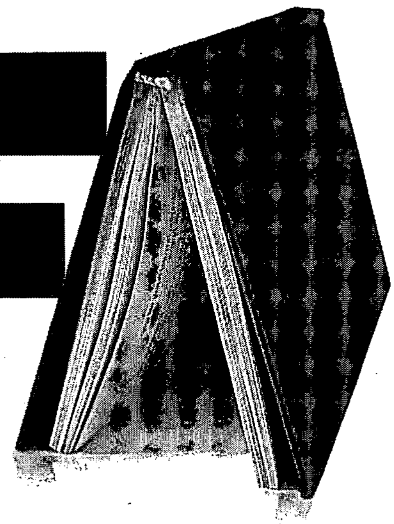
MHEF

Minnesota Higher Education Facilities Authority

Building the places where education takes place

MHEFA Annual Report for the Fiscal Year 2012

REPORT ON AUDIT OF FINANCIAL STATEMENTS

REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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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 educational 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.

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, 2012, 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 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 2012, the Authority completed three financings for three institutions. The total principal amount issued of $39,975,000 is less than the previous year's total of $166,110,000. The total principal outstanding for Authority-issued debt stands at $966,211,414 as of the end of the fiscal year. The current statutory limit on outstanding debt is $1.3 billion.

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,

Janet Withoff
Chair

MHEFA MEMBERS

Gary D. Benson,
Project Director of ICS Consulting, Inc.
Resident of New Brighton, Minnesota
Term Expires January 2015

Kathryn Balstad Brewer
Retired Banker and Educator
Resident of New Brighton, Minnesota
Term Expires January 2015

Paul Cerkvenik, Ex-officio, Non-voting
President, Minnesota Private College Council

Mary F. Ives
Real Estate Business Owner
Resident of Grand Rapids, Minnesota
Term Expires January 2016

Tammy L. H. McGee, MHEFA Vice Chair
Vice President for Finance and Administration and Chief Financial Officer, Augsburg College
Resident of Maple Grove, Minnesota
Term Expires January 2013

Timothy M. Geraghty, Ex-officio
Chief Financial Officer
MN Office of Higher Education

Michael D. Ranum, MHEFA Secretary
Chief Financial Officer, BWBR Architects, Inc.
Resident of Circle Pines, Minnesota
Term Expires January 2014

David D. Rowland
Senior Vice President
The Travelers Companies, Inc.
Resident of Edina, Minnesota
Term Expires January 2013

Raymond VinZant, Jr.
Plumbing Expert and Instructor
Anoka Technical College
Resident of Wyoming, Minnesota
Term Ends January 2016

Janet Withoff, MHEFA Chair
Consultant-Planning & Grant-Writing
Resident of Orono, Minnesota
Term Expires January 2014

MHEFA STAFF

Marianne Remedios
Executive Director

Elaine Yungerberg
Assistant Executive Director

FINANCIAL ADVISORS

Springsted Incorporated
St. Paul, Minnesota

INDEPENDENT AUDITORS

Kern, DeWenter, Viere, Ltd.
Bloomington, Minnesota

COLLEGES AND 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 in Marshall, Wisconsin and moved to Minneapolis in 1872. It is affiliated with the Evangelical Lutheran Church in America. The College offers undergraduate degrees in more than 50 major areas of study and offers seven graduate degree programs.

- Series Six-C issued April 2005 in the amount of $6,780,000. The proceeds were used to refinance the outstanding portion of the Series Four-F1 Bonds and the Series Four-W Notes.
- Series Six-J1 issued July 2006 in the amount of $15,655,000. The proceeds were used for the construction of the Gateway Project which includes student housing, commercial space, administrative office space, classroom space and underground parking.
- Series Six-J2 issued July 2006 in the amount of $5,000,000. The proceeds were used to construct an addition to the Si Melby Athletic facility, renovate the Augsburg House and Event Center and finance certain construction costs of the Gateway Project.
- Series Seven-G issued October 2010 in the amount of $8,860,000. These revenue bonds were issued to refinance the Series Four-Y Bonds.

BETHEL UNIVERSITY is a liberal arts institution that traces its roots back to 1871. The University offers bachelor's and advanced degrees in more than 100 academic programs in two colleges, a graduate school and a seminary. Bethel's campus is in Arden Hills, Minnesota, but the College of Adult and Professional Studies and Graduate School also have programs in other locations in the Twin Cities area.

- Series Six-R issued August 2007 in the amount of $44,000,000. The proceeds of this issue were used to finance the construction of the University Commons and to refinance Series Five-V and Four-S Bonds.

CARLETON COLLEGE, founded in 1866, is a residential, liberal arts college. It is located in Northfield, Minnesota on a 1,040-acre campus, which includes an 880-acre arboretum. Carleton offers undergraduate degrees in 37 majors and 15 concentrations in the arts, humanities, natural sciences and social sciences.

