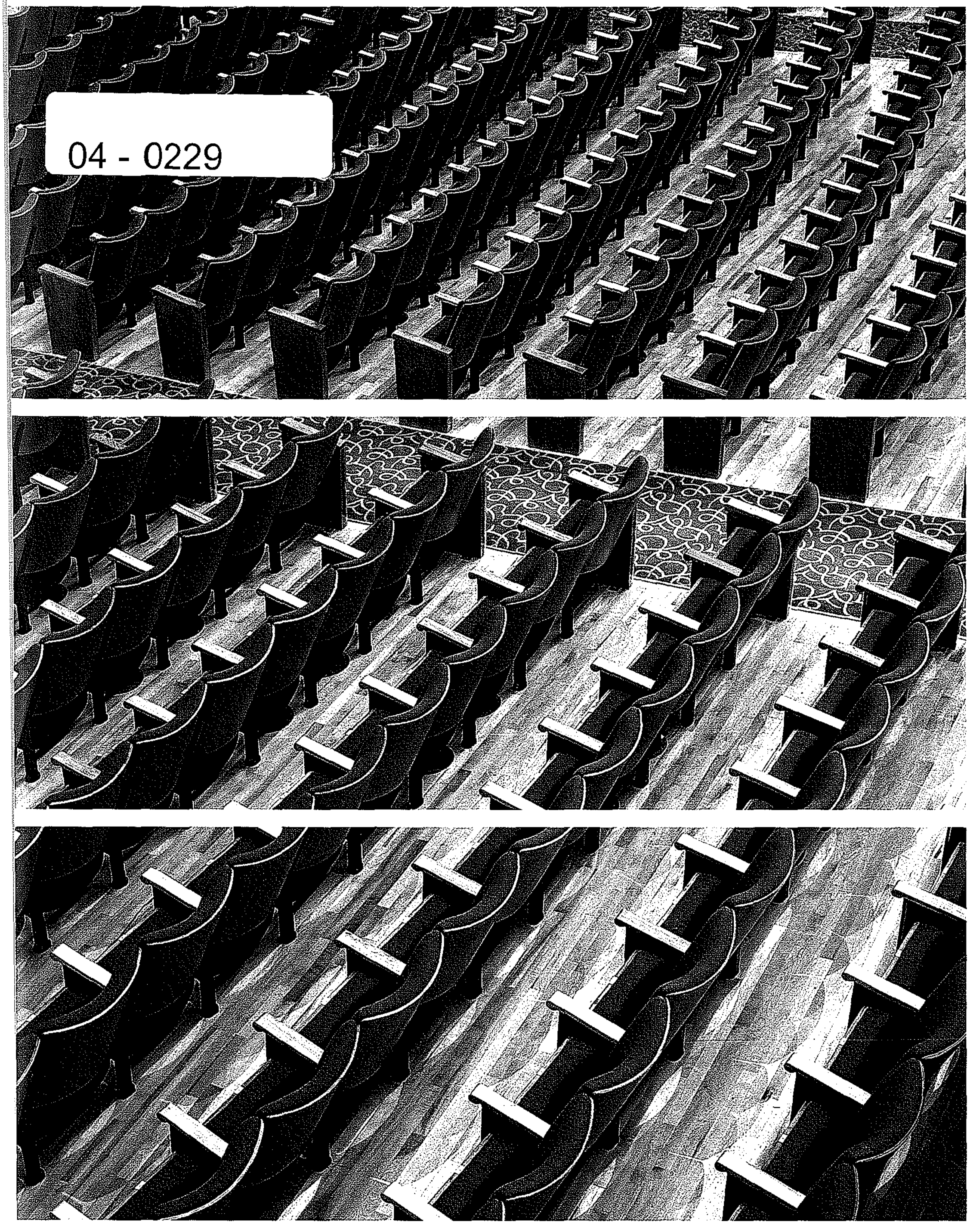
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY



BUILDING
THE PLACES
WHERE EDUCATION
TAKES PLACE

ANNUAL REPORT FOR THE FISCAL YEAR 2003

MISSION OF THE AUTHORITY

The mission of the **Minnesota Higher Education Facilities Authority** is to assist eligible institutions of higher education in the State of Minnesota in financing their capital needs in an efficient and cost-effective manner.

Within the framework of Minnesota Statutes 136A.25 – 136A.42, the Authority works to assist education institutions primarily through the issuance of tax-exempt debt obligations on their behalf. The Authority also actively seeks to develop financing programs that may be of benefit to institutions and shall make its staff and technical resources available to institutions whenever the application of those resources may prove beneficial in the development or implementation of institutional debt financing plans. The Authority shall, where appropriate, actively seek to have laws and regulations amended to empower the Authority to provide such assistance. The Authority will also endeavor to inform and update the representatives of the institutions on the current regulations and strategies of debt financing.

The Authority shall conduct its activities in strict accordance with all applicable laws and regulations. The Authority will not act as a regulatory body with respect to the internal policies and activities, financial or otherwise, of any educational institution, except as may be required by law and prudent fiscal policy in the course of providing assistance to such educational institutions.

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

Report on Audit of Financial Statements
For the Year Ended June 30, 2003

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MHEFA BOARD MEMBERS

Gary D. Benson, *MHEFA Chair*
Vice President, Kraus-Anderson Construction Company
New Brighton
Term Expires January 2007

Dr. Kathryn Balstad Brewer
Researcher and Consultant
New Brighton
Term Expires January 2007

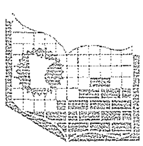
Carol A. Blomberg
Retired, former Market Administration Manager,
Norwest Bank Minnesota
Nashwauk
Term Expires January 2005

Dr. David B. Laird, Jr., *Ex-officio*
Non-voting Member
President, Minnesota Private College
Council

Dr. Gary Langer, *MHEFA Vice Chair*
Associate Vice Chancellor for Academic Programs, MN
State Colleges and Universities
Falcon Heights
Term Expires January 2004

Timothy M. Medd, *Ex-officio*
Audit Manager, MN Higher Education Services Office

Christopher A. Nelson
Managing Director, Northland Insurance Company
Eagan
Term Expires January 2006



Michael D. Ranum
Chief Financial and Administrative Officer,
Hazelden Foundation
Circle Pines
Term Expires January 2006

David D. Rowland, *MHEFA Secretary*
Vice President, The St. Paul Companies
Edina
Term Expires January 2005

Mollie N. Thibodeau
CFRE, Fund Raising Consultant
Duluth
Term Expires January 2004

MHEFA STAFF

Marianne T. Remedios, *Executive Director*

Elaine J. Yungerberg, *Assistant Executive Director*

Financial Advisors
Springsted Incorporated, St. Paul

Independent Auditors
Kern, DeWenter, Viere, Ltd., Minneapolis

LETTER FROM THE CHAIR

Greetings:

We are pleased to present the Annual Report of the Minnesota Higher Education Facilities Authority for the year ended June 30, 2003, including the financial statements for the year, as audited by Kern, DeWenter, Viere, Ltd. This report includes information about the services provided by the Authority to nonprofit institutions of higher education in the State of Minnesota. The primary service is to provide financing for capital projects of those colleges and universities through tax-exempt debt issued by the Authority. A critical benefit associated with that service is the monetary savings that are realized by those institutions as a result of the lower interest rates available through the Authority's tax-exempt financing.

