administers the TBF, which provides loans to municipalities and eligible political subdivisions for construction of highways, bridges, and streets, and for purchasing transit capital. MnDOT must certify applicants' projects based on MnDOT's design standards.

In addition to these major funds, the Authority manages various legislative appropriations for similar purposes, which are treated as non-major proprietary funds and are identified in the accompanying financial statements in the Other Fund. One of the programs included in the Other Fund is the Wastewater Infrastructure Funding Program (WIF). The Authority receives appropriations from the Minnesota Legislature to fund the program, and in conjunction with any particular loan from the CWBF or financing from the U.S. Department of Agriculture's Rural Development Office, WIF Supplemental Assistance grants are given to eligible municipalities with high-cost wastewater projects.

Federal Grants and State Match - The Authority receives federal capitalization grants from the Environmental Protection Agency and, through MnDOT, the Authority receives federal highway money. This money is used primarily for funding of loans, as security on bonds, and a portion may be expended for administrative and other set-aside costs. The Authority also receives state appropriations as match to the federal grants, and for other Authority loan and grant programs. These federal and state monies, when used to capitalize the revolving loan funds, are recorded as capital contributions; when used for administrative costs or grants, they are recorded as operating revenue. Grant revenues and capital contributions during fiscal year 2003 included \$78,698,337 of federal

grants and \$18,125,000 state appropriations. Fiscal year 2002 revenues and contributions included \$37,213,182 of federal grants and \$18,000,000 from state appropriations.

Cash Equivalents - The Authority considers all investments with an original maturity when purchased of three months or less to be cash equivalents.

Investments - The Authority reports investments at fair value in the statement of net assets with changes in the fair value of investments reported in the statement of revenues, expenses, and changes in fund net assets. Fair value of investments was determined based on quoted market prices as of the reporting date. Guaranteed investment contracts are contracts purchased from life insurance companies who guarantee the principal and return, and allow money to be withdrawn if needed. The Authority's guaranteed investment contracts are considered nonparticipating and, as such, are reported at cost. The Authority believes it has the ability and intent to hold all investments to maturity to recover the full carrying value of its investment portfolio and does not expect to realize any gain or loss from the market value adjustments as shown in the various funds.

Bond Discounts, Premiums, and Issuance Costs - Bond discounts, premiums, and issuance costs are amortized using the effective interest method over the term of the bond series.

Income Taxes - The Authority is an agency of the State of Minnesota and is exempt from federal and state income taxes.

Restrictions on Net Assets - The use of assets held within each separate bond fund is restricted by the terms and conditions of that fund's bond resolutions. All assets of the Authority, including those not restricted by bond resolutions, are limited in their use by state and federal laws under which the funds were appropriated and / or grant conditions imposed by the federal funding agency. The net assets in the Authority's administrative accounts are reported as unrestricted because they are used for general operating activities.

Defining Operating Revenues and Expenses and Operating Cash Flows - The Authority issues revenue bonds to leverage the capital contributions it receives from federal capitalization grants and state matching grants. These funds are then used to make below-market-rate loans to municipalities and to create reserve accounts. Investment interest and loan repayments generate the cash flow required to make debt service payments on the bonds. Interest from loans and investment income are included as part of operating revenues, and interest expense on bonds is included in operating expenses. Accounting conventions preclude this classification on the statement of cash flows, and the Authority believes the classification of operating activities on this statement do not necessarily represent all components of operating activity, which the Authority believes should include investment earnings and debt service on bonds.

Use of Estimates - The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain Risks and Uncertainties - The Authority invests in various securities including U.S. government securities, corporate debt instruments, and guaranteed investment contracts. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

2. *Deposits, Investments, and Securities Lending Collateral Transactions*

Deposits - Cash deposits of the Authority are invested in a state pool and the pooled balances are insured in accordance with Minnesota State Statutes. At June 30, 2003 and 2002, \$43,965,609 and \$87,153,878, respectively, of cash deposits were interest-bearing and \$28,214,221 and \$35,859,698, respectively, of cash deposits were non interest-bearing.

Investments - Investments consist of those permitted by the bond resolutions and the Authority Act. They are composed primarily of commercial paper, guaranteed investment contracts, and notes and bills of the U.S. Government and its agencies. The Authority's investments are categorized below to give an indication of the risk level assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not the Authority's name. All investments of the Authority are held by the State Board of Investment (SBI) in the name of the Authority (Credit Risk Category 1).

Deposits and investments consisted of the following at June 30, 2003 and 2002:

	Fair Value 2003	Fair Value 2002
Investment risk category 1:		
U.S. Government and agencies' securities	\$ 265,139,571	\$ 170,936,109
Commercial paper	92,872,112	73,000,000
Risk category 1	358,011,683	243,936,109
Not subject to categorization:		
Guaranteed investment contracts	42,784,388	56,009,478
Total investments	400,796,071	299,945,587
Deposits in the state pool:		
Interest-bearing	43,965,609	87,153,878
Non interest-bearing	28,214,221	35,859,698
Total deposits and investments	\$ 472,975,901	\$ 422,959,163

Deposits and investments are classified on the statement of net assets as follows:

	2003	2002
Cash and cash equivalents	\$ 200,097,991	\$ 196,013,576
Investments, current	70,969,933	31,774,760
Investments, long-term	201,907,977	195,170,827
	\$ 472,975,901	\$ 422,959,163

Securities Lending Collateral Transactions - To enhance the return on investments, the State of Minnesota (the State) has, by way of a Custodial Trust Agreement, authorized Wells Fargo Bank, Minnesota, N.A. (Wells Fargo) to act as agent in lending Minnesota securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, Wells Fargo lent, on behalf of the State, certain securities held by Wells Fargo as custodian and received cash (United States currency) and securities issued or guaranteed by the United States government, and irrevocable bank letters of credit as collateral. Wells Fargo did 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 not less than 100% of the fair value of the loaned securities plus accrued interest.

The State did not impose any restrictions during the fiscal year on the amount of the loans that Wells Fargo made on its behalf, and in the event a borrower failed to return a loaned security or pay distributions thereon, Wells Fargo protects the State by purchasing replacement securities, or returning the cash collateral. No borrower failed to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Wells Fargo.

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

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, 2003, 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.

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3. Loans Receivable

Loans receivable at June 30, 2003 and 2002 consisted of the following:

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30,	
					2003	2002
Clean Water Bond Fund:						
Aitkin, City of	10/15/97	02/20/18	2.240%	\$ 525,000	\$ 414,275	\$ 437,308
Albany, City of	04/21/03	02/20/22	3.490%	1,324,014	1,184,491	
Albertville, City of	10/19/93	08/20/14	3.320%	1,454,514	948,586	1,015,357
Alvarado, City of	10/16/98	02/20/20	1.000%	677,980	584,168	615,596
Avon, City of	11/18/02	08/20/22	1.820%	8,016,196	4,237,673	
Bagley, City of	07/01/98	08/20/19	1.000%	1,654,075	1,370,665	1,446,788
Battle Lake, City of	06/18/03	08/20/22	1.000%	1,749,246	234,140	
Baxter, City of	07/24/91	02/20/12	3.530%	875,607	464,649	508,315
Beaver Creek, City of	09/23/94	08/20/15	3.600%	103,102	72,072	76,846
Belle Plaine, City of	01/27/03	08/20/22	1.990%	10,754,000	3,152,100	
Bethel, City of	04/17/91	08/20/12	3.030%	396,153	214,017	233,793
Blue Earth, City of	03/30/00	08/20/20	1.290%	3,290,170	3,137,000	3,257,926
Browerville, City of-1st	03/06/90	08/20/11	2.420%	552,000	267,278	295,280
Browerville, City of-2nd	09/25/92	03/20/93	0.840%	250,000		
Buffalo Lake, City of	01/26/98	02/20/19	2.750%	615,750	516,057	540,755
Caledonia, City of	02/07/94	02/20/15	3.440%	606,675	409,526	436,679
Cambridge, City of-1st	10/16/92	02/20/14	3.090%	10,477,205	6,429,185	6,913,158
Cambridge, City of-2nd	08/17/95	08/20/16	3.450%	247,227	218,599	231,124
Cannon Falls, City of-1st	06/27/01	08/20/21	3.070%	4,529,000	4,279,668	3,555,277
Cannon Falls, City of-2nd	11/20/01	08/20/22	2.860%	8,258,000	8,012,677	6,413,251
Canosia Township-1st	09/10/99	08/20/20	1.290%	2,517,810	2,296,000	2,409,000
Canosia Township-2nd	06/11/01	08/20/20	1.290%	207,000	193,000	202,000
Canosia Township-3rd	03/11/02	08/20/20	1.290%	138,000	134,000	107,480
Carver, City of	02/16/00	08/20/19	2.860%	1,188,000	1,077,028	1,122,789
Cass County	06/23/97	02/20/19	1.130%	1,366,190	1,216,664	1,285,668
Cass Lake, City of	02/14/94	02/20/15	1.940%	276,364	177,276	190,308
Cedar Lake Area WSSDB-1st	07/26/01	08/20/21	1.570%	3,225,000	3,000,758	2,445,996
Cedar Lake Area WSSDB-2nd	07/11/02	08/20/21	1.570%	360,000	245,748	
Chandler, City of	09/24/02	08/20/23	1.000%	1,470,000	791,090	
Chisholm, City of	05/17/94	02/20/15	3.820%	2,150,644	1,478,645	1,574,180
Clara City, City of	08/19/97	08/20/18	2.740%	2,138,045	1,419,249	1,837,984
Clear Lake, City of	07/30/97	02/20/19	3.080%	223,506	188,420	197,999
Clearwater, City of	07/23/97	02/20/19	2.080%	1,654,550	1,375,538	1,447,317
Cokato, City of	10/26/94	02/20/16	3.320%	2,760,000	1,992,343	2,113,132
Cologne, City of	01/03/97	02/20/18	3.320%	1,538,699	1,226,384	1,289,598
Cottonwood Township-1st	03/12/98	08/20/20	1.290%	391,546	355,707	374,000
Cottonwood Township-2nd	09/22/99	08/20/20	1.290%	140,296	130,892	137,000
Courtland, City of	05/22/98	08/20/19	1.540%	889,935	753,231	793,041
Cross Lake Area WSSD	07/09/97	02/20/19	2.880%	2,035,802	1,716,095	1,799,482
Dassel, City of	07/30/02	08/20/22	1.380%	1,666,300	1,410,838	
Dayton, City of	08/16/00	08/20/21	3.250%	986,395	616,436	956,459
Delano, City of-1st	05/24/95	08/20/16	4.620%	2,480,000	1,905,460	2,005,274
Delano, City of-2nd	10/16/98	02/20/20	2.980%	1,150,000	1,017,648	1,063,047
Detroit Lakes, City of-1st	09/10/93	08/20/14	2.820%	2,552,820	1,586,228	1,701,519
Detroit Lakes, City of-2nd	12/19/95	02/20/17	2.930%	3,754,889	2,845,138	3,007,412
Dilworth, City of	03/22/00	08/20/20	3.070%	1,850,000	1,640,967	1,702,466
Dover Eyota St. Charles SD	05/30/02	08/20/21	3.293%	1,600,000	1,573,871	621,200