- Series Three-L2 issued October 1992 in the amount of $10,300,000. The proceeds were used to finance a variety of campus construction, remodeling and equipment acquisition projects.
- Series Five-G issued June 2000 in the amount of $23,000,000. The proceeds were used for the construction of a 63,000 square foot academic and dining facility, for the construction of a 100-bed apartment-style student residence, and for improvements of bridges, walkways, plantings and lighting on and near Lyman Lakes on the College campus.
- Series Six-D issued April 2005 in the amount of $31,460,000. The proceeds were used for the construction and furnishing of a townhouse for student occupancy, for the acquisition of real estate near campus, and for refinancing the outstanding portion of Series Three-L1 Bonds and refinancing a portion of the outstanding Series Four-N Bonds.
- Series Six-T issued December 2008 in the amount of $19,665,000. The proceeds were used for the construction of student housing consisting of two adjacent four-story buildings with approximately 230 beds. In addition, proceeds were used to finance infrastructure improvements to provide backup electrical generation for the campus.
- Series Seven-D issued June 2010 in the amount of $30,455,000. The proceeds were used for the construction of the Carleton Arts Union and an auxiliary art studio warehouse on the campus.

COLLEGES AND UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

COLLEGE OF SAINT BENEDICT is a Catholic liberal arts college for women founded by Benedictine monastic women in 1913. 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. The College of St. Benedict is located in central Minnesota minutes away from the St. Cloud metropolitan area.

- Series Five-W issued in July 2004 in the amount of $7,965,000. The proceeds were used to refinance the outstanding portion of the Series Three-W Bonds and to finance a variety of improvements to several residence halls and academic buildings.
- Series Six-M issued in October 2006 in the amount of $7,345,000. The proceeds were used for the construction and furnishing of an approximately 51,000 square foot, two-story dining center located on the College campus.
- Series Six-V issued May 2008 in the amount of $19,430,000. The proceeds were used to refinance the outstanding portion of the Series Four-G and Four-T Bonds and for the acquisition of four condominium units for student or faculty use.
- Series Seven-M issued December 2011 in the amount of $9,135,000. These revenue bonds were issued for the construction of new student housing facilities consisting of four residence buildings and a separate common area building.

COLLEGE OF ST. SCHOLASTICA was founded in 1912 and is a Catholic Benedictine institution. The campus is set on approximately 180 forested acres overlooking Lake Superior in Duluth, Minnesota. The College offers more than 40 undergraduate majors and pre-professional programs, 12 master's programs, and two doctoral programs. There is also an Accelerated Learning program, which offers courses in the evening. In addition to the main campus, the College has extended sites in several areas such as Brainerd, Rochester, St. Cloud and St. Paul, Minnesota.

- Series Five-R issued May 2003 in the amount of $11,705,000. The proceeds were used for the construction of the Wellness Center and to make improvements to the Reif Athletic Center. The proceeds were also used to build a 96-unit apartment-style residence facility and to refinance the outstanding portion of the Three-N Bonds.
- Series Six-S issued November 2007 in the amount of $8,170,000. The proceeds were used for improvements to the Wellness Center on the Duluth campus.
- Series Seven-H issued October 2010 in the amount of $21,820,000. These revenue bonds were issued for the expansion and renovation of a science building on the Duluth campus and to refinance the outstanding portion of the Series Five-J Bonds and the Series Six-A Bonds.
- Series Seven-J issued February 2011 in the amount of $10,170,000. These revenue bonds were issued as additional funding for the expansion and renovation of a science building on the Duluth campus.

COLLEGES AND UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

CONCORDIA UNIVERSITY, ST. PAUL, founded in 1893, is a liberal arts university and is affiliated with The Lutheran Church -Missouri Synod. The campus is located on approximately 50 acres in a residential area of St. Paul, a short distance from both St. Paul and Minneapolis, Minnesota. Academic programs at the University are organized into three colleges. Degree programs are offered at the traditional undergraduate, adult undergraduate and graduate levels for each college.

- Series Five-A issued April 1999 in the amount of $1,440,000. The proceeds 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 issued March 2003 in the amount of $4,250,000 and Five-P2 issued March 2003 in the amount of $7,230,000. The proceeds were used for capital improvements to existing campus facilities, for the construction of a 45,000 square foot library and information technology center, for the acquisition of 4.7 acres of adjacent property, and for the refinancing of prior loans.
- Series Six-Q issued October 2007 in the amount of $18,155,000. The proceeds were used to construct a 300-bed residence hall.

GUSTAVUS ADOLPHUS COLLEGE is a residential, four-year, liberal arts college founded in 1862 by Swedish Lutheran immigrants. It is located on 340 acres in St. Peter, Minnesota, which is approximately an hour's drive south of the Twin Cities. The College offers a bachelor of arts degree in over 70 major areas of study in 24 academic departments.