Throughout the Authority's history, this financing assistance has been provided without cost to the taxpayers of Minnesota. The credit of the State does not back the bonds, either directly or indirectly, and the operating expenses of the Authority are paid from fees associated with the various financings.

In fiscal year 2003, the Authority completed eight financings for six institutions. The total principal amount of $105,795,000 reflects an increase in activity. Taking into account regularly scheduled repayments and the refunding of certain prior Authority bonds to take advantage of lower interest rates, the total principal outstanding for Authority-issued debt grew to $572,534,959 as of the end of the fiscal year. During the 2003 session, the State Legislature granted the Authority an increase in the limit on outstanding debt from $650 million to $800 million.

The fiscal year began with the appointment by Governor Ventura of Mr. Michael D. Ranum to fill a vacancy created by a resignation. Later in the fiscal year, Governor Pawlenty reappointed Mr. Gary D. Benson and Dr. Kathryn Balstad Brewer.

Annual bonding volume will continue to fluctuate with market conditions and institutional needs. Since 1971, the Authority has remained a constant source of financing to Minnesota's nonprofit colleges and universities. Through the combined efforts of the Authority members, staff and advisors, the Authority will continue to provide requested services in an efficient and cost-effective manner.

Respectfully Submitted,
Gary D. Benson
Chair

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

AUGSBURG COLLEGE is a private, four-year, liberal arts college located in Minneapolis, Minnesota at the center of the Twin Cities metropolitan area. The College was founded in 1869 and is affiliated with the Evangelical Lutheran Church in America.

- Series A issued December 1972 in the amount of $2,200,000. The proceeds were used for the construction of a student residence facility to house approximately 312 students.
- Series Four-F1 in the amount of $7,700,000 and Series Four-F2 in the amount of $4,140,000 issued May 1996. A portion of the proceeds of the bonds financed the acquisition, construction, and furnishing of the new 75,000 square foot James G. Lindell Family Library. In addition, a portion of the proceeds of the bond issue financed the acquisition and installation of various types of energy management equipment and funded the refinancing of two previous Authority bond issues, Series Two-Z and Series Three-P.
- Series Four-W issued September 1998 in the amount of $450,000. The proceeds of these Revenue Notes were used for acquisition and remodeling of a house, which will serve as the President's residence and as a reception center for the College.
- Series Four-Y issued January 1999 in the amount of $15,840,000. The proceeds of this bond issue were used to refinance the Series Three-G bond issue and to finance the construction and equipping of a 145-bed, apartment-style student residence hall of approximately 66,000 square feet that includes underground parking for 60 cars.

BETHEL COLLEGE is a four-year, Christian liberal arts college offering Bachelor's degrees in 57 majors and Master's degrees in 11 areas of study. Bethel's wooded, lakeside campus is located just minutes from downtown St. Paul and Minneapolis, Minnesota in suburban Arden Hills, Minnesota.

- Series Four-S issued June 1998 in the amount of $22,865,000. The proceeds of these adjustable demand revenue bonds were used for the following: construction of a new residence hall; addition to the Fine Arts Center, composed of classrooms, offices and the expansion of chemistry laboratories; remodeling of spaces in various campus buildings; upgrade of campus wiring network and electronics infrastructure; construction of a baseball field; and parking expansion and improvements.

CARLETON COLLEGE is a coeducational, residential, liberal arts college located in Northfield, Minnesota. Carleton was chartered in December 1866.

- Series T issued December 1977 in the amount of $2,385,000. The proceeds were used to remodel the Sayles Hill Gymnasium and two academic buildings for the humanities and social sciences departments.
- Series Three-L1, Series Three-L2, and Series Three-L3 issued October 1992 in the amount of $24,300,000. The proceeds of these issues were used to finance a portion of new construction, remodeling and equipment acquisition projects, including appurtenant site improvements and a new telecommunications system.
- Series Four-N issued June 1997 in the amount of $24,440,000. The net proceeds of this bond issue and additional funds of the College were used to construct and furnish a recreation center and a student dining hall, install a chiller and related piping, and install an administrative and bookstore computer system. Also, portions of the proceeds were used to finance the renovation of Mudd Hall, Goodhue Dining Hall, and Evans Hall.
- Series Five-G issued June 2000 in the amount of $23,000,000. The proceeds of this bond issue together with additional funds of the College were used for three projects. The first project consisted of the construction and furnishing of a 63,000 square foot academic and dining facility. The second project was the construction of 24 apartment-style housing units, which have the capacity to house 100 students. The third project involved improvements of bridges, walkways, plantings and lighting on and near Lyman Lakes on the College campus.

COLLEGE OF ST. BENEDICT is a Catholic liberal arts college for women founded by Benedictine monastic women in 1887. Academic and social programs are carried out in cooperation with nearby St. John's University for men allowing student access to the faculties and facilities of both campuses.

- Series Three-W issued March 1994 in the amount of $17,475,000. Portions of the proceeds of this bond issue were used to refund Series Two-Q and Series Three-D bond issues. The remaining portion of the proceeds financed the acquisition, construction, and furnishing of a three-story, 242-bed residence hall on a 2.35-acre site on the campus of the College. In 1998, a portion of this bond issue was refinanced with the proceeds of Bond Series Four-T.
- Series Four-G issued July 1996 in the amount of $3,000,000. The proceeds of this bond issue were used to finance the construction and furnishing of a residence hall to house approximately 120 students.
- Series Four-T issued July 1998 in the amount of $25,430,000. The proceeds of this issue were used for several projects: renovation of Mary Hall Commons; construction of a centralized chiller plant; various renovations to existing campus buildings including the Loft Building; expansion of East Apartments; the addition of air conditioning to the first and second floors of Gertrude Hall; and the relocation of the inter-campus bus stop, including road reconstruction and the construction of a warming house. In addition, a portion of the bond proceeds was used to refund a portion of the Series Three-W Bonds.

COLLEGE OF ST. CATHERINE is a Catholic liberal arts college founded in 1905 by the Sisters of St. Joseph of Carondelet. The College offers its programs on two campuses, one in St. Paul, Minnesota and one in Minneapolis, Minnesota. Although the combined resources of the two campuses allow for the development of cooperative programs, each campus maintains its institutional integrity.