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30,	
					2003	2002
Clean Water Bond Fund (continued):						
Duluth, City of (Fondulac)	07/24/02	08/20/18	1.000%	364,195		
Duluth/North Shore SD-1st	02/04/00	08/20/20	3.520%	225,000	215,000	223,000
Duluth/North Shore SD-2nd	11/30/00	08/20/21	3.830%	300,000	291,000	300,000
Duluth/North Shore SD-3rd	07/01/02	08/20/23	1.630%	7,952,500		
Dundas, City of-1st	03/21/97	02/20/18	2.880%	927,469	742,685	780,546
Dundas, City of-2nd	03/21/97	08/20/99	1.980%	825,000		
East Gull Lake, City of-1st	10/23/91	02/20/13	3.640%	2,226,861	1,310,141	1,417,233
Ely, City of	01/02/01	08/20/21	1.070%	4,699,982	2,572,178	1,907,295
Elysian, City of	07/31/97	08/20/18	2.130%	1,163,536	942,954	993,805
Evansville, City of	12/11/97	02/20/19	1.250%	673,073	551,189	582,127
Eveleth, City of	06/12/92	02/20/13	4.730%	500,000	304,958	328,328
Fairfax, City of	08/18/95	08/20/16	2.950%	1,506,773	1,107,599	1,173,522
Farmington, City of	04/04/95	08/20/16	4.630%	764,377	583,977	614,541
Fayal Township-1st	09/22/99	08/20/20	2.110%	4,851,756	4,418,400	4,777,585
Fayal Township-2nd	06/22/01	08/20/21	1.570%	341,468	284,728	341,468
Fayal Township-3rd	10/04/01	08/20/20	2.110%	855,267	719,107	501,577
Fergus Falls, City of-1st	11/22/94	02/20/16	3.920%	3,100,000	2,275,029	2,407,013
Fergus Falls, City of-2nd	10/07/96	02/20/17	3.740%	450,000	347,950	366,568
Foley, City of	07/21/94	08/20/15	3.320%	1,080,000	755,340	803,392
Forest Prairie Township	04/12/01	08/20/21	1.800%	711,095	696,000	685,793
Garfield, City of-1st	05/09/97	02/20/18	3.080%	100,000	80,159	84,333
Garfield, City of-2nd	06/29/98	08/20/19	1.040%	450,489	371,528	392,103
Garrison, Kathio, West Mille Lacs L	01/09/01	08/20/21	1.620%	500,000	477,199	279,048
Glyndon, City of	08/14/91	02/20/13	3.640%	671,323	366,319	397,193
Good Thunder, City of	10/15/99	08/20/19	1.290%	1,010,545	958,000	1,006,624
Goodhue County	04/29/97	02/20/18	1.580%	141,175	109,849	116,291
Grand Lake Township-1st	09/02/99	08/20/20	1.290%	1,131,190	1,030,000	1,081,000
Grand Lake Township-2nd	05/29/01	08/20/20	1.290%	93,000	87,000	91,000
Grand Lake Township-3rd	02/19/02	08/20/20	1.290%	62,000	59,000	48,429
Granite Falls, City of	12/20/95	08/20/06	3.180%	200,000	143,353	153,551
Grey Eagle, City of	02/03/97	02/20/18	1.220%	410,000	237,645	251,969
Hackensack, City of	11/21/97	02/20/18	1.250%	287,844	220,652	233,949
Hancock, City of	06/29/93	02/20/14	2.210%	367,116	221,537	238,764
Hanover, City of	08/18/99	08/20/20	2.290%	1,909,275	1,755,000	1,833,000
Harmony, City of	02/25/93	02/20/14	3.340%	1,216,700	759,961	817,025
Hector, City of	12/14/94	02/20/16	3.920%	1,914,260	1,401,280	1,477,292
Henning, City of	09/15/92	02/20/14	(1)	606,500	339,334	369,443
Hewitt, City of-1st	09/05/90	02/20/11	0.000%	75,000	30,000	33,750
Hewitt, City of-2nd	12/04/91	08/20/12	0.000%	335,000	159,125	175,875
Hibbing, City of	12/16/02	08/20/22	1.740%	9,847,450	1,138,123	
Hinckley, City of-1st	09/25/92	02/20/14	2.090%	1,850,839	483,782	522,521
Hinckley, City of-2nd	07/28/99	08/20/20	2.110%	2,570,000	2,223,641	2,330,641
Hoffman, City of	10/02/97	02/20/19	1.990%	263,440	218,752	230,258
Ida Township	03/28/01	08/20/21	1.980%	7,723,000	7,378,348	5,573,354
Isanti, City of	09/18/96	08/20/17	2.630%	4,682,145	3,203,098	3,388,305
Jasper, City of	08/25/95	08/20/16	2.440%	778,200	565,347	600,317
Jordan, City of	05/30/00	08/20/21	2.290%	6,850,120	6,688,200	6,850,120
Kandiyohi County-1st	09/22/99	08/20/20	2.250%	7,188,360	6,816,603	7,128,000
Kandiyohi County-2nd	11/30/00	08/20/21	2.250%	3,648,450	3,563,656	3,648,450
Kandiyohi County-3rd	10/10/01	08/20/21	2.140%	651,000	635,433	651,000
Kasson, City of	08/17/01	08/20/21	3.070%	7,820,000	7,348,030	4,461,729