- Series Five-X issued October 2004 in the amount of $16,550,000. The proceeds were used to construct a 200-bed apartment-style residence facility, to renovate the College's Old Main building, and to install fire sprinkler systems in its existing residence halls.
- Series Seven-B issued August 2010 in the amount of $41,680,000. These revenue bonds were issued for the construction of a new academic building for the social sciences, for improvements to define the west mall area on campus, and to refinance the outstanding portion of the Series Four-X Bonds.

HAMLINE UNIVERSITY was founded in 1854 and is affiliated with the United Methodist Church. The University consists of five schools: the College of Liberal Arts, the School of Business, the School of Education, the School of Law, and the Graduate School of Liberal Studies. The main campus is located in St. Paul, but the University also offers graduate programs and courses in management, education and liberal studies at the University's Minneapolis Center.

- Series Six-E1 issued June 2005 in the amount of $9,580,000. The proceeds were used to refinance a portion of the outstanding Series Four-I Bonds.
- Series Six-E2 issued June 2005 in the amount of $8,580,000. The proceeds were used to finance improvements to various buildings on the campus, refinance an outstanding commercial note, and acquire and renovate a building in St. Paul for use as an events center and University President's residence.
- Series Six-E3 issued August 2006 in the amount of $2,195,000. The proceeds were used to refinance the outstanding portion of the Series Four-I Bonds.
- Series Seven-E issued June 2010 in the amount of $14,890,000. The proceeds were used to refinance the outstanding portion of the Series Five-B Bonds and also to refinance the outstanding portion of a bank line of credit that had been used for various capital improvements for the University.
- Series Seven-K1 issued March 2011 in the amount of $8,810,000 and Series Seven-K2 issued March 2011 in the amount of $18,330,000. These revenue bonds were issued to finance the construction of a new University Center and related parking facilities for the St. Paul campus.
- Series Seven-L issued February 2011 in the amount of $8,000,000. This revenue note was issued as additional financing for the construction of a new University Center and related parking facilities for the St. Paul campus

COLLEGES AND UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

MACALESTER COLLEGE was founded in 1874 as a Presbyterian-related but nonsectarian college. It is a four-year, undergraduate liberal arts college located on approximately 50 acres in St. Paul, Minnesota. The College offers 36 academic majors in natural sciences, social sciences, humanities and fine arts.

- Series Three-Z issued September 1994 in the amount of $6,660,000. The proceeds were used for the expansion of the College's athletic fields and other renovations on the campus.
- Series Five-Q issued February 2003 in the amount of $15,300,000. The proceeds were used to renovate, refurnish and make data wiring upgrades to Doty Hall, Wallace Hall and Turck Hall and to install fire sprinkler systems in Doty, Wallace, Turck, Bigelow, Dupre, 30 Macalester and Kirk Halls.
- Series Six-B issued December 2004 in the amount of $14,995,000. The proceeds were used to refinance the outstanding portions of the Series Four-C and Four-J Bonds.
- Series Six-F issued July 2005 in the amount of $3,000,000. The proceeds were used to finance the acquisition and installation of a replacement administrative computing system, including hardware, software licenses, and costs of converting data, training and testing.
- Series Six-P issued March 2007 in the amount of $39,490,000. The proceeds were used for the construction of a new athletic and recreation center and to refinance the outstanding portion of the Series Four-U1 and Four-U2 Bonds.
- Series Seven-I issued December 2010 in the amount of $16,000,000. These revenue bonds were issued for the renovation and expansion of the music portion and other areas of the Janet Wallace Fine Arts Center.

MINNEAPOLIS COLLEGE OF ART AND DESIGN was established in 1886 and is a private, four-year college located just south of downtown Minneapolis, Minnesota. The College offers undergraduate degree programs in 14 areas of study, and also offers a graduate degree in Fine Arts, as well as a number of post-baccalaureate certificate programs.

- Series Six-K issued July 2006 in the amount of $7,670,000. The proceeds were used to refinance the outstanding portion of the Series Five-D Bonds.
- Series Six-Z issued November 2009 in the amount of $2,660,000. The proceeds were used for the construction of a surface parking lot and sculpture garden serving as a gateway to the main campus.
- Series Seven-N issued April 2012 in the amount of $3,215,000. These revenue bonds were issued to refinance the outstanding portion of the Series Five-K Bonds.

ST. CATHERINE UNIVERSITY is a Catholic liberal arts institution founded in 1905 by the Sisters of St. Joseph of Carondelet. The University offers its programs on two campuses, one in St. Paul and one in Minneapolis, Minnesota. The university offers baccalaureate, associate and master's degrees in a variety of health-care specialties, liberal arts and professional programs and has both traditional day and weekend formats.