- Series Three-M1 and Series Three-M2 issued January 1993 in the amount of $9,205,000. The proceeds of the bonds, together with other funds available to the College, were used to provide for the construction and furnishing of a sports facility (including gym and pool) to be located on the St. Paul campus. The remaining proceeds of this bond issue were used for various remodeling and construction projects in the Arts Building, Mendel Hall and St. Joseph Hall on the St. Paul campus and in the Education Building and Old Main, both located on the Minneapolis campus.
- Series Five-N1 and Five-N2 issued August 2002 in the amount of $52,890,000. The proceeds were used to refinance an existing Authority issue Three-M1 and for construction of a Student Center and Learning Commons, renovation of St. Joseph Hall and St. Catherine Library, renovation of Whitby Hall and Mendel Hall, an upgrade of the Food Consumer and Nutritional Sciences space in Fontbonne Hall, an upgrade of the Health and Wellness Center space in Butler Center, and for the conversion of a steam plant.

COLLEGE OF ST. SCHOLASTICA is a four-year residential institution located in Duluth, Minnesota. The College was founded in 1912, and offers programs in the liberal arts and sciences and professional career fields.

- Series Four-E issued May 1996 in the amount of $2,000,000. The proceeds of this bond issue were used to finance the construction of an approximately 28,300 square foot addition to and related remodeling and equipping of the existing Science Building.
- Series Five-J issued May 2001 in the amount of $5,960,000. The proceeds of this issue were used to refinance two existing Authority issues, Series Two-T and Series Three-E bonds.
- Series Five-R issued May 14, 2003 in the amount of $11,705,000. The proceeds were used to build a Wellness Center and to make improvements to the Reif Athletic Center. The fixed rate funds were also used to build a 96 unit student housing apartment. In addition, the bonds were used to refinance a previous issue, Series Three-N.

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

COLLEGE OF VISUAL ARTS is a four-year, liberal arts college emphasizing the visual arts. The College is located in St. Paul, Minnesota.

- Series Three-X issued March 1994 in the amount of $350,000. The proceeds of this issue were used to finance the acquisition and improvement of a multi-unit building on the corner of Western and Selby Avenues in St. Paul, Minnesota, to be owned and operated as classroom and studio facilities by the College. Proceeds of the issue were also used to refinance a bank loan.

CONCORDIA COLLEGE - MOORHEAD is a four-year, liberal arts college affiliated with the Evangelical Lutheran Church in America. The College was founded in 1891 and is located within a residential section of Moorhead, Minnesota.

- Series Four-B issued October 1995 in the amount of $3,300,000. The proceeds of this bond issue were used to partially finance the renovation and refurbishing of the Park Region Residence Hall including connecting it to the central heating and cooling system of the College.

CONCORDIA UNIVERSITY, ST. PAUL is a liberal arts university. The University was founded in 1893 and is affiliated with The Lutheran Church - Missouri Synod. The College's campus is located in an active St. Paul, Minnesota neighborhood, a short distance from both downtown St. Paul and Minneapolis, Minnesota.

- Series Five-A issued April 1999 in the amount of $1,440,000. The proceeds of this tax-exempt, off-balance sheet lease were used for an energy retrofit project including lighting upgrades, variable frequency drives, a new chiller, variable air volume system and steam system upgrades.
- Series Five-P1 and Five-P2 issued March 2003 in the amount of $11,480,000. The proceeds of these variable rate bonds were used for a 45,000 square foot library and information technology center. They were also used to acquire 4.73 acres of adjacent property, for capital improvements to existing campus facilities and to refinance prior loans.

GUSTAVUS ADOLPHUS COLLEGE is a residential, four-year, liberal arts college with a Swedish and Lutheran heritage. It was founded in 1862 and was given its name to honor the Swedish king who defended Protestantism during the Thirty Years War. The College is located in St. Peter, Minnesota.

- Series Four-H issued August 1996 in the amount of $6,135,000. A portion of this bond issue was used to finance the acquisition and installation of an administrative computer system. A larger portion of the bond issue was used to refund the Series Two-N, Series Two-V, and Series Three-B bond issues.
- Series Four-V issued July 1998 in the amount of $4,602,000. The proceeds of this off-balance sheet financing lease were used to fund an energy-related equipment retrofit to generate energy and operational savings, plus adding cooling capacity to certain campus buildings.
- Series Four-X issued November 1998 in the amount of $11,695,000. The proceeds of this issue, in addition to capital gifts received by the College, were used to finance two projects. The first project was a major expansion of the existing dining service building to create a new Campus Center, and the second project was an apartment-style student housing facility with capacity for approximately 95 students.

HAMLINE UNIVERSITY, located in St. Paul, Minnesota, was founded in 1854 and is affiliated with the United Methodist Church. The University is composed of an undergraduate College of Liberal Arts, the Hamline University School of Law, graduate programs, and a continuing professional studies division.

- Series Four-I issued September 1996 in the amount of $17,500,000. Portions of the proceeds of this issue were used to finance the construction and furnishing of an addition to the Law and Graduate School building. The proceeds also were used to partially finance the construction of the field house, site acquisition and construction of campus parking and renovation of computer offices and equipment rooms. In addition, this bond issue financed the refunding of two previous issues, Series Three-A and Series Three-K.
- Series Four-K issued April 1997 in the amount of $625,000. This issue was a lease financing for the acquisition and installation of telecommunications equipment to be installed on the campus of the University.
- Series Five-B issued September 1999 in the amount of $7,750,000. Proceeds of this issue were used to construct and furnish an apartment-style student residence building to house approximately 150 students in 59 units. The project included underground and surface parking spaces.
- Series Five-O issued July 2002 in the amount of $1,000,000. The proceeds were used to expand and improve parking facilities and to improve efficiency of electrical, heating and air conditioning systems throughout the campus.

MACALESTER COLLEGE is a four-year, coeducational, undergraduate, residential, liberal arts college located in St. Paul, Minnesota. The college was founded in 1874 and is affiliated with the Presbyterian Church (U.S.A.).

- Series Three-Z issued September 1994 in the amount of $6,660,000. The proceeds of this bond issue were used for the expansion of the College athletic fields and other renovations on the campus.
- Series Four-C issued November 1995 in the amount of $11,245,000. The net proceeds of this bond issue, together with funds of the College, were used for the renovation of Rice and Olin Halls, and the construction of an enlarged connection that integrates the two Halls into a single science and math facility.
- Series Four-J issued May 1997 in the amount of $11,000,000. Proceeds of this bond issue were used to finance a portion of the construction of a 113-bed residence hall, the expansion of Wallace and Bigelow Halls, and the acquisition and installation of a boiler, central chiller, heating oil tank, and related infrastructure.
- Series Four-U1 in the amount of $7,145,000 and Series Four-U2 in the amount of $15,200,000 issued July 1998. The proceeds of Series Four-U1 were used together with additional funds of the College to finance the construction of an approximately 68,000 square foot Campus Center to replace the Student Union Building. Proceeds of Series Four-U2 were used to defease the Series Three-J Bonds.
- Series Five-Q issued February 2003 in the amount of $15,300,000. The proceeds were used for upgrades to Doty Hall, Wallace Hall and Turck Hall. The proceeds were also used to install fire sprinkler systems in Doty, Wallace, Turck, Bigelow, Dupre, 30 Macalester and Kirk Halls.