Program	Date of	Final	Interest	Loan	Outstanding Principal at June 30.	
Borrower	Loan	Maturity	Rate	Commitment	2003	2002
Clean Water Bond Fund (continued):						
Lake Benton, City of	11/21/91	08/20/12	2.660%	169,000	91,379	99,732
Lake City, City of-1st	08/25/93	08/20/14	3.740%	1,442,000	955,802	1,021,241
Lake City, City of-2nd	11/24/96	02/20/17	3.320%	1,500,000	1,148,442	1,211,962
Lake City, City of-3rd	08/18/99	08/20/20	2.860%	1,329,000	1,124,667	1,176,667
Lake City, City of-4th	09/30/02	08/20/23	2.990%	4,800,000	1,924,444	
Lake Mary Township-1st	05/05/98	08/20/19	1.540%	2,120,212	1,639,695	1,736,789
Lake Mary Township-2nd	09/11/00	08/20/20	1.360%	377,951	266,052	280,839
Lake Shore, City of	04/22/91	02/20/12	3.420%	504,690	266,365	291,940
Lakefield, City of	05/03/96	08/20/17	2.630%	1,143,940	884,776	935,988
Laketown Township	08/12/98	08/20/19	1.790%	1,020,000	887,243	932,335
Landfall Village	01/26/94	02/20/15	1.940%	1,088,007	702,314	753,829
Lanesboro, City of	08/15/96	08/20/17	2.680%	492,733	381,476	402,564
Le Center, City of	07/01/94	08/20/15	2.960%	2,315,710	1,601,426	1,705,948
Leota Sanitary District	08/10/99	08/20/19	1.000%	256,598	230,000	242,000
Lewiston, City of	07/17/01	08/20/21	2.320%	1,630,000	1,630,000	1,630,000
Lismore, City of	08/07/95	02/20/16	2.070%	550,000	382,657	408,065
Litchfield, City of	12/27/01	08/20/22	2.680%	10,963,561	10,140,135	3,524,770
Little Falls, City of	02/03/03	08/20/22	1.240%	4,248,645	767,214	
Long Prairie, City of	06/24/02	08/20/23	2.170%	3,500,000	3,452,578	
Madelia, City of	01/25/93	02/20/14	2.010%	2,415,000	1,446,427	1,562,828
Madison Lake, City of	11/01/95	08/20/17	0.000%	301,512	211,058	226,134
Mankato, City of-1st	05/21/98	08/20/19	3.070%	24,682,000	21,372,474	22,354,331
Mankato, City of-2nd	11/09/00	08/20/19	3.070%	678,000	623,000	651,000
Mayer, City of	01/14/00	08/20/20	2.570%	689,274	648,000	675,035
Metropolitan Council-01st	07/12/89	02/20/09	5.382%	40,000,000	16,700,000	19,450,000
Metropolitan Council-02nd	08/08/90	02/20/10	6.054%	65,000,000	33,000,000	38,000,000
Metropolitan Council-03rd	06/11/91	08/20/12	5.316%	37,300,000	25,800,000	28,000,000
Metropolitan Council-04th	06/11/91	08/20/12	6.420%	27,700,000	19,900,000	21,500,000
Metropolitan Council-05th	05/04/92	08/20/13	4.862%	40,000,000	27,900,000	29,700,000
Metropolitan Council-06th	07/20/93	02/20/14	4.710%	20,000,000	14,160,000	15,000,000
Metropolitan Council-07th	11/28/94	08/20/15	4.440%	40,000,000	29,715,000	31,380,000
Metropolitan Council-08th	09/30/96	08/20/16	3.824%	40,000,000	30,750,000	32,400,000
Metropolitan Council-09th	10/03/97	08/20/17	3.405%	40,000,000	30,650,000	31,825,000
Metropolitan Council-10th	12/31/98	08/20/19	3.140%	60,000,000	48,900,000	51,490,000
Metropolitan Council-11th	07/27/00	08/20/20	3.757%	60,000,000	57,420,000	59,095,000
Metropolitan Council-12th	11/14/01	08/20/21	3.543%	75,000,000	74,500,000	44,096,957
Metropolitan Council-13th	12/20/02	02/20/22	3.383%	100,000,000	63,073,739	
Montgomery, City of	02/05/03	08/20/22	1.000%	8,801,945	3,104,163	
Monticello, City of	03/13/97	08/20/18	4.080%	14,700,000	12,342,719	12,904,190
Montrose, City of-1st	08/04/89	08/20/09	3.470%	1,310,000		131,995
Montrose, City of-2nd	08/27/02	08/20/22	2.740%	4,209,000	3,726,915	
Montrose, City of-3rd	02/21/03	08/20/22	2.740%	1,566,000		
Moorhead, City of-1st	09/23/94	02/20/15	4.100%	2,478,112	1,704,206	1,812,230
Moorhead, City of-2nd	05/23/95	08/20/16	4.100%	1,601,443	1,210,708	1,276,706
Moorhead, City of-3rd	09/29/97	02/20/18	3.290%	426,290	342,752	360,178
Moorhead, City of-4th	05/06/02	08/20/22	3.130%	3,389,288	3,289,458	
Moose Lake, City of-1st	10/13/94	08/20/15	2.920%	2,250,000	1,554,468	1,656,170
Moose Lake, City of-2nd	02/25/97	08/20/15	2.845%	175,813	128,134	136,562
Morgan, City of-1st	09/23/93	08/20/14	2.570%	131,280	83,474	89,640
Morgan, City of-2nd	09/30/94	02/20/16	2.570%	640,309	452,037	480,985
Morris, City of	10/19/93	02/20/15	3.320%	2,146,672	1,449,955	1,543,980

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30.	
					2003	2002
Clean Water Bond Fund (continued):						
Morristown, City of	11/19/98	02/20/20	1.810%	1,229,797	1,071,137	1,125,783
New Ulm, City of	06/15/95	08/20/16	4.850%	6,227,000	4,810,094	5,057,638
Nicollet, City of	08/03/95	02/20/17	3.200%	1,260,000	961,821	1,015,533
Nisswa, City of-1st	08/10/90	02/20/12	3.670%	2,634,561	1,408,320	1,542,076
Nisswa, City of-2nd	05/02/00	08/20/19	2.020%	288,760	264,550	280,892
North Mankato, City of-1st	11/25/97	02/20/19	3.405%	1,032,679	876,244	918,093
North Mankato, City of-2nd	09/30/99	08/20/19	3.140%	442,988	400,475	419,000
Northfield, City of	05/02/00	08/20/21	3.040%	18,945,000	17,802,178	17,364,523
Oliva, City of	09/26/97	02/20/19	3.490%	1,122,092	952,882	994,261
Park Rapids, City of-1st	08/23/95	02/20/17	3.200%	11,203,311	8,551,276	9,029,593
Park Rapids, City of-2nd	12/31/97	02/20/17	3.200%	1,205,000	924,195	975,890
Pelican Rapids, City of	11/04/92	02/20/03	3.450%	86,315		8,581
Pemberton, City of	02/03/97	02/20/18	1.580%	372,136	289,526	306,714
Pillager, City of	11/21/91	02/20/13	2.530%	500,000	281,183	305,149
Pine Island, City of	07/14/92	08/20/13	3.480%	2,254,355	1,354,577	1,459,108
Pipestone, City of	09/04/97	08/20/07	1.990%	301,247	139,659	169,283
Plainview Elgin SSD	08/27/90	02/20/12	3.920%	1,401,104	764,122	833,716
Plato, City of-1st	04/20/99	08/20/19	1.290%	107,025	92,000	97,000
Plato, City of-2nd	03/27/00	08/20/21	1.860%	909,464	819,047	849,412
Pokegama Township	06/26/96	08/20/17	2.630%	2,416,802	1,867,245	1,977,300
Princeton, City of	03/13/95	08/20/16	3.880%	4,254,663	3,203,271	3,380,899
Ramsey Washington MWD-1st	06/13/97	08/20/17	3.824%	540,835	430,818	452,696
Ramsey Washington MWD-2nd	09/24/98	08/20/18	3.340%	711,431	600,121	629,261
Red Wing, City of-1st	12/20/96	08/20/17	3.824%	750,000	594,001	625,464
Red Wing, City of-2nd	12/02/97	02/20/18	3.405%	700,000	565,508	594,970
Red Wing, City of-3rd	05/22/98	08/20/18	3.340%	2,500,000	1,502,927	1,624,491
Red Wing, City of-4th	10/11/02	08/20/22	3.740%	2,100,000	1,213,073	
Redwood Falls, City of	12/11/96	08/20/17	2.490%	133,900	103,220	109,246
Renville, City of	08/22/96	02/20/17	2.470%	794,818	594,954	628,774
Rockford, City of	08/14/97	02/20/19	3.990%	1,694,279	1,452,786	1,516,660
Rockville, City of	12/19/95	08/20/17	0.000%	869,580	608,706	652,185
Rogers, City of-1st	08/03/92	08/20/13	3.200%	1,023,299	615,296	663,901
Rogers, City of-2nd	12/23/94	02/20/16	4.170%	2,710,873	1,999,911	2,113,802
Rollingstone, City of	04/12/00	08/20/20	2.790%	532,035	508,408	531,035
Roseau, City of-1st	05/09/94	08/20/14	2.990%	237,000	149,327	160,267
Roseau, City of-2nd	11/01/95	02/20/17	2.950%	950,000	720,758	761,862
Rush City, City of	03/05/99	08/20/19	1.040%	4,097,542	2,941,543	3,130,543
Rushford, City of	06/04/96	08/20/17	3.430%	1,101,488	868,866	914,449
Rushford Village, City of	05/30/96	02/20/17	3.180%	168,403	126,954	134,313
Russell, City of	08/08/90	02/20/12	2.920%	155,450	81,094	88,872
Sacred Heart, City of	07/17/97	08/20/18	1.580%	1,441,093	1,155,133	1,220,426
St Clair, City of	09/28/98	08/20/19	1.480%	2,653,226	2,241,321	2,360,425
St Cloud, City of	07/23/97	08/20/18	3.630%	4,812,000	4,009,264	4,199,044
St Hilaire, City of	03/27/98	02/20/19	2.250%	15,641	11,669	12,246
St James, City of	07/12/89	08/20/11	4.590%	5,704,341	994,591	1,088,375
St Michael, City of-1st	08/07/95	08/20/16	4.200%	3,686,833	2,790,012	2,940,933
St Michael, City of-2nd	01/28/00	08/20/19	3.540%	586,927	535,000	558,000
St Michael, City of-3rd	09/19/00	08/20/21	4.660%	7,228,700	6,495,516	6,718,207
St Paul, City of-1st	08/23/93	08/20/14	2.570%	1,072,837	682,373	732,781
St Paul, City of-2nd	11/10/94	08/20/15	3.600%	600,000	423,170	449,564
St Paul, City of-3rd	12/20/95	08/20/16	3.200%	600,000	444,916	470,902