- Series Five-N1 issued August 2002 in the amount of $28,265,000 and Series Five-N2 issued August 2002 in the amount of $24,625,000. 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 and for the conversion of a steam plant. In addition, a portion was used to refinance the outstanding portion of the Series Three-M1 Bonds.
- Series Six-L issued August 2006 in the amount of $8,000,000. The proceeds were used for the construction of a 150-bed student residence hall.
- Series Six-N issued April 2007 in the amount of $6,500,000. The proceeds were used for the construction of a 140-bed student residence hall.

COLLEGES AND UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

SAINT JOHN'S UNIVERSITY was founded in 1857 and is a Catholic, liberal arts college for men. The University offers academic and extracurricular programs in conjunction with the nearby College of St. Benedict. The character of both of these institutions continues to be shaped by the Benedictine communities that founded the colleges. St. John's is located on 2,700 acres in Collegeville, Minnesota, minutes away from the St. Cloud metropolitan area.

- Series Six-G issued August 2005 in the amount of $39,300,000. The proceeds were used to refinance the outstanding portions of the Series Four-L and Five-I Bonds.
- Series Six-U issued June 2008 in the amount of $11,375,000. The proceeds of this issue were used for the construction of a 58-bed student apartment building and an 8,000 square foot community center. A portion of the proceeds were also used for the renovation of the dining facilities and Seton Apartments.

SAINT MARY'S UNIVERSITY OF MINNESOTA is a private comprehensive university. It was founded in 1912 and is administered by the De La Salle Christian Brothers. The University's main campus is in Winona, Minnesota but offers undergraduate, graduate and certificate programs at various locations throughout Minnesota and Wisconsin and also has centers in Jamaica and Nairobi, Kenya.

- 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 standby electric generation system for the Winona campus.
- Series Five-U issued March 2004 in the amount of $10,980,000. The proceeds were used to refinance the outstanding portion of the Series Three-Q Bonds.
- Series Seven-C issued May 2010 in the amount of 4,085,000. The proceeds were used to refinance the outstanding portion of the Series Five-E Bonds.

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. The College offers a traditional four-year liberal arts education with academic majors offered in 40 different disciplines and subject areas in the natural and mathematical sciences, fine arts, social sciences, and humanities. In addition to the bachelor of arts degree in music, the Music Department provides a professional bachelor of music degree with majors in performance, church music, theory and composition, music education, and elective studies.

- Series Five-M2 issued July 2002 in the amount of $13,420,000. The proceeds were used to refinance the outstanding portion of the City of Northfield, Minnesota College Facility Revenue Bonds Series 1992.
- Series Six-O issued March 2007 in the amount of $45,405,000. The proceeds were used to construct a new science building and to refinance the outstanding portion of the Series Four-R Bonds.
- Series Seven-F issued August 2010 in the amount of $32,440,000. These revenue bonds were issued to refinance the outstanding portion of Series Five-H and Series Five-M1 and to refinance part of the outstanding portion of Series Five-M2 Bonds.

COLLEGES AND UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

UNIVERSITY OF ST. THOMAS was founded in 1885 and is a Catholic liberal arts comprehensive regional university. The University offers undergraduate degrees in over 90 majors and 60 minors. It offers several master's degree programs, a number of doctoral degree programs including a juris doctorate degree. The main campus is located in St. Paul, Minnesota and the center for graduate studies and the law school of the University is located in downtown Minneapolis. The University's other campuses include the Gainey Center in Owatonna, Minnesota and the Bernardi Campus in Rome, Italy.

- Series Five-L issued April 2002 in the amount of $25,845,000. The proceeds were used to finance the construction and furnishing of the University's Law School building on the Minneapolis campus and to refinance the outstanding portion of the Series Three-C Bonds.
- Series Five-T issued December 2003 in the amount of $23,575,000. The proceeds were used to refinance the outstanding portion of the Series Three-R1 and Three-R2 Bonds.
- Series Five-Y issued August 2004 in the amount of $30,000,000. The proceeds were used to construct and furnish a 422-bed apartment-style residence hall and a related parking facility on the St. Paul campus.
- Series Five-Z issued August 2004 in the amount of $20,000,000. The proceeds were used to construct and furnish Schulz Hall on the Minneapolis campus.
- Series Six-I issued February 2006 in the amount of $38,860,000. The proceeds were used to refinance the outstanding portion of Series Four-A, Series Four-M and Series Four-P Bonds.
- Series Six-W issued December 2008 in the amount of $18,305,000. The proceeds were used for a parking ramp for approximately 725 stalls on five levels, including one below ground.
- Series Six-X issued June 2009 in the amount of $58,405,000. The proceeds were used for the construction and furnishing of the Anderson Athletic and Recreation Complex on the St. Paul campus.
- Series Seven-A issued December 2009 in the amount of $79,440,000. The proceeds were used for the construction of the Anderson Student Center, for improvements to the University's athletic facilities and for renovating the McCarthy Gymnasium on the St. Paul campus.
- Series Seven-O issued May 2012 in the amount of $15,325,000. These revenue bonds were issued to refinance the outstanding portion of the Series Four-O Bonds and the Series Five-C Bonds.
- Series Seven-P issued May 2012 in the amount of $12,300,000. These revenue bonds were issued to refinance the outstanding portion of the Series Six-H 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 Three-T issued July 1993 in the amount of $950,000. The proceeds were used to finance the acquisition, installation and furnishing of eleven manufactured duplex housing units. These units house approximately 80 students on the campus of the College.