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

MINNEAPOLIS COLLEGE OF ART AND DESIGN was established in 1886 and is a private, fully accredited, four-year college located just south of downtown Minneapolis, Minnesota. The curriculum is structured with studio emphasis and a liberal arts core.

- Series Three-S issued July 1993 in the amount of $225,000. The proceeds were used to refinance a Contract for Deed in the acquisition of a four-plex apartment building at 200-204 East 26th Street and a four-plex apartment building at 206-210 East 26th Street, both to be owned and operated by the College as student housing facilities.
- Series Three-Y issued June 1994 in the amount of $1,612,000. The proceeds were used to finance the construction and equipping of an approximately 13,500 square foot addition to the College's main building. The addition will be used for studio space and other academic purposes.
- Series Five-D issued June 2000 in the amount of $7,920,000. The proceeds of this bond issue were used for two projects. The first project is the addition to the College's Main building consisting of additional studio space, an expanded food service operation, an enlarged commons area and other structural improvements. The second project is the refurbishing, remodeling and equipping of seven existing student apartment buildings owned by the College.
- Series Five-K issued August 2001 in the amount of $4,355,000. The proceeds of the bond issue were used for the purpose of acquiring, refurbishing and equipping two apartment buildings for student housing. A smaller portion of the issue was used to demolish an existing residence, construct a parking lot and complete improvements to the Julia Morrison Memorial Building and the library.

NORTHWESTERN COLLEGE OF CHIROPRACTIC was founded in 1941 and offers a preprofessional and professional program for a Doctor of Chiropractic degree. Students must have completed two academic years of college coursework to gain admission to Northwestern. The College is located in Bloomington, Minnesota.

- Series Four-Z issued January 1999 in the amount of $5,875,000. A portion of the bond proceeds were used to refund Series Two-X, with remaining proceeds being used to finance the following: construction and furnishing of the DeRusha Center for Clinical Education; remodeling classrooms, faculty offices, and meeting rooms; construction of a new maintenance shop and central storage area; improvement of lighting; fire protection; and central air handling systems on the College's main campus.

ST. JOHN'S UNIVERSITY is a Catholic, liberal arts college for men, which offers its academic and extracurricular program in conjunction with nearby College of Saint Benedict, which is a Catholic, liberal arts college for women. Founded in 1857, St. John's is located in Collegeville, Minnesota, and is operated by Benedictine monastic men of St. John's Abbey.

- Series Four-L issued July 1997 in the amount of $29,850,000. The proceeds of this issue were used for a variety of projects including: the construction of a new field house and the renovation of the University's stadium and gymnasium; construction of three new housing units to provide housing for 36 students and renovation of Benet residence hall; renovation of Luke and Wimmer Hall for additional office space; infrastructure improvements and roofing replacements. In addition, a portion of the proceeds was used to finance the current refunding of Series Two-W and the advance refunding of Series Three-H bond issues.
- Series Five-I issued February 2001 in the amount of $14,270,000. The proceeds of this issue were used to finance several projects including: construction of two new student housing facilities; renovation of the Main Quadrangle; improvements to Sexton Commons and St. Mary's Hall; and reroofing of the Great Hall.

SAINT MARY'S UNIVERSITY OF MINNESOTA, is a four-year residential liberal arts institution. It was founded in 1912 and is administered by the De La Salle Christian Brothers. In addition to the original undergraduate campus located in Winona, Minnesota, Saint Mary's maintains graduate school centers in Minneapolis and Rochester.

- Series Three-Q issued June 1993 in the amount of $12,535,000. A portion of the net proceeds of this bond issue was used to refund Series C, Series 1976-2, Series Two-M, and Series Three-F. The remaining portion of the proceeds of the Series Three-Q bonds financed the construction and furnishing of a recreational facility on the University's Winona campus.
- Series Five-E issued June 2000 in the amount of $5,020,000. The proceeds of this issue were used in the construction and equipping of a 41,000 square foot apartment-style student residence building on the University's Winona campus. This residence facility will have the capacity to house 100 students in 50 units.
- Series Five-F issued March 2000 in the amount of $1,037,118. This equipment lease financing was completed for the acquisition and installation of a of a standby electric generation system.

ST. OLAF COLLEGE is a four-year residential liberal arts institution located in Northfield, Minnesota. It was founded in 1874 and is associated with the Evangelical Lutheran Church in America. St. Olaf has academic standards and traditions rooted in the rich heritage of the region's Scandinavian pioneers.

- Series Four-R issued May 1998 in the amount of $15,000,000. The proceeds were used for the following: certain costs related to the construction of Buntrock Commons Building; an electrical generator; academic and administrative computers; payroll system hardware and software; classroom renovation; and residence hall furniture.
- Series Five-H issued October 2000 in the amount of $14,475,000. The proceeds of these variable rate demand bonds were used to finance several renovation projects on the College's campus, the main project being the renovation of the St. Olaf Center to house Art and Dance Departments. Other projects included replacement of residence hall furniture and athletic bleachers, and renovation of the Administration Building.
- Series Five-M1 issued April 2002 in the amount of $12,205,000. The proceeds will finance the construction of the Tostrud Recreation Center and finance the partial renovation of Skoglund Athletic Center.
- Series Five-M2 issued July 2002 in the amount of $13,420,000. The proceeds were used to refinance the outstanding City of Northfield, Minnesota College Facility Revenue Bonds Series 1992.

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

UNIVERSITY OF ST. THOMAS was founded in 1885 by Archbishop John Ireland and is a coeducational, liberal arts university. The main campus is located in St. Paul, Minnesota and the center for graduate studies of the University is located in downtown Minneapolis, Minnesota.