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30,	
					2003	2002
Clean Water Bond Fund (continued):						
St Paul, City of-4th	06/21/96	02/20/17	2.880%	4,269,844	3,234,144	3,419,331
St Paul, City of-5th	01/17/97	02/20/18	3.820%	1,500,000	1,223,871	1,283,353
St Paul, City of-6th	01/13/98	02/20/19	3.250%	3,100,000	2,628,820	2,752,371
St Paul, City of-7th	02/18/99	08/20/19	2.790%	4,600,000	4,060,000	4,245,000
St Paul, City of-8th	09/12/00	08/20/20	3.870%	8,965,000	8,784,000	8,965,000
St Peter, City of-1st	12/29/00	08/20/21	2.040%	11,733,250	10,213,030	2,760,668
St Peter, City of-2nd	09/17/02	08/20/22	2.040%	7,260,850	2,967,035	
Sauk Centre, City of	10/30/95	08/20/16	3.200%	1,407,000	1,043,410	1,104,344
Shafer, City of-1st	03/17/95	08/20/16	2.240%	174,000	125,535	133,426
Shafer, City of-2nd	09/24/02	08/20/23	1.630%	1,167,000	1,012,692	
Shingobee Township	01/24/00	08/20/20	1.000%	60,240	54,005	56,910
Shorewood Park SD	12/19/95	02/20/17	0.000%	625,000	437,500	468,750
Silver Bay, City of	09/23/94	02/20/16	2.820%	1,490,796	1,060,794	1,127,502
Silver Creek Township-1st	03/23/99	08/20/20	2.290%	1,700,000	1,561,000	1,631,000
Silver Creek Township-2nd	06/11/01	08/20/20	2.290%	350,000	292,350	188,117
Spring Lake Township	06/11/01	08/20/21	1.290%	1,263,000	1,232,364	1,261,371
Stewart, City of	10/02/98	02/20/19	1.000%	150,000	122,345	129,363
Thief River Falls, City of	07/16/98	08/20/19	2.790%	925,525	796,319	834,926
Tofte Schroeder SSD	01/14/02	08/20/21	2.930%	230,481	230,481	110,516
Tracy, City of	06/30/00	08/20/20	2.110%	1,434,769	1,343,000	1,206,147
Twin Lakes Township-1st	10/25/93	02/20/15	2.070%	1,165,729	752,725	807,455
Twin Lakes Township-2nd	08/17/01	08/20/21	1.640%	286,842	280,000	196,948
Two Harbors, City of	03/11/94	02/20/15	2.440%	2,200,000	1,442,768	1,545,359
Verndale, City of	07/10/97	02/20/18	1.130%	155,809	119,760	127,048
Walker, City of	04/03/95	08/20/16	2.600%	2,182,510	1,590,601	1,687,809
Walnut Grove, City of	04/15/93	02/20/14	(2)	767,041	432,465	470,480
Watertown, City of	05/11/93	08/20/14	3.490%	3,300,000	2,167,347	2,318,331
Waverly, City of	11/27/91	08/20/11	2.640%	623,933	302,899	334,326
West Concord, City of	09/20/96	02/20/18	3.990%	281,777	229,661	241,701
Western Lk Superior SD-1st	10/10/91	08/20/12	4.780%	5,078,000	3,515,167	3,801,532
Western Lk Superior SD-2nd	03/06/97	02/20/13	4.330%	4,400,000	3,234,012	3,487,604
Western Lk Superior SD-3rd	10/21/98	02/20/20	3.980%	4,517,000	4,044,359	4,208,154
Western Lk Superior SD-4th	09/02/99	08/20/14	3.560%	835,800	731,000	779,000
Western Lk Superior SD-5th	10/13/99	08/20/20	4.270%	21,053,000	20,206,000	20,943,000
Western Lk Superior SD-6th	10/06/00	08/20/21	4.870%	7,090,000	6,925,223	6,792,284
Western Lk Superior SD-7th	10/29/02	08/20/18	3.240%	3,250,000	2,758,952	
Wheaton, City of	06/26/03	08/20/22	2.240%	2,505,000		
Willmar, City of	06/28/96	08/20/17	3.130%	4,300,000	3,360,412	3,542,733
Windom, City of-1st	01/26/94	02/20/14	2.440%	352,380	212,536	229,411
Windom, City of-2nd	05/17/94	08/20/15	2.710%	3,886,970	2,667,510	2,844,624
Windom, City of-3rd	12/20/95	02/20/11	2.450%	298,884	172,898	192,237
Winnebago, City of	07/12/89	09/10/90	3.840%	640,000		
Woodland, City of	06/12/97	08/20/18	2.580%	698,775	571,202	600,834
Zimmerman, City of-1st	11/30/89	02/20/11	4.970%	93,000	48,158	52,932
Zimmerman, City of-2nd	08/10/90	02/20/12	3.670%	1,281,340	218,876	238,976
Zimmerman, City of-3rd	04/09/99	08/20/20	2.040%	4,173,493	3,984,610	4,167,765
Clean Water Bond Fund				1,189,175,336	875,021,897	758,667,294

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30.	
					2003	2002
Drinking Water Bond Fund:						
Adrian, City of	10/30/98	08/20/18	3.320%	259,660	228,000	239,000
Alexandria, City of	07/30/02	08/20/22	3.380%	1,146,700	790,777	
Argyle, City of	09/30/98	08/20/19	2.570%	229,655	205,000	214,000
Arlington, City of	02/21/03	08/20/17	2.990%	110,000	110,000	
Askov, City of	09/30/98	08/20/19	1.000%	479,781	411,416	433,149
Babbitt, City of	08/29/01	08/20/21	2.820%	1,316,806	1,285,679	1,316,806
Battle Lake, City of	06/18/03	08/20/22	1.490%	1,392,230	63,677	
Breitung Township-1st	11/01/01	08/20/21	2.070%	113,298	90,775	62,568
Breitung Township-2nd	12/16/02	08/20/22	2.490%	117,500	111,738	
Brooten, City of	12/05/00	08/20/20	3.410%	405,365	287,255	247,023
Browerville, City of	10/21/98	08/20/18	2.040%	213,876	184,000	194,000
Brownston, City of	11/03/99	08/20/19	2.980%	188,100	172,000	180,000
Buffalo Lake, City of	08/18/99	08/20/19	2.540%	754,776	676,000	707,051
Butterfield, City of	02/11/02	08/20/21	2.070%	263,919	239,053	
Cambridge, City of	09/17/01	08/20/21	4.050%	2,080,000	1,492,177	419,636
Canby, City of	11/10/98	08/20/18	1.790%	2,020,499	1,737,000	1,830,000
Cannon Falls, City of	06/27/01	08/20/21	4.070%	5,331,000	5,192,866	4,948,281
Cass Lake, City of	05/20/03	08/20/22	1.990%	626,693		
Clara City, City of	11/13/01	08/20/21	2.320%	2,622,700	2,256,102	1,171,006
Clearwater, City of	11/23/02	08/20/22	2.130%	686,486	239,782	
Cloquet, City of	10/08/02	08/20/22	3.380%	2,077,005	1,391,402	
Cokato, City of	06/14/00	08/20/15	3.910%	613,137	608,000	611,000
Cold Spring, City of	12/18/98	08/20/08	3.540%	489,000	341,294	392,000
Coleraine, City of	12/12/02	08/20/22	2.380%	1,572,375		
Comfrey, City of	10/16/98	08/20/18	2.040%	149,107	128,000	134,694
Cromwell, City of	04/12/99	08/20/19	1.000%	62,361	55,916	58,948
Dalton, City of	04/14/03	08/20/22	2.680%	134,711		
Dassel, City of	07/02/99	08/20/19	2.040%	1,768,142	1,602,637	1,682,000
Dawson, City of	09/20/02	08/20/22	3.320%	914,497	913,547	
Dayton, City of	08/16/00	08/20/20	3.750%	2,269,906	2,144,906	2,216,563
Deer River, City of	10/29/02	08/20/22	1.630%	322,131	207,464	
Dover, City of	12/11/00	08/20/20	3.410%	464,776	434,776	435,551
Eden Valley, City of-1st	08/21/00	08/20/20	3.160%	1,944,450	1,756,449	1,751,886
Eden Valley, City of-2nd	06/27/01	08/20/21	2.320%	644,890	628,845	644,890
Edgerton, City of	07/11/02	08/20/22	3.380%	395,035	395,035	
Ely, City of	12/13/00	08/20/20	3.410%	1,177,302	1,104,000	1,148,000
Fairfax, City of	08/06/99	08/20/19	2.040%	1,265,806	1,145,000	1,201,000
Fertile, City of	01/27/03	08/20/22	1.130%	1,200,000	303,805	
Finlayson, City of	11/28/00	08/20/20	1.910%	211,828	196,000	177,036
Fulda, City of	07/30/98	08/20/18	2.320%	503,117	418,000	439,000
Gilbert, City of	04/30/03	08/20/23	2.880%	159,650	148,284	
Glenwood, City of	05/30/00	08/20/19	1.980%	1,081,126	1,014,484	1,066,023
Glyndon, City of	10/29/02	08/20/22	2.380%	959,000	755,223	
Grand Marais, City of	04/27/99	08/20/19	2.560%	484,112	442,496	462,944
Grand Rapids, City of	01/03/00	08/20/19	3.040%	1,079,657	983,000	1,027,000
Harris, City of	10/26/99	08/20/19	3.290%	142,000	129,302	135,161
Hawley, City of	06/27/01	08/20/21	3.320%	660,000	640,000	586,964
Hibbing, City of-PUC	07/19/01	08/02/20	3.050%	1,434,777	958,952	233,177
Hinckley, City of-1st	11/17/00	08/20/20	4.160%	563,800	508,977	454,161
Hinckley, City of-2nd	10/05/01	08/20/21	2.820%	1,401,218	1,312,187	1,150,576
Howard Lake, City of	10/13/99	08/20/19	3.060%	287,662	263,484	276,000