WILLIAM MITCHELL COLLEGE OF LAW is an independent law school which 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. It is accredited by the American Bar Association and is a member of the American Association of Law Schools. The College offers a flexible schedule of day and evening classes and part- and full-time enrollment options.

- Series Five-S issued October 2003 in the amount of $15,800,000. The proceeds were used to construct, renovate and expand the student center and adjacent classroom space and to upgrade the facility infrastructure.

INDEPENDENT AUDITOR'S REPORT

TO THE EXECUTIVE DIRECTOR AND MEMBERS OF
THE MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
ST. PAUL, MINNESOTA

We have audited the accompanying financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the fiscal year ended June 30, 2012, as listed in the Table of Contents. 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 prior year partial comparative information has been derived from the Authority's 2011 financial statements and, in our report dated November 7, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2012, and the respective changes in its financial position and its cash flows, for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the fiscal year ended June 30, 2011, from which such partial information was derived.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
August 30, 2012

This discussion and analysis of the financial performance of the Minnesota Higher Education Facilities Authority (the "Authority") is supplementary information required by the GASB. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the fiscal year ended June 30, 2012.

The Authority was created by the State Legislature in 1971 (Minnesota Statutes Sections 136A.25 through 136A.42) 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 Office of Higher Education is an ex-officio member and the President of the Minnesota Private College Council, is a non-voting, ex-officio member. The Authority has two full-time staff and the third staff position is vacant at this time. In keeping with internal control procedures and policies, the staff segregates duties as much as possible to protect the financial integrity of all activities. Procedures and policies have been developed and documented to safeguard the Authority's assets.

The Authority is authorized to issue revenue bonds whose aggregate outstanding principal amount at any time cannot exceed a statutory limit of $ 1.3 billion. The Authority has had 190 issues (including refunded and retired issues) totaling approximately $ 1.96 billion of which $ 966,219,238 is outstanding as of June 30, 2012. 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 from fees paid by the participating institutions and investment income. It has no taxing power. Bond issuance costs 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. Public community and technical colleges in the state are also eligible for assistance, but only in financing of childcare 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 facilities for housing, academic and administrative purposes, parking, student centers and other buildings and equipment to be used for instruction, research or operations. 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.

An annual conference has been offered for many years by the Authority. During this fiscal year it was held in April, and provided a chance for Authority clients and finance professionals to share information on higher education capital financings. The conference speaker list included an economist who discussed the national and regional economic trends, a national rating agency representative who described the development and analysis of that rating agency's scorecard for an institution, and a representative from an underwriting firm who made predictions on the future landscape of the municipal market. The conference concluded with a discussion led by a team of finance professionals on various topics relating to tax exempt finance.

The Authority continues to review its policies and procedures in an 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.

MANAGEMENT'S DISCUSSION & ANALYSIS: OVERVIEW OF THE FINANCIAL STATEMENTS

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

- **Statements 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 noncurrent 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 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 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, 2011 and 2012.

STATEMENTS OF NET ASSETS:	**2012**	**2011**
ASSETS:		
Current Assets	$ 2,056,805	$ 2,050,825
Noncurrent Assets	3,714	2,595
Total Assets	$ 2,060,519	$ 2,053,420
LIABILITIES:		
Current Liabilities	$ 39,963	$ 38,288
Long-Term Liabilities	28,897	26,870
Total Liabilities	$ 68,860	$ 65,158
NET ASSETS:		
Invested in Capital Assets	$ 3,714	$ 2,595
Unrestricted	1,987,945	1,985,667
Total Net Assets	$ 1,991,659	$ 1,988,262

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:	**2012**	**2011**
Operating Revenues	317,723	310,201
Operating Expenses	(363,205)	(361,072)
Operating Loss	(45,482)	(50,871)
Nonoperating Revenues:		
Interest Income	49,437	48,415
Net Increase in Fair Value of Investments	(558)	259
Total Nonoperating Revenue	48,879	48,674
Change in Net Assets	3,397	(2,197)
NET ASSETS:		
Beginning of Year	1,988,262	1,990,459
End of Year	$ 1,991,659	$ 1,988,262

MANAGEMENT'S DISCUSSION & ANALYSIS: FINANCIAL HIGHLIGHTS

The total principal amount issued in fiscal year 2012 was $ 39,975,000 compared to $ 166,110,000 in fiscal year 2011. Following is a listing of the bond issues for fiscal year 2012.