- Series Three-I issued April 1992 in the amount of $10,200,000. The net proceeds of the bond issue were used for the purchase and installation of a new telecommunication system; the purchase, replacement and upgrading of two of the three boilers at the St. Paul campus; and an expansion of the physical plant headquarters facility on the St. Paul campus.
- Series Three-R1 and Three-R2 issued June 1993 in the amount of $46,000,000. The Series Three-R1 Bonds for $22,985,000 were issued to refund the following prior bond issues: Series U, Series X, Series Two-I, Series Two-O, and Series Two-S. The Series Three-R2 Bonds for $23,015,000 were issued to refund a portion of the Authority's Mortgage Revenue Bonds, Series Three-C issued on behalf of the University. Not included in the refunding are two term bonds due September 1, 2015 and September 1, 2016, which subsequently refinanced by Series Five-L.
- Series Four-A1 issued March 1996 in the amount of $11,645,000. The proceeds of this issue were used to partially finance the construction and equipping of an approximately 195,000 square foot science and engineering center on the St. Paul campus of the University. The project will be home to the undergraduate department of science, math, computing science and engineering, and the Graduate School of Applied Science and Engineering.
- Series Four-M issued July 1997 in the amount of $21,680,000. The proceeds of this bond issue were used together with proceeds of the Series Four-O bond issue and University funds to finance the construction and furnishing of a residence hall to accommodate approximately 345 students. This project included the construction of a parking ramp under the residence hall and surface parking adjacent to the hall for an additional parking capacity of 400 cars. Also financed by this bond issue was a commons building connecting Brady and Dowling Halls. This new building contains office space and recreational facilities.
- Series Four-O issued September 1997 in the amount of $10,800,000. The proceeds of this bond issue were used together with proceeds of the Series Four-M bond issue and University funds to finance the construction and furnishing of the residence hall and parking ramp as described in Series Four-M. A portion of the proceeds, together with University funds, was used to finance the current refunding of the Variable Rate Demand Revenue Bonds, Series Four-A2.
- Series Four-P issued December 1997 in the amount of $15,435,000. The proceeds were used to finance the acquisition, construction and equipping of Opus Hall, an approximately 98,200 square foot facility to be used for a library, offices, and classrooms. Included in the project was a skyway connection to the University's existing facility on its Minneapolis campus.
- Series Five-C issued October 1999 in the amount of $10,000,000. Proceeds of this bond issue were used for the renovation of Albertus Magnus Hall on the St. Paul campus. This former science building was converted to an office and classroom facility for the liberal arts and humanities departments.
- Series Five-L issued April 2002 in the amount of $25,845,000. The proceeds of the bonds along with University funds will be used to finance the construction and furnishing of the building that will house the University's Law School on the University's Minneapolis campus. A portion of the proceeds also were used to refund the outstanding portion of the Series Three-C bonds.

VERMILION COMMUNITY COLLEGE located in Ely, Minnesota, was established in 1922 as Ely Junior College and became a part of the Minnesota statewide system of public community colleges in 1964. The College offers one- and two-year degrees in several programs and emphasizes career training in natural resources and environmental areas.

- Series Two-P issued November 1987 in the amount of $1,300,000. The proceeds were used to construct and furnish a residence hall on the College campus. The residence hall accommodates approximately 144 students.
- Series Three-T issued July 1993 in the amount of $950,000. The proceeds were used to finance the acquisition, installation, and equipping of eleven manufactured duplex housing units, including related site improvements. These units will house approximately 80 students on the campus of the College.

WILLIAM MITCHELL COLLEGE OF LAW is a private, independent law school. It is accredited by the American Bar Association and is a member of the American Association of Law Schools. William Mitchell was created in 1958 through successive mergers of several Twin Cities law schools. In 1976, the College moved to its present campus on Summit Avenue in St. Paul, Minnesota.

- Series Three-O issued June 1993 in the amount of $2,000,000. The net proceeds of the bonds were used to refinance the Series Two-R bonds.

INDEPENDENT AUDITORS' REPORT

August 8, 2003

To the Executive Director and Members of the
Minnesota Higher Education Facilities Authority:

We have audited the accompanying basic financial statements of the Minnesota Higher Education Facilities Authority, as of and for the year ended June 30, 2003. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

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

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2002. Additionally, as of July 1, 2002, the Authority elected to remove the conduit debt obligations and related assets from its financial statements, as described in Note 7 to the basic financial statements.

Kern, DeWenter, Viere, Ltd.

Kern, DeWenter, Viere, Ltd.
Minneapolis, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS: INTRODUCTION

This discussion and analysis of the financial performance of the Minnesota Higher Education Facilities Authority (the Authority) is supplementary information required by the Governmental Accounting Standards Board. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the year ended June 30, 2003.

The Minnesota Higher Education Facilities Authority was created by the legislature in 1971 (Sections 136A.25 through 136A.42, *Minnesota Statutes*) to assist Minnesota institutions of higher education in capital financing needs. The Authority consists of eight members appointed by the Governor. A representative of the Minnesota Higher Education Services Office and the President of the Minnesota Private College Council, who is a non-voting member, are also members of the Authority.

The Authority is authorized to issue revenue bonds whose aggregate outstanding principal amount at any time cannot exceed $800 million. The Authority has had 136 issues (including refunded and retired issues) totaling $966,463,307 of which $572,534,959 is outstanding as of June 30, 2003. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota. The operations of the Authority are financed solely from fees paid by the participating institutions. It has no taxing power. Bond issuance costs, including the fees of legal counsel, the financial advisor and the trustee, are paid by the participating institution.

Educational institutions eligible for assistance by the Authority are generally private nonprofit educational institutions authorized to provide a program of education beyond the high school level. Under current statutory authority, public community and technical colleges in the State are also eligible for assistance, but only in financing of child-care and parking facilities. In addition, pursuant to special legislation, the Authority has twice issued bonds on behalf of a public community college for housing purposes.

The Authority may issue bonds for a broad range of projects, including buildings or facilities for use as student housing, academic buildings, parking facilities, day-care centers, and other structures or facilities required or useful for the instruction of students, the conducting of research, or the operation of an institution of higher education. The Authority is also authorized to issue revenue bonds for the purpose of refunding bonds of the Authority and other debt.

Beginning with fiscal year 1996, the Authority has acted as dissemination agent on behalf of those institutions that are subject to the annual reporting requirement of SEC rule 15c2-12 (most public issues after June 30, 1995). Almost all of the colleges and universities borrowing through the Authority are now subject to the reporting. The service is offered as a convenience to the institutions at no additional charge.

The annual debt financing conference was held in April, 2003. The conference was again coordinated with a similar conference for business officers sponsored by the Minnesota Private College Council. The annual conference provides a chance for Authority clients, members and finance professionals to share information on higher education capital financings. This year, the conference focused on balancing variable rate and fixed rate debt and explored the features related to a variable rate structure, including swaps and multiple modes of interest reset periods.

The Authority continues to review its policies and procedures in an ongoing attempt to most effectively provide financing assistance to Minnesota's nonprofit colleges and universities. It is through the concerted efforts of the borrowers, the Authority's advisors, staff and members, as well as public finance professionals, that tax exempt financing continues to be a vital tool for higher education. The Authority will work with all these groups to continue providing affordable financing to the private colleges and universities and, ultimately to their students.