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30.	
					2003	2002
Drinking Water Bond Fund (continued):						
Jordan, City of-1st	11/05/98	08/20/18	3.540%	307,917	270,387	283,000
Jordan, City of-2nd	06/30/03	08/20/23	2.819%	1,068,000		
Kandiyohi County-1st	08/18/99	08/20/19	3.540%	4,446,000	4,079,973	4,259,000
Kandiyohi County-2nd	12/29/99	08/20/19	3.540%	2,262,450	2,066,398	2,157,450
Kandiyohi County-3rd	11/30/00	08/20/20	3.540%	1,012,260	953,591	992,000
Kandiyohi County-4th	10/10/01	08/20/21	3.540%	233,000	225,667	233,000
Keewatin, City of	08/28/02	08/20/22	2.880%	500,000	417,463	
Kenyon, City of	12/16/02	08/20/22	3.240%	224,000	195,794	
Kiester, City of	10/15/01	08/20/21	3.070%	228,636	218,741	200,650
Lakefield, City of	09/26/02	08/20/22	2.880%	2,461,570	650,080	
Lamberton, City of	08/06/99	08/20/19	1.860%	262,182	236,000	248,000
Lewiston, City of-1st	12/20/99	08/20/19	3.790%	312,934	281,000	293,000
Lewiston, City of-2nd	05/29/01	08/20/20	3.820%	270,000	264,000	270,000
Lismore, City of	08/17/01	08/20/21	2.570%	174,060	170,000	139,745
Litchfield, City of	05/24/99	08/20/19	3.540%	4,092,166	3,766,000	3,924,871
Littlefork, City of	07/28/99	08/20/19	1.810%	181,277	163,000	171,000
Long Prairie, City of	04/06/01	08/20/20	3.910%	1,224,850	1,065,997	867,042
Lyle, City of	06/27/00	08/20/20	3.000%	311,040	290,644	303,178
Lynd, City of	11/19/98	08/20/09	2.040%	27,325	20,960	23,898
Marble, City of	10/08/01	08/20/21	2.570%	128,210	121,840	118,550
Mayer, City of	12/21/00	08/20/20	3.910%	347,000	327,000	338,279
Melrose, City of-1st	01/26/99	08/20/18	3.540%	599,219	528,116	553,000
Melrose, City of-2nd	04/13/99	08/20/19	3.480%	2,500,000	2,302,909	2,404,700
Minneapolis, City of	12/16/02	08/20/22	2.819%	27,400,000	7,937,713	
Montevideo, City of	03/27/00	08/20/20	4.250%	1,658,080	1,556,000	1,613,537
Morgan, City of	06/21/99	08/20/19	2.480%	481,289	439,000	460,000
Morris, City of	10/26/99	08/20/19	2.540%	1,251,423	1,136,000	1,185,492
Nashwauk, City of	06/08/99	08/20/19	1.980%	966,092	883,000	924,186
New Market, City of	07/02/99	08/20/19	3.040%	76,000		71,556
New Prague, City of	10/15/02	08/20/22	3.630%	3,150,000	1,495,730	
Onamia, City of	10/19/00	08/20/20	3.000%	420,000	393,000	409,000
Osakis, City of	01/14/03	08/20/22	2.920%	666,377	383,391	
Ottertail, City of	01/14/03	08/20/22	1.170%	1,536,000	691,109	
Perham, City of	11/19/99	08/20/19	2.790%	606,790	550,545	575,793
Pine River, City of	09/20/02	08/20/22	1.630%	167,260	167,260	
Princeton, City of-PUC	09/08/99	08/20/19	3.290%	670,000	615,000	642,000
Rock County Rural Water District-1	09/30/99	08/20/19	1.790%	1,460,000	1,315,000	1,381,000
Royalton, City of	09/27/99	08/20/19	1.000%	458,452	397,883	425,883
Rush City, City of	03/05/99	08/20/18	1.540%	3,889,693	2,620,173	2,803,173
Rushford, City of	09/10/99	08/20/19	3.040%	765,000	695,000	726,000
Saint James, City of	01/08/02	08/20/21	3.570%	2,230,000	2,155,781	1,150,155
St Paul, City of	11/05/98	12/01/18	3.480%	16,500,000	14,355,000	15,130,000
Sandstone, City of	07/28/99	08/20/19	2.110%	401,331	363,831	374,401
Sauk Centre, City of	11/05/98	08/20/18	3.540%	2,121,231	1,872,000	1,958,000
Savage, City of	08/06/99	08/20/19	3.620%	8,984,395	8,234,955	8,596,395
Sebeka, City of	10/15/02	08/20/22	1.130%	266,300	228,840	
Silver Bay, City of	11/19/98	08/20/18	2.560%	642,000	559,000	587,000
Staples, City of	03/24/03	08/20/22	1.490%	1,400,000		
Tower, City of	01/20/00	08/20/19	1.860%	892,659	798,659	839,474
Tracy, City of	06/30/00	08/20/20	4.160%	266,395	123,960	125,717
Trosky, City of	11/03/99	08/20/19	3.290%	131,670	118,000	123,000