College of St. Benedict

- Series Seven-M issued December 2011 in the amount of $ 9,135,000. These revenue bonds were issued for the construction of new student housing facilities consisting of four residence buildings and a separate common area building.

Minneapolis College of Art and Design

- Series Seven-N issued April 2012 in the amount of $ 3,215,000. These revenue bonds were issued for the current refunding of the Series Five-K Bonds.

University of St. Thomas

- Series Seven-O issued May 2012 in the amount of $ 15,325,000. These revenue bonds were issued for the current refunding of the Series Four-O and the Series Five-C Bonds.
- Series Seven-P issued May 2012 in the amount of $ 12,300,000. These revenue bonds were issued for the current refunding of the Series Six-H Bonds.

FACTORS EXPECTED TO AFFECT FUTURE FINANCIAL POSITION AND OPERATION

The Authority is primarily dependent on administrative fee revenue with supplemental revenue provided by interest 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. Utilizing the operating reserve to subsidize the operating expenses, the Authority was able to reduce its annual administrative fees to all borrowers in fiscal year 2012 by 75%. The fees for fiscal year 2013 will be reduced by 70%. Although future reductions are not guaranteed, the Authority is committed to providing financing services at affordable fees to colleges and universities in Minnesota.

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, Minnesota 55101

Phone: 651-296-4690
Fax: 651-297-5751
Website: *www.mnhefa.org*

BASIC FINANCIAL STATEMENTS: STATEMENT OF NET ASSETS

For the Year Ended June 30, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	$ 211,623	$ 229,395
Investments	1,830,560	1,806,118
Interest Receivable	13,775	13,952
Prepaid Items	847	1,360
Total Current Assets	2,056,805	2,050,825
NONCURRENT ASSETS		
Equipment	67,944	65,664
Less Accumulated Depreciation	(64,230)	(63,069)
Total Noncurrent Assets	3,714	2,595
Total Assets	$ 2,060,519	$ 2,053,420

LIABILITIES AND NET ASSETS	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 11,067	$ 11,418
Compensated Absences Payable	28,896	26,870
Total Current Liabilities	39,963	38,288
Noncurrent Liabilities:		
Compensated Absences Payable	28,897	26,870
Total Liabilities	68,860	65,158
NET ASSETS		
Invested in Capital Assets	3,714	2,595
Unrestricted	1,987,945	1,985,667
Total Net Assets	1,991,659	1,988,262
Total Liabilities and Net Assets	$ 2,060,519	$ 2,053,420

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, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	2012	2011
OPERATING REVENUES		
Annual Administrative Fees	$ 312,223	$ 306,189
Other Income	5,500	4,012
Total Operating Revenues	317,723	310,201
OPERATING EXPENSES		
Payroll, Payroll Taxes and Employee Benefits	225,078	230,801
Legal, Audit and Consulting Expense	43,593	37,586
Rent	48,219	45,980
Depreciation	1,811	1,079
Other General and Administrative Expenses	44,504	45,626
Total Operating Expenses	363,205	361,072
Operating Loss	(45,482)	(50,871)
NONOPERATING REVENUES		
Interest Income	49,437	48,415
Increase in Fair Value of Investments	(558)	259
Total Nonoperating Revenues	48,879	48,674
Change in Net Assets	3,397	(2,197)
NET ASSETS		
Beginning of Year	1,988,262	1,990,459
End of Year	$ 1,991,659	$ 1,988,262

BASIC FINANCIAL STATEMENTS: STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012
(With Partial Comparative Information for the Year Ended June 30, 2011)

	2012	2011
CASH FLOWS - OPERATING ACTIVITIES		
Cash Received from Annual Administrative and Other Fees	$ 317,723	$ 310,201
Cash Payments to Employees	(220,977)	(230,151)
Cash Payments to Suppliers for Goods and Services	(136,202)	(122,664)
Net Cash Flows - Operating Activities	(39,456)	(42,614)
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,930)	-
CASH FLOWS - INVESTING ACTIVITIES		
Interest Received	49,614	48,331
Proceeds of Investment Sales / (Investment Purchases)	(25,000)	(15,000)
Net Cash Flows - Investing Activities	24,614	33,331
Net Change in Cash and Cash Equivalents	(17,772)	(9,283)
CASH AND CASH EQUIVALENTS		
Beginning of the Year	229,395	238,678
End of the Year	$ 211,623	$ 229,395
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES		
Operating Loss	$ (45,482)	$ (50,871)
Adjustments to Reconcile Operating Loss to Net Cash Flows - Operating Activities:	-	
Depreciation Expense	1,811	1,079
Prepaid Items	513	82
Accounts Payable	(351)	6,116
Compensated Absences Payable	4,053	980
Total Adjustments	6,026	8,257
Net Cash Flows - Operating Activities	$ (39,456)	$ (42,614)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Net Increase (Decrease) in Fair Value of Investments	$ (558)	$ 259

The Notes to the Financial Statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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 lease/loan payments collected from the higher education institutions. In fiscal year 2012, the Authority was authorized to have a maximum of $ 1.3 billion 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. 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 fees for bonds outstanding at June 30, 2012 are 0.125% 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 fiscal year ended June 30, 2012, the Authority required participating institutions to pay 25% of the contractual administrative fees.