The three basic statements presented within the financial report are as follows:

- Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within one year of the statement date.
- Statement of Revenues, Expenses and Changes in Fund Net Assets – This statement reflects the operating revenues and expenses during the year. Operating revenue is from administrative fees charged to colleges and universities. The change in net assets for an enterprise fund is similar to net profit or loss for any other business enterprise.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating financing and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the year.

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2002 and 2003.

ASSETS	2003	2002
Current Assets	$ 2,317,534	$ 2,237,559
Noncurrent Assets	7,444	10,948
Total Assets	$ 2,324,978	$ 2,248,507

LIABILITIES		
Current Liabilities	$ 42,634	41,749
NET ASSETS	2,282,344	2,206,758
Total Liabilities and Net Assets	$ 2,324,978	$ 2,248,507

Operating Revenues	$ 291,838	$ 313,323
Total Operating Revenues	291,838	313,323
Operating Expenses	375,990	330,040
Total Operating Expenses	375,990	330,040
Operating Income (Loss)	(84,152)	(16,717)
Nonoperating Revenues:		
Interest income	98,658	109,516
Net Increase in Fair Value of Investments	61,080	41,114
Total Nonoperating Revenues	159,738	150,630
Change in Net Assets	75,586	133,913
Total Net Assets - Beginning of Year	2,206,758	2,072,845
Total Net Assets - End of Year	$ 2,282,344	$ 2,206,758

MANAGEMENT'S DISCUSSION AND ANALYSIS: FINANCIAL HIGHLIGHTS

The demand for capital among Minnesota private colleges and universities has been exceptionally strong. The total principal amount issued in fiscal year 2003 was $105,795,000 compared to $42,405,000 in fiscal year 2002. That total is the second highest in the history of the Authority, exceeded only by the $115,600,000 issued in fiscal year 1998. Following is a listing of the bond issues for fiscal year 2003.

ST. OLAF COLLEGE

- Series Five-M2 issued July 2002 in the amount of $13,420,000. The proceeds were used to refinance the outstanding City of Northfield, Minnesota College Facility Revenue Bonds Series 1992.

COLLEGE OF ST. CATHERINE

- Series Five-N1 and Five-N2 issued August 2002 in the amount of $52,890,000. The proceeds were used for the construction of a Student Center and Learning Commons, renovation of St. Joseph Hall and St. Catherine Library, renovation of Whitby Hall and Mendel Hall, an upgrade of the Food Consumer and Nutritional Sciences space in Fontbonne Hall, an upgrade of the Health and Wellness Center space in Butler Center, for the conversion of a steam plant and also to refinance an existing Authority issue, Series Three-M1.

HAMLINE UNIVERSITY

- Series Five-O issued July 2002 in the amount of $1,000,000. The proceeds were used to expand and improve parking facilities and to improve efficiency of electrical, heating and air conditioning systems throughout the campus.

CONCORDIA UNIVERSITY

- Series Five-P1 and Five-P2 issued March 2003 in the amount of $11,480,000. Proceeds of these variable rate bonds were used in the construction of a 45,000 square foot library and information technology center. Proceeds were also used to acquire 4.73 acres of adjacent property, for capital improvements to existing campus facilities and to refinance prior loans of the University.

MACALESTER COLLEGE

- Series Five-Q issued February 2003 in the amount of $15,300,000. The proceeds were used for the renovation of Doty Hall and renovation and expansion of Wallace Hall and Turck Hall and to install fire sprinkler systems in several other residence halls on the campus.

COLLEGE OF ST. SCHOLASTICA

- Series Five-R issued May 2003 in the amount of $11,705,000. The proceeds were used to build a Wellness Center and to build a 96-unit student housing facility on the College campus. Proceeds were also used to make improvements to the Reif Athletic Center and to refinance a previous issue, Series Three-N.

FACTORS EXPECTED TO AFFECT FUTURE FINANCIAL POSITION AND OPERATION

The Authority is primarily dependent on administrative fee revenue with supplemental revenue provided by earnings from its accumulated operating reserve. The fees are based upon the actual outstanding principal amount of each series of bonds when billed. Starting in fiscal year 1997, the Authority's annual administrative fees have been reduced across the board, while maintaining essentially a break-even operating budget. The Authority was able to reduce its annual administrative fees to all borrowers in fiscal year 2003 by 60%. The growing size of recent bond issues and a tight rein on expenses have made it possible to continue the fee discount in fiscal year 2004. Although future reductions cannot be guaranteed, the Authority is committed to providing financing services at affordable fees to the colleges and universities.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact:

Minnesota Higher Education Facilities Authority
Attention: Executive Director
380 Jackson Street, Suite 450
Saint Paul, MN 55101
Phone: 651-296-4690
Fax: 651-297-5751
Email: mhefa@isd.net

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF NET ASSETS

As of June 30, 2003

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	288,505
Investments		1,985,746
Interest Receivable		32,122
Accounts Receivable		10,605
Prepaid Expenses		556
Total Current Assets		2,317,534
Noncurrent Assets		
Equipment		70,543
Less Accumulated Depreciation		(63,099)
Total Noncurrent Assets . . .		7,444
Total Assets	$	2,324,978
LIABILITIES		
Current Liabilities		
Accounts Payable	$	8,798
Compensated Absences Payable		33,836
Total Liabilities		42,634
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		7,444
Unrestricted		2,274,900
Total Net Assets		2,282,344
Total Liabilities and Net Assets	$	2,324,978

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2003

Operating Revenues:	
Annual Administrative Fees	$ 287,838
Other Income	4,000
Total Operating Revenues	291,838
Operating Expenses:	
Payroll, Payroll Taxes, and Employee Benefits	252,899
Legal, Audit, and Consulting Expense	29,195
Rent	42,471
Depreciation	4,595
Other General and Administrative Expenses	46,830
Total Operating Expenses	375,990
Operating Income (Loss)	(84,152)
Nonoperating Revenues	
Interest Income	98,658
Net Increase in Fair Value of Investments	61,080
Total Nonoperating Revenue	159,738
Change in Net Assets	75,586
Total Net Assets - Beginning of Year	2,206,758
Total Net Assets - End of Year	$ 2,282,344

The notes to the financial statements are an integral part of this statement.