Program Borrower	Date of Loan	Final Maturity	Interest Rate	Loan Commitment	Outstanding Principal at June 30.	
					2003	2002
Drinking Water Bond Fund (continued):						
Two Harbors, City of	06/30/99	08/20/19	3.040%	835,000	763,292	798,649
Underwood, City of	11/13/01	08/20/21	2.570%	660,878	624,478	494,533
Utica, City of	09/19/01	08/20/21	2.070%	173,000	167,720	161,508
Verdale, City of	12/18/98	08/20/18	1.310%	75,572	64,000	68,000
Virginia, City of	11/08/99	08/20/19	3.040%	6,127,973	5,606,244	5,865,244
Wadena, City of	07/30/02	08/20/22	2.670%	2,617,891	2,615,974	
Walker, City of	08/18/99	08/20/19	1.810%	1,877,758	1,690,000	1,774,046
Wanamingo, City of	08/29/01	08/20/21	1.810%	1,660,000	1,618,229	1,539,843
Watertown, City of	12/27/01	08/20/21	3.570%	2,467,000	2,194,853	454,377
Windom, City of-1st	03/12/99	08/20/18	2.570%	3,151,838	2,748,000	2,886,000
Windom, City of-2nd	06/28/99	08/20/19	2.290%	1,319,714	1,199,000	1,256,000
Winnebago, City of	09/19/00	08/20/20	2.160%	1,910,364	1,778,364	1,816,626
Drinking Water Bond Fund				172,301,143	126,476,306	103,244,044
Transportation Bond Fund Series 1999A:						
Metropolitan Council	03/12/99	02/15/20	2.710%	21,025,000	14,360,000	16,640,000
Transportation Bond Fund Series 2001:						
Benton County	10/23/01	08/20/11	2.150%	469,000	167,829	210,000
Mazeppa, City of	10/26/99	08/20/14	2.480%	535,000	458,000	489,552
Newport, City of	11/28/01	08/20/15	1.390%	1,625,600	499,794	130,650
Ramsey County-1st	05/04/01	08/20/30	3.590%	6,872,000	6,872,000	4,961,760
Ramsey County-2nd	05/04/01	08/20/30	3.590%	728,000		
Richfield, City of	09/17/01	02/20/07	2.000%	6,700,000	6,450,000	4,900,000
Robbinsdale, City of	10/23/01	08/20/12	2.290%	1,200,000	927,843	655,340
Rochester, City of	11/14/01	08/20/21	2.830%	2,500,000	2,500,000	
Waite Park, City of	06/27/01	08/20/21	3.190%	2,100,000	2,023,000	1,502,811
Woodbury, City of-1st	06/28/01	08/20/17	2.700%	13,049,400	12,671,600	10,978,996
Transportation Bond Fund Series 2001				35,779,000	32,570,066	23,829,111
Transportation Revolving Loan Fund Direct Loans:						
Mn Dept of Transportation-1st	04/18/00	12/01/05	3.120%	15,000,000	6,962,915	
Mn Dept of Transportation-2nd	01/02/02	12/01/11	2.550%	15,000,000	5,480,960	
Pennington County	08/29/01	08/20/21	3.140%	2,000,000	1,567,720	103,336
Pine County-1st	05/29/01	08/20/16	3.000%	2,225,000	957,130	1,068,488
Pine County-2nd	03/15/02	08/20/05	1.810%	100,000	17,131	17,145
Woodbury, City of-2nd	06/28/01	08/20/15	2.690%	4,589,700	4,464,700	4,589,700
Transportation Revolving Loan Fund Direct Loans				38,914,700	19,450,556	5,778,669
Special Appropriation Direct Loans:						
Stewart, City of	04/22/02	08/20/21	1.000%	1,000,000	1,000,000	
MPFA Totals as of June 30, 2003 and 2002				<u>\$ 1,458,195,179</u>	<u>\$ 1,068,878,825</u>	<u>\$ 908,159,118</u>
Total commitments / due from the Metropolitan Council				\$ 666,025,000	\$ 486,828,739	\$ 418,576,957
Metropolitan Council percentage of total loan portfolio				45.7%	45.5%	46.1%

(1) Henning: \$500,000 of the original principal amount amortized at -0-% with the balance amortized at 2.23%

(2) Walnut Grove: \$500,000 of the principal amount amortized at -0-% with the balance amortized at 1.74%

Schedule of Future Loan Repayments - At June 30, 2003, scheduled loan repayments on outstanding loans are payable as follows:

Fiscal Year(s) Ending	Clean Water		Drinking Water		Transportation Series 1999A	
	Interest	Principal	Interest	Principal	Interest	Principal
2004	\$ 23,650,168	\$ 172,283,167	\$ 3,756,268	\$ 6,156,883	\$ 386,243	\$ 2,345,000
2005	23,688,598	33,894,402	4,309,220	6,875,113	323,981	1,305,000
2006	22,641,557	36,281,716	4,097,936	7,284,000	288,547	1,345,000
2007	21,451,152	37,569,906	3,882,567	7,293,000	252,098	1,380,000
2008	20,146,181	40,707,366	3,665,491	7,398,000	214,632	1,420,000
2009 - 2013	79,764,101	226,257,512	14,852,808	40,273,000	579,398	3,930,000
2014 - 2018	40,727,211	256,284,200	8,219,641	49,195,000	258,602	1,825,000
2019 - 2023	7,435,749	167,606,970	1,485,353	37,801,545	32,181	810,000
2024 - 2028	315,736	1,143,000	-	80,000	-	-
2029 - 2033	-	-	-	-	-	-
	<u>\$239,820,453</u>	<u>\$972,028,240</u>	<u>\$44,269,283</u>	<u>\$ 162,356,541</u>	<u>\$ 2,335,681</u>	<u>\$ 14,360,000</u>
Less: Undisbursed loan commitments:		97,006,342		35,880,235		-
Outstanding principal:		<u>\$ 875,021,897</u>		<u>\$ 126,476,306</u>		<u>\$ 14,360,000</u>

Fiscal Year(s) Ending	Transportation Series 2001		Non-Pledged Loans		MPFA Totals	
	Interest	Principal	Interest	Principal	Interest	Principal
2004	\$ 882,951	\$ 1,381,290	\$ 581,621	\$ 3,677,681	\$ 29,257,251	\$ 185,844,021
2005	893,948	1,662,540	523,672	3,815,183	29,739,418	47,552,237
2006	849,537	6,327,900	829,112	3,565,023	28,706,689	54,803,639
2007	710,177	3,768,200	718,817	4,004,945	27,014,810	54,016,051
2008	621,657	1,849,500	600,369	4,120,350	25,248,330	55,495,216
2009 - 2013	2,319,292	9,526,600	1,268,132	14,387,734	98,783,732	294,374,845
2014 - 2018	1,310,108	5,088,000	212,544	2,218,000	50,728,105	314,610,200
2019 - 2023	736,766	2,654,000	36,679	732,000	9,726,729	209,604,515
2024 - 2028	376,860	1,745,000	-	-	692,597	2,968,000
2029 - 2033	65,697	1,202,000	-	-	65,697	1,202,000
	<u>\$ 8,766,993</u>	<u>\$ 35,205,029</u>	<u>\$ 4,770,946</u>	<u>\$ 36,520,916</u>	<u>\$299,963,357</u>	<u>\$1,220,470,725</u>
Less: Undisbursed loan commitments:		2,634,963		16,070,360		151,591,900
Outstanding principal:		<u>\$ 32,570,066</u>		<u>\$ 20,450,556</u>		<u>\$1,068,878,825</u>

Projected repayments include undisbursed amounts. Repayments will differ from projected for loans that are not yet fully disbursed. CWBF and DWBF interest amounts are net of

The above projections include only fully executed loans (listed above). The Authority anticipates funding a significant amount of new loans from existing resources; these loans will add to the future repayment streams but are not included above.

All loans of the Authority are secured by the borrowers' general obligation and revenue pledges, except the DWBF loan to Saint Paul which is backed solely by a revenue pledge.

4. Bonds Payable

Bonds payable at June 30, 2003 and 2002 consist of:

Series	Interest Rates	Date Issued	Final Maturity ¹	Original Principal	Outstanding Principal June 30: 2003	2002
Clean Water						
1989A	6.35 - 7.00 %	07/14/89		\$ 46,698,221	\$ -	\$ -
1990A	6.15 - 7.10	08/09/90		71,029,777	-	-
1991A	5.10 - 6.95	06/13/91	03/01/03	31,400,000	-	1,720,000
1991B	5.10 - 6.70	09/25/91	03/01/03	32,655,000	-	1,735,000
1992A	4.70 - 6.65	05/06/92	03/01/05	55,549,119	-	8,595,000
1995A	5.00 - 6.25	01/26/95	03/01/09	88,195,000	20,550,000	23,125,000
1996A	4.00 - 5.00	03/06/96	03/01/13	118,830,000	94,665,000	101,420,000
1996B	4.00 - 6.75	09/26/96	03/01/18	61,970,000	50,655,000	52,840,000
1997A/B	4.75 - 6.00	10/15/97	03/01/18	138,635,000	114,005,000	118,725,000
1998A	4.125 - 5.00	03/05/98	03/01/19	100,000,000	85,125,000	90,010,000
1998B	3.30 - 5.125	12/30/98	03/01/19	78,000,000	71,400,000	73,900,000
2000A	5.00 - 5.50	07/27/00	03/01/19	110,000,000	107,500,000	109,000,000
2001A	3.00 - 5.00	11/15/01	03/01/20	70,000,000	69,000,000	70,000,000
2002A				100,000,000	100,000,000	
Clean Water bonds				1,102,962,117	712,900,000	651,070,000
Plus: Remaining unamortized net premium (discount)					6,700,990	2,638,220
Less: Unamortized portion of the amount deferred in refunding ²					(10,025,978)	(11,688,623)
Net bonds payable reflected on the statement of net assets					709,575,012	642,019,597
Drinking Water						
1999B		07/14/99	03/01/19	21,500,000	19,065,000	19,870,000
2002B				50,000,000	50,000,000	
Drinking Water bonds				71,500,000	69,065,000	19,870,000
Plus: Remaining unamortized net premium (discount)					3,058,749	(112,632)
Net bonds payable reflected on the statement of net assets					72,123,749	19,757,368
Transportation Series 1999A						
1999A		03/18/99	03/01/20	17,080,000	11,665,000	13,515,000
Plus: Remaining unamortized net premium (discount)					(29,252)	(17,027)
Net bonds payable reflected on the statement of net assets					11,635,748	13,497,973
Transportation Series 2001						
2001		12/13/01	03/01/21	20,450,000	20,250,000	20,450,000
Plus: Remaining unamortized net premium (discount)					603,652	728,337
Net bonds payable reflected on the statement of net assets					20,853,652	21,178,337
MPFA Totals						
Original and outstanding principal				1,211,992,117	813,880,000	704,905,000
Plus: Remaining unamortized net premium (discount)					10,334,139	3,236,898
Less: Unamortized portion of the amount deferred in refunding ²					(10,025,978)	(11,688,623)
Net bonds payable reflected on the statement of net assets					\$ 814,188,161	\$ 696,453,275

¹ Final maturity reflects the latest maturity currently outstanding.