C. ASSETS, LIABILITIES AND NET ASSETS

1. CASH AND INVESTMENTS

Cash and investment balances are invested to the extent available in various securities as authorized by state law. 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 (G.O.) or revenue bonds of any state or any political subdivision provided the G.O. 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 Federal Deposit Insurance Corporation (FDIC) insurance. In some cases, investment agreements with corporations rated AA by Standard & Poor's (S&P) or AA by Moody's are allowed as well as repurchase agreements fully collateralized by U.S. government securities. Commercial paper maturing in 270 days or less and rated within the top two categories without gradation by either S&P's or Moody's is also allowed.

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

Custodial Credit Risk - Deposits: For deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a deposit policy that requires the Authority's deposits be collateralized in an amount equal to 110% of an amount exceeding FDIC coverage.

Interest Rate Risk: Managing exposure to fair value arising from increasing interest rates. The Authority's investment policy states the Authority's investments should be made with consideration for cash flow requirements, taking into account budgeted expenditures.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy requires their investments to be rated in the top two categories by S&P or Moody's.

Cash and Investments continued on next page.

Concentration of Credit Risk: This limits the amount the Authority may invest in any one issuer. The Authority's policy states the Authority should consider the credit quality in the selection of individual securities of any single issuer in excess of 5% of the Authority's total investments.

Custodial Credit Risk - Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy does not address custodial credit risk for investments other than to follow the overall framework provided by *Minnesota Statutes*.

2. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as an expense at the time of consumption.

3. CAPITAL ASSETS

Capital assets, which include office furniture and equipment, are stated at historical cost and depreciated on the straight-line method over the estimated useful lives of the assets, generally 3, 5 or 10 years. The Authority's threshold for capitalization of assets is $ 500.

4. CONDUIT DEBT

The Authority issues tax exempt instruments (bonds, 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.

5. COMPENSATED ABSENCES

The Authority compensates all employees upon termination of employment for unused vacation up to a maximum of 275 hours. At June 30, 2012, the Authority 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 plan under which they are employed. Employees working under the managerial plan shall be paid a sum equal to the regular rate of pay at the time of separation multiplied by 35% of the accumulated but unused sick leave.

D. NET ASSETS

Net assets represent the difference between assets and liabilities in the basic financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets

E. USE OF ESTIMATES

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. DEPOSITS

Deposits are maintained at depository banks authorized by the Authority.

Custodial Credit Risk – Deposits: As of June 30, 2012, the Authority's bank balance of $ 9,325 was not exposed to custodial credit risk because it was insured through FDIC insurance.

As of June 30, 2012, the Authority's carrying value of deposits was as follows:

Deposits............................ $ 7,926

B. INVESTMENTS

As of June 30, 2012, the Authority had the following investments:

INVESTMENT	MATURITIES	FAIR VALUE	S&P RATING
Columbus Bank & Trust CO, GA Certificate of Deposit	09/04/12	$ 95,163	N/A
Farmers Savings Bank Colesburg, IA Certificate of Deposit	01/22/13	96,373	N/A
Federal Home Loan Note	03/08/13	306,631	AA+
Fannie Mae Note	08/20/13	104,254	AA+
Barclays Bank, DE Certificate of Deposit	02/18/14	97,448	N/A
Sturdy Savings Bank Stone HBR, NJ Certificate of Deposit	03/03/14	97,492	N/A
Platinum Bank Florida Certificate of Deposit	08/12/14	98,217	N/A
BMW Bank North America Certificate of Deposit	08/13/14	101,881	N/A
Town Bank Hartland, WI Certificate of Deposit	03/05/15	98,846	N/A
Citibank N.A. Las Vegas Certificate of Deposit	05/12/15	98,965	N/A
Capital One National Association McLean, VA Certificate of Deposit	06/25/15	105,077	N/A
Toyota Financial Savings, NV Certificate of Deposit	02/23/16	101,782	N/A
State Bank of India, IL Certificate of Deposit	08/12/16	101,350	N/A
Goldman Sachs Bank, NY Certificate of Deposit	01/25/17	121,153	N/A
GE Capital Financial Certificate of Deposit	02/21/17	103,485	N/A
GE Money Bank Certificate of Deposit	06/24/17	102,443	N/A
Wells Fargo Money Market	N/A	203,697	AAAm
Total Investments		$ 2,034,257	

Concentration of Credit Risk: As of June 30, 2012, the Authority's investment balances in the Federal Home Loan Note, Fannie Mae Note, BMW Bank North America certificate of deposit, Capital One National Association McLean, VA certificate of deposit, GE Capital Financial certificate of deposit, Goldman Sachs Bank, NY certificate of deposit and GE Money Bank certificate of deposit each exceeded 5% of the total investments.