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2003

Cash Flows from Operating Activities:	
Cash Received from Annual Administrative Fees	$ 302,848
Cash Received from Application Fees	4,000
Cash Payments to Employees	(250,627)
Cash Payments to Suppliers for Goods and Services	(118,440)
Net Cash Provided (Used) By Operating Activities	(62,219)
Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets	(1,091)
Cash Flows from Investing Activities	
Investment Earnings	98,658
Net Increase (Decrease) in Cash and Cash Equivalents	35,348
Cash and Cash Equivalents, July 1, 2002	253,157
Cash and Cash Equivalents, June 30, 2003	$ 288,505
Reconciliation of Operating Income To Net Cash Provided (Used) By Operating Activities:	
Operating Income (Loss)	$ (84,152)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:	
Depreciation	4,595
Change in Assets and Liabilities:	
Accounts Receivable	15,010
Prepaids	1,443
Accounts Payable	(1,387)
Compensated Absences Payable	2,272
Net Reconciling Items to be Added (Deducted) from Operating Income	21,933
Net Cash Flow from Operating Activities	$ (62,219)
Noncash Transactions:	
Net Increase in Fair Value of Investments	$ 61,080

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Minnesota Higher Education Facilities Authority (the Authority) is a state agency created to assist nonprofit institutions of higher education in financing the construction of educational facilities. The Authority finances projects through the issuance of bonds; the principal and interest of which are paid by the annual lease/loan payments collected from the higher education institutions. In fiscal year 2003, the Authority was authorized to have a maximum of $800 million of revenue bonds outstanding. Bonds issued by the Authority are payable only from specified revenues and collateral and do not constitute a debt of the State of Minnesota.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The Authority utilizes the accrual basis of accounting and is reported using the economic resources measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The operating revenues of the Authority consist principally of annual administrative fees paid by the participating institutions. While the annual administrative fee rate for new bond issues has changed periodically, the fee rate remains constant for the life of the bonds, with the exception of fee reductions for operating reserve stabilization purposes. The annual fee structure is as follows: Bonds issued from December 1971 to September 1975 are charged .125% of the original balance of the bonds; bonds issued from October 1975 to December 1989 are charged .2% of the original balance of the bonds; bonds issued from January 1990 to present are charged .125% of the outstanding balance of the bonds. In an effort to stabilize its unrestricted net asset balance, the Authority periodically evaluates the administrative fees charged to participating institutions. For the years ended June 30, 2002 and 2001, the Authority required participating institutions to pay 50% of the contractual administrative fees. In May 2002, the Authority determined that participating institutions would be required to pay 40% of the contractual administrative fees during the year ending June 30, 2003.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

C. ASSETS, LIABILITIES, AND NET ASSETS

Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

Capital Assets

Capital assets, which include office furniture and equipment, are stated at cost and depreciated on the straight-line method over the estimated useful lives of the assets, generally three, five or ten years.

Conduit Debt

The Authority issues tax-exempt instruments (bond, notes, or other obligations), which do not constitute a debt of the Authority. These debt instruments are limited obligations of the Authority, payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Authority has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Acting solely in an agency capacity, the Authority serves as a financing conduit, bringing the ultimate borrower and the ultimate lender together. The Authority has elected to exclude these obligations, and the related assets held by trustees, from the financial statements.

These obligations are itemized in Note 6. Assets held by trustees related to these obligations totaled $66,866,211 as of June 30, 2003.

Compensated Absences

The Authority compensates all employees upon termination of employment for unused vacation up to a set maximum of 275 hours. At June 30, 2003, the Authority has recorded a liability for all unused vacation.

Authority employees accrue sick leave at the rate of 4 hours for each 10-day pay period of full time service. Employees are compensated for unused sick leave upon termination of employment only if they meet the requirements of the employment agreement or plan under which he/she is employed. Sick leave is paid at termination at the rate of 40% for the first 900 hours and at 12.5% for any time in excess of 900 hours.

Income Taxes

The Authority is an agency of the State of Minnesota and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

2. DEPOSITS AND INVESTMENTS

Deposits

Minnesota Statutes require all deposits with financial institutions be collateralized in an amount equal to 110 percent of deposits in excess of FDIC insurance.

At year end, the carrying amount of the Authority's deposit balances was $15,951, and the bank balance was $16,121, which was insured under FDIC insurance.

Investments

Securities in which the Authority may invest include government bonds, notes, bills, mortgages and other securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities or organizations created by an act of Congress.

Subject to applicable law, the Authority may also invest in general obligation or revenue bonds of any state or any political subdivision provided the general obligation bonds are rated AA or better for states and AAA or better for political subdivisions, and revenue bonds are rated AAA or better for both. Time deposits are allowed, provided they are fully insured by the Federal Deposit Insurance Corporation. In some cases, investment agreements with corporations rated AA by Standard & Poor's or AA by Moody's are allowed as well as repurchase agreements fully collateralized by United States Government securities. Also allowed is commercial paper maturing in 270 days or less and rated within the top two categories without gradation by either Standard & Poor's or Moody's.

Investments are categorized into these three categories of credit risk:

Category 1 – 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 – Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name.

Category 3 – Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

NOTES TO THE FINANCIAL STATEMENTS, *continued*

2. DEPOSITS AND INVESTMENTS, *continued*

At year-end, the Authority's investment balances were as follows:

	Category 1	Category 2	Category 3	Reported Amount/ Fair Value
U.S. government agency securities	$ 1,985,746	$ 0	$ 0	$ 1,985,746
Not subject to categorization:				
Money market				272,554
Deposits				15,951
Total cash and investments				$ 2,274,251

Cash, cash equivalents and investments are classified on the Statement of Net Assets as follows:

Cash and Cash Equivalents	$ 288,505
Investments	1,985,746
Total	$ 2,274,251

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Office furniture and equipment	$ 71,634	$ 1,091	$ (2,182)	$ 70,543
Less: Accumulated depreciation	(60,686)	(4,595)	2,182	(63,099)
Capital assets, net	$ 10,948	$ (3,504)	$ 0	$ 7,444

4. LEASES

The Authority has a lease commitment for office space through November 2007, with monthly base rent from $3,352 to $3,771. Total costs were $42,471 for the year ended June 30, 2003. The future minimum lease payments for this lease are as follows:

Fiscal Year Ended	
2004	$ 40,957
2005	42,214
2006	43,472
2007	44,728
2008	18,855
Total	$ 190,226

5. CHANGES IN COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 31,564	$ 19,900	$(17,628)	$ 33,836	$ 33,836

6. CONDUIT DEBT

At June 30, 2003, there were 61 bond issues and leases outstanding with an aggregate principal balance outstanding of $572,534,959 as follows:

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series A, Augsburg College	2012	$ 2,200,000	$ 1,225,000
Series T, Carleton College	2007	2,385,000	1,545,000
Series Two-P, Vermillion Community College	2007	1,300,000	535,000
Series Three - I, University of St. Thomas	2003	10,200,000	1,250,000
Series Three - L1, Carleton College	2012	10,000,000	10,000,000
Series Three - L2, Carleton College	2012	10,300,000	10,300,000
Series Three - O, William Mitchell College of Law	2003	2,000,000	600,000
Series Three - Q, St. Mary's College	2023	12,535,000	10,665,000
Series Three - R1, University of St. Thomas	2015	22,985,000	12,060,000
Series Three - R2, University of St. Thomas	2014	23,015,000	14,020,000
Series Three - S, Minneapolis College of Arts & Design	2005	225,000	61,278
Series Three - T, Vermillion Community College	2013	950,000	625,000
Series Three - W, College of St. Benedict	2020	17,475,000	4,515,000
Series Three - X, College of Associated Arts	2009	350,000	173,988
Series Three - Y, Minneapolis College of Arts & Design	2006	1,612,000	592,707
Series Three - Z, Macalester College	2024	11,245,000	6,660,000
Series Four - A1, University of St. Thomas	2021	11,645,000	10,840,000
Series Four - B, Concordia College	2010	3,300,000	2,490,000
Series Four - C, Macalester College	2016	11,245,000	8,500,000
Series Four - E, College of St. Scholastica	2006	2,000,000	700,000
Series Four - F1, Augsburg College	2023	7,700,000	7,435,000
Series Four - G, College of St. Benedict	2016	3,000,000	2,250,000
Series Four - H, Gustavus Adolphus College	2010	6,135,000	2,685,000
Series Four - I, Hamline University	2016	17,500,000	14,460,000
Series Four - J, Macalester College	2017	11,000,000	8,805,000

Conduit Debt, continued next page

6. CONDUIT DEBT, *continued*

Series Four - K, Hamline University	2004	625,000	106,102
Series Four - L, St. John's University	2022	29,850,000	26,355,000
Series Four - M, University of St. Thomas	2022	21,680,000	18,985,000
Series Four - N, Carleton College	2018	24,440,000	21,425,000
Series Four - O, University of St. Thomas	2021	10,800,000	10,800,000
Series Four - P, University of St. Thomas	2023	15,435,000	13,900,000
Series Four - R, St. Olaf College	2029	15,000,000	14,100,000
Series Four - S, Bethel College	2028	22,865,000	21,210,000
Series Four - T, College of St. Benedict	2020	25,430,000	22,995,000
Series Four - U1, Macalaster College	2022	7,145,000	6,370,000
Series Four - U2, Macalaster College	2022	15,200,000	13,460,000
Series Four - V, Gustavus Adolphus College	2009	4,602,000	3,023,006
Series Four - W, Augsburg College	2015	450,000	370,696
Series Four - X, Gustavus Adolphus College	2024	11,695,000	10,925,000
Series Four - Y, Augsburg College	2027	15,840,000	14,025,000
Series Four - Z , Northwestern College of Chiropractic	2013	5,875,000	4,710,000
Series Five - A, Concordia University	2014	1,440,000	1,175,518
Series Five - B, Hamline University	2029	7,750,000	7,525,000
Series Five - C, University of St. Thomas	2025	10,000,000	10,000,000
Series Five - D, Minneapolis College of Arts & Design	2026	7,920,000	7,625,000
Series Five - E, St. Mary's University	2026	5,020,000	4,835,000
Series Five - F, St. Mary's University	2012	1,037,118	914,692
Series Five - G, Carleton College	2029	23,000,000	23,000,000
Series Five - H, St. Olaf College	2030	14,475,000	14,475,000
Series Five - I, St. John's University	2026	14,270,000	13,960,000
Series Five - J, College of St. Scholastica	2014	5,960,000	5,250,000
Series Five - K, Minneapolis College of Arts & Design	2021	4,355,000	4,305,000
Series Five - L, University of St. Thomas	2027	25,845,000	25,845,000
Series Five - M1, St. Olaf College	2032	12,205,000	12,205,000
Series Five - M2, St. Olaf College	2020	13,420,000	13,420,000
Series Five - N1, College of St. Catherine	2032	28,265,000	28,265,000
Series Five - N2, College of St. Catherine	2032	24,625,000	24,625,000
Series Five - O, Hamline University	2009	1,000,000	871,972
Series Five - P1, Concordia University	2027	4,250,000	4,250,000
Series Five - P2, Concordia University	2027	7,230,000	7,230,000
Series Five - Q, Macalaster College	2033	15,300,000	15,300,000
Series Five - R, College of St. Scholastica	2032	11,705,000	11,705,000
		$668,306,118	$572,534,959

A summary of changes in conduit debt outstanding for the year ended June 30, 2003 is presented below:

Conduit debt, July 1, 2002	$	489,008,866
Additions:		
Revenue bonds issued		105,795,000
Reductions:		
Principal retirements		(16,558,907)
Refunding of principal		(5,710,000)
Conduit debt, June 30, 2003	$	572,534,959

7. CHANGES IN ACCOUNTING PRINCIPLE AND NEW ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended June 30, 2003, the Authority changed its method for presenting conduit debt obligations in its financial statements. The Authority elected to remove the conduit debt obligations and related assets from its financial statements. This treatment is consistent with Interpretation No. 2 of the Governmental Accounting Standards Board (GASB) *Disclosure of Conduit Debt Obligations*. Previously, all assets and liabilities of each bond, note, or lease were included within the Authority's financial statements. The cumulative effect on the beginning net assets related to this change in accounting principle is described as follows:

Fund Balance as Previously Reported	$	2,595,370
Removal of Conduit Debt and Other Related Liabilities		489,160,441
Removal of Assets Held by Trustees		(489,549,053)
Opening Net Assets	$	2,206,758

8. RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these risks of loss, the Authority purchases commercial insurance through the State of Minnesota Department of Administration Risk Management Division.

During the year ended June 30, 2003, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

9. STATE EMPLOYEES RETIREMENT FUND (SERF) AND STATE UNCLASSIFIED EMPLOYEES RETIREMENT PROGRAM (SUERP)

Pension fund information is provided by the Minnesota State Retirement System (MSRS), who prepares and publishes their own stand-alone comprehensive annual financial report, including financial statements and required supplementary information. Copies of the report may be obtained directly from MSRS at 60 Empire Drive, Suite 300, St. Paul, MN 55103-3000.

The statutory authority for SERF is *Minnesota Statutes*, Chapter 352. The SERF is a cost sharing multiple employer defined benefit plan. All classified employees are covered by this plan. The annuity formula is the greater of a step rate reduction for each month of early retirement, or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates are 1.2 and 1.7 percent.

The statutory authority for SUERP is *Minnesota Statutes*, Chapter 352D. Only certain unclassified employees are covered by this defined contribution program. The cash value may not be withdrawn prior to termination of the covered employee.

The funding requirements for both SERF and SUERP are 4 to 6 percent for both employer and employee. Actual contributions were 100 percent of required contributions. Required contributions for the Authority were:

Fiscal Year	Amount
2003	$ 9,572
2002	8,110
2001	8,716