² This amount is reflected on the statement of net assets as a reduction of bonds payable.

Bond Proceeds – The net bond proceeds have been used to fund loans to Minnesota municipalities for projects relating to wastewater treatment facilities, drinking water systems, and transportation. A portion of the 1996A Series was used to refund portions of the 1989A, 1990A, 1991A, and 1991B Series bonds. A portion of the 1997A/B Series was used to refund portions of the 1990A and 1992A Series bonds. A portion of the 1998A Series was used to refund portions of the 1989A, 1991A, 1991B, and 1995A Series bonds.

Security - The bonds are secured by bond program assets and revenues as defined in the applicable basic bond resolutions and series bond resolutions.

Bonding Authority - The Authority's outstanding debt limit is \$1,000,000,000. The Authority bonds do not constitute a debt of the State of Minnesota or any agency or political subdivision thereof (other than the Authority). The principal amount of bonds outstanding at June 30, 2003 was \$813,880,000.

Advanced Refunding of Debt - The Authority has, on three occasions to date, issued bonds the partial proceeds of which were used to defease certain prior debt issuances. In each case, the Authority established an irrevocable escrow fund at U.S. Bank Corporate Trust Services (formerly First Trust National Association) pursuant to an escrow agreement between the Authority, the Minnesota State Board of Investment, and U.S. Bank Corporate Trust Services. The escrow funds are pledged solely to the repayment of principal, premium, and interest on the refunded bonds. Under the agreements, the refunded bonds will be called for redemption at each series' applicable optional redemption dates. As these bonds have, in effect, been redeemed under the defeasance, they are no longer outstanding under the Authority's applicable bond resolutions and therefore, they are not entitled to the pledge of the applicable resolution. Accordingly, these bonds and the related escrow funds are not reflected in these combined financial statements as of June 30, 2003.

The following (sorted by cusip #) represents the defeased bonds unredeemed as of June 30, 2003:

Series	CUSIP #	Refunding Date	Maturity	Call Date	Principal Refunded Unredeemed
1995A	604114DW5	03/05/98	03/01/10	03/01/05	\$ 5,885,000
1995A	604114DX3	03/05/98	03/01/11	03/01/05	6,680,000
1995A	604114DY1	03/05/98	03/01/12	03/01/05	7,070,000
1995A	604114DZ8	03/05/98	03/01/13	03/01/05	7,235,000
1995A	604114EA2	03/05/98	03/01/14	03/01/05	11,290,000
1995A	604114EB0	03/05/98	03/01/15	03/01/05	7,225,000
1995A	604114EC8	03/05/98	03/01/16	03/01/05	6,610,000
					<u>\$ 51,995,000</u>

Schedule of Maturities - At June 30, 2003 debt service on outstanding bonds is payable as follows:

Fiscal Year(s) Ending	Clean Water		Drinking Water		Transportation Series 1999A	
	Interest	Principal	Interest	Principal	Interest	Principal
2004	\$ 35,647,700	\$ 33,440,000	\$ 3,426,163	\$ 3,340,000	\$ 487,575	\$ 1,905,000
2005	33,980,550	35,245,000	3,337,313	3,370,000	411,375	1,060,000
2006	32,238,603	38,440,000	3,172,075	3,410,000	368,975	1,095,000
2007	30,335,850	40,025,000	3,004,988	3,445,000	325,175	1,120,000
2008	28,355,385	42,115,000	2,836,518	3,490,000	280,375	1,155,000
2009 - 2013	109,411,525	229,775,000	11,534,938	18,160,000	790,995	3,190,000
2014 - 2018	50,164,359	230,965,000	6,621,900	22,185,000	369,345	1,485,000
2019 - 2023	5,025,638	62,895,000	1,082,831	11,665,000	47,025	655,000
Totals, PFA	\$325,159,609	\$712,900,000	\$ 35,016,724	\$ 69,065,000	\$ 3,080,840	\$ 11,665,000
Plus: Remaining premium (discount)		6,700,990		3,058,749		(29,252)
Less: Remaining refunding deferrals		(10,025,978)				
Net bonds payable		<u>\$709,575,012</u>		<u>\$ 72,123,749</u>		<u>\$ 11,635,748</u>

Fiscal Year(s) Ending	Transportation Series 2001		MPFA Totals	
	Interest	Principal	Interest	Principal
2004	\$ 990,000	\$ 680,000	\$ 40,551,438	\$ 39,365,000
2005	966,200	820,000	38,695,438	40,495,000
2006	937,500	3,970,000	36,717,153	46,915,000
2007	739,000	2,345,000	34,405,013	46,935,000
2008	621,750	1,110,000	32,094,028	47,870,000
2009 - 2013	2,198,750	6,155,000	123,936,208	257,280,000
2014 - 2018	891,500	3,680,000	58,047,104	258,315,000
2019 - 2023	151,500	1,490,000	6,306,994	76,705,000
Totals, PFA	\$ 7,496,200	\$ 20,250,000	\$370,753,373	\$813,880,000
Plus: Remaining premium (discount)		603,652		10,334,139
Less: Remaining refunding deferrals				(10,025,978)
Net bonds payable		<u>\$ 20,853,652</u>		<u>\$814,188,161</u>

Table of changes during the fiscal year: The following table summarizes the change in reported bonds payable during the year ended June 30, 2003:

Bond Fund	Beginning Balance (par)	New Issues (par)	Redemptions	Ending Balance (par)
CWBF	\$ 651,070,000	\$ 100,000,000	\$ (38,170,000)	\$ 712,900,000
DWBF	19,870,000	50,000,000	(805,000)	69,065,000
TR-1999A	13,515,000		(1,850,000)	11,665,000
TR-2001	20,450,000		(200,000)	20,250,000
Totals	\$ 704,905,000	\$ 150,000,000	\$ (41,025,000)	\$ 813,880,000
Plus: Remaining unamortized premium				10,334,139
Less: Unamortized portion of the amount deferred in refunding				(10,025,978)
				<u>\$ 814,188,161</u>

5. Arbitrage Rebate Liability

The bonds issued by the Authority are subject to a variety of Internal Revenue Service (IRS) regulations that limit the amount of income that may be earned with investments to an amount not greater than the amount that would have been earned had the funds been invested at the yield on the bonds as defined by the IRS. Excess earnings must be rebated annually, or every five years, depending on the date and type of bond issue. The Authority's arbitrage rebate liability at June 30, 2003 and 2002 was \$3,315,588 and \$3,653,678, respectively.

6. Related-Party Transactions

Administrative Services - The DTED, Department of Health, and MPCA provide administrative staff and services to the Authority. During fiscal 2003 and 2002, the Authority paid approximately \$2.6 million and \$2.0 million, respectively, for these services.

Transfers - The Authority has, from CWBF net assets, made sub grant awards for non point-source pollution control programs administered by the Minnesota Department of Agriculture and the Minnesota Pollution Control Agency. As the Authority makes these awards a transfer out of the CWBF to the Other Fund is recognized. Such transfers during fiscal 2003 and 2002 were \$2 million and \$4 million, respectively. In fiscal year 2003, approximately \$1.6 million was transferred from the TBF Funds to the Other Fund, from excess bond year pledged revenues over bond year debt service in the TBF Funds. In fiscal year 2002, approximately \$16.8 million was transferred from the Other Fund to the TBF-2001 Fund to capitalize that bond fund.

7. Commitments

At June 30, 2003 the Authority had committed approximately \$192 million for the origination or disbursement of future loans under the Clean Water Bond Fund, Drinking Water Bond Fund, and Transportation Revolving Loan Fund program, and approximately \$14.8 million for disbursement of non point-source pollution control awards under the Other Fund.

8. Subsequent Events

On July 1, 2003, DTED merged with the Department of Economic Security, creating the new Department of Employment and Economic Development (DEED). The Commissioner of DTED is now the Commissioner of DEED and will continue as chair of the Authority.

In September 2003, the Authority received approximately \$133 million as payment in full on the following seven CWBF loans:

Fergus Falls, City of-1st, Metropolitan Council-2nd, Metropolitan Council-3rd, Metropolitan Council-4th, Metropolitan Council-5th, Metropolitan Council-7th, St James, City of.

The Authority has received notification of intention to prepay, on December 1, 2003, the following Clean Water loans: City of New Ulm, and City of Saint Michael (1st and 3rd loans). Several other cities have notified the Authority that they are considering paying off loans; all such decisions must be implemented by December 31, 2003.

Monies received from CWBF loan pay-offs, net of fees, will be applied by the Authority to CWBF loan disbursements as quickly as practical and as allowed under the CWBF bond resolutions.

9. Restatement

Subsequent to the issuance of the Authority's fiscal 2002 financial statements, the Authority's management determined that the Authority's accounting for federal capitalization grants from the Environmental Protection Agency and federal highway money through MnDOT did not comply with GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. The Authority previously recognized these federal monies as capital contributions at the date of grant. Management of the Authority has subsequently determined that, in accordance with generally accepted accounting principles, recognition of these capital contributions should be delayed until all applicable eligibility requirements, including the incurrence of qualifying expenses, are met. As a result, to conform to GASB Statement No. 33, the accompanying statement of net assets as of June 30, 2002 and the statements of revenues, expenses, and changes in net assets and of cash flows for the year ended June 30, 2002 have been restated from the amounts previously reported by other auditors, whose report dated October 15, 2002 (November 26, 2003 as to the restatement), expressed an unqualified opinion on these statements. A summary of the impact of the reclassification is as follows.

	As Previously Reported	As Restated
At June 30, 2002:		
Federal grants receivable - Current	\$ 48,173,415	\$ 218
Federal grants receivable - Noncurrent	6,212,471	
Payable to subrecipients - Current	8,500,000	
Payable to subrecipients - Noncurrent	16,903,020	
Deferred revenue	1,075,354	
Net assets restricted by bond resolutions	598,562,230	553,507,614
Net assets restricted by legislation	66,304,310	83,451,632
Year Ended June 30, 2002:		
Operating revenues - grants, appropriations, and fees	769,903	3,606,508
Operating expenses - grants	8,780,589	17,589,772
Capital contributions - federal grants	71,303,115	33,608,174
Transfer out	4,000,000	
Net assets, beginning of year	572,901,130	584,661,353

**Minnesota Public Facilities Authority
Supplemental Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003**

Federal Agency /CFDA no.	Federal Program Description	Federal Expenditures
U.S. Department of Transportation		
20.205	Capitalization Grant for the Transportation Revolving Loan Fund	\$ 118,800
U.S. Environmental Protection Agency		
66.458	Capitalization Grants for Clean Water State Revolving Funds	49,362,993
66.468	Capitalization Grants for Drinking Water State Revolving Funds	29,216,544
		<u>78,579,537</u>
	Total	<u>\$ 78,698,337</u>

See notes to the supplemental schedule.

Notes to Supplemental Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

Basis of Presentation – The supplemental schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Federal awards provided to sub recipients are treated as expended when the sub recipient incurs the expenditure.

Reconciliation to Financial Statements – The expenditures included in the supplemental schedule of expenditures of federal awards include administrative expenditures, loan disbursements, sub recipient expenditures, and grant expenditures made with federal capitalization grants. The financial statements include expenditures made using nonfederal sources. As a result, the expenditures included in the supplemental schedule of expenditures of federal awards for the year ended June 30, 2003 do not directly reconcile to the financial statement expenses.

2. Capitalization Grant Awards

The Minnesota Public Facilities Authority uses federal capitalization grants to provide for administrative expenditures, loan disbursements, sub recipient expenditures, grant expenditures, and deposits to the debt service reserve accounts. The debt service reserve accounts are used as collateral on revenue bonds and future debt service thereon. The following presents a breakdown of the uses of the federal capitalization grants by program.

CFDA # 20.205, Capitalization Grants for the Transportation Revolving Loan Fund

Grant Year	Grant Award	Cumulative Expenditures by Type		
		Loans	Administrative	Total Expenditures
1997	\$ 3,960,000	\$ 3,629,340	\$ 132,660	\$ 3,762,000
Less cumulative prior fiscal years expenditures:				3,643,200
Equals current fiscal year expenditures:				\$ 118,800

CFDA # 66.458, Capitalization Grants for Clean Water State Revolving Funds

Grant Year	Grant Award	Cumulative Expenditures by Type				
		Loans	Administrative	Sub Recipients	DSR Deposits	Total Expenditures
1989	\$ 17,336,385	\$ -	\$ 402,204	\$ -	\$ 16,934,181	\$ 17,336,385
1990	17,975,776		595,351		17,380,425	17,975,776
1991	37,720,881	4,200,000	1,257,315		32,263,566	37,720,881
1992	35,712,270		1,190,360		34,521,910	35,712,270
1993	35,327,457	34,149,923	1,177,534			35,327,457
1994	21,920,184	5,520,000	730,643		15,669,541	21,920,184
1995	24,638,825		247,770	15,500,000	8,891,055	24,638,825
1996	37,083,123	3,163,568		15,336,432	18,583,123	37,083,123
1997	14,165,310	7,005,816		7,159,494		14,165,310
1998	24,749,901	24,741,526		8,375		24,749,901
1999	24,751,980				24,751,980	24,751,980
2000	24,668,127	24,668,127				24,668,127
2001	24,448,842	24,328,089		120,753		24,448,842
2002	25,018,992	25,018,992				25,018,992
2003	24,344,001	24,344,001				24,344,001
	<u>\$ 389,862,054</u>	<u>\$ 177,140,042</u>	<u>\$ 5,601,177</u>	<u>\$ 38,125,054</u>	<u>\$ 168,995,781</u>	<u>\$ 389,862,054</u>
Less cumulative prior fiscal years expenditures:						340,499,061
Equals current fiscal year expenditures:						<u>\$ 49,362,993</u>

CFDA # 66.468, Capitalization Grants for Drinking Water State Revolving Funds

Grant Year	Grant Award	Cumulative Expenditures by Type					
		Loans	Administrative	Sub Recipients	Grants	DSR Deposits	Total Expenditures
1997	\$ 42,086,000	\$ 35,406,607	\$ 1,683,440	\$ 2,419,945	\$ 770,833	\$ 1,805,175	\$ 42,086,000
1998	11,856,100	8,954,990	529,889	1,185,612	1,185,609		11,856,100
1999	12,426,300	9,544,899	441,407	1,242,630	1,197,364		12,426,300
2000	12,914,600	11,375,495	537,584	1,001,521			12,914,600
2001	12,968,000	12,086,474	197,720	683,806			12,968,000
2002	15,952,900	13,220,242	438,533	1,488,849	1,032,207		16,179,831
2003	15,857,000						-
	<u>\$ 124,060,900</u>	<u>\$ 90,588,707</u>	<u>\$ 3,828,573</u>	<u>\$ 8,022,363</u>	<u>\$ 4,186,013</u>	<u>\$ 1,805,175</u>	<u>\$ 108,430,831</u>
Less cumulative prior fiscal years expenditures:							79,214,287
Equals current fiscal year expenditures:							<u>\$ 29,216,544</u>

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Minnesota Public Facilities Authority
Saint Paul, Minnesota

We have audited the financial statements of the Minnesota Public Facilities Authority (the Authority) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 26, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board and management of the Minnesota Public Facilities Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
November 26, 2003

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Award Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Minnesota Public Facilities Authority
Saint Paul, Minnesota

We have audited the compliance of the Minnesota Public Facilities Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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* (OMB Circular A-133). Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board and management of the Minnesota Public Facilities Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
November 26, 2003

Minnesota Public Facilities Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued: Unqualified

2. Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

B. Federal Awards

1. Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

2. Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

C. Identification of Major Program

- | | |
|--|---|
| 1. CFDA Number | Name of Federal Program |
| 66.458 | Capitalization Grant for Clean Water Revolving Fund |
| 2. Dollar threshold used to distinguish between type A and type B programs | \$2,360,950 |
| 3. Auditee qualified as low-risk auditee? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |

(Continued)

Minnesota Public Facilities Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2003

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Internal Control

None reported.

B. Compliance

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Internal Control

None reported.

B. Compliance

None reported.

Minnesota Public Facilities Authority

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2003**

Item No.	Date of the Report in Which Finding Was First Reported	Description of Condition	Status of Corrective Action
There were no prior-year audit findings reported.			