Custodial Credit Risk – Investments: Investments of the Authority are not registered in the Authority's name. The securities are held in bank safekeeping in third party depositories under the bank's name and ownership. Pursuant to federal banking laws and regulations, the bank's customer accounts are segregated from and not considered part of the bank's assets. Thus, the account ownership of assets in bank safekeeping accounts remain vested in the customers and are protected from claims of creditors of the bank.

Deposits and investments are presented in the June 30, 2012 basic financial statements as follows:

Cash and Cash Equivalents	$ 211,623
Investments	1,830,560
Total Deposits and Investments	$ 2,042,183

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets, being Depreciated:				
Office Furniture and Equipment	$ 65,664	$ 2,930	$ (650)	$ 67,944
Less Accumulated Depreciation	(63,069)	(1,811)	650	(64,230)
Capital Assets, Net	$ 2,595	$ 1,119	$ -	$ 3,714

NOTE 4 - LEASES

The Authority has a lease commitment for office space through November 2012, with monthly base rent from $ 4,069 to $ 4,121. Total costs were $ 48,219 for the year ended June 30, 2012. The future minimum lease payments for this lease are as follows:

YEAR ENDING JUNE 30	
2013	$ 20,605

NOTE 5 - CHANGES IN COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the year ended June 30, 2012 was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Compensated Absences	$ 53,740	$ 22,312	$ (18,259)	$ 57,793	$ 28,896

NOTE 6 - CONDUIT DEBT

At June 30, 2012, there were 64 bond issues and leases outstanding with an aggregate principal balance outstanding of $ 966,219,238 as follows:

COLLEGE/UNIVERSITY	FINAL MATURITY	INDEBTEDNESS ISSUED	INDEBTEDNESS OUTSTANDING
Series Three-L2, Carleton College Variable Rate Demand Revenue Bonds, October 1992	2012	$ 10,300,000	$10,300,000
Series Three-T, Vermilion Community College Revenue Bonds, July 1993	2013	950,000	80,000
Series Three-Z, Macalester College Variable Rate Demand Revenue Bonds, September 1994	2024	6,660,000	6,660,000
Series Five-A, Concordia University, St. Paul Lease and Purchase Agreement, April 1999	2014	1,440,000	265,174
Series Five-F, Saint Mary's University of Minnesota Master Financing Agreement, March 2000	2012	1,037,118	146,336
Series Five-G, Carleton College Variable Rate Demand Revenue Bonds, June 2000	2029	23,000,000	23,000,000
Series Five-L, University of St. Thomas Variable Rate Demand Revenue Bonds, April 2002	2027	25,845,000	16,965,000
Series Five-M2, St. Olaf College Variable Rate Demand Revenue Bonds, July 2002	2020	13,420,000	8,750,000
Series Five-N1, College of St. Catherine Revenue Bonds, August 2002	2032	28,265,000	23,515,000
Series Five-N2, College of St. Catherine Variable Rate Demand Revenue Bonds, August 2002	2032	24,625,000	24,625,000
Series Five-P1, Concordia University, St. Paul Variable Rate Demand Revenue Bonds, March 2003	2027	4,250,000	2,255,000
Series Five-P2, Concordia University, St. Paul Variable Rate Demand Taxable Revenue Bonds, March 2003	2021	7,230,000	2,965,000
Series Five-Q, Macalester College Variable Rate Demand Revenue Bonds, February 2003	2033	15,300,000	15,300,000
Series Five-R, College of St. Scholastica Revenue Bonds, May 2003	2032	11,705,000	10,105,000
Series Five-S, William Mitchell College of Law Variable Rate Demand Revenue Bonds, October 2003	2033	15,800,000	10,980,000
Series Five-T, University of St. Thomas Revenue Bonds, December 2003	2014	23,575,000	5,560,000
Series Five-U, Saint Mary's University of Minnesota Revenue Bonds, March 2004	2023	10,980,000	7,855,000
Series Five-W, College of St. Benedict Revenue Bonds, July 2004	2024	7,965,000	5,640,000
Series Five-X, Gustavus Adolphus College Variable Rate Demand Revenue Bonds, October 2004	2034	16,550,000	12,450,000
Series Five-Y, University of St. Thomas Revenue Bonds, August 2004	2034	30,000,000	26,275,000
Series Five-Z, University of St. Thomas Revenue Bonds, August 2004	2029	20,000,000	14,000,000
Series Six-B, Macalester College Revenue Bonds, December 2004	2017	14,995,000	6,850,000
Series Six-C, Augsburg College Revenue Bonds, April 2005	2023	6,780,000	6,780,000
Series Six-D, Carleton College Revenue Bonds, April 2005	2035	31,460,000	25,655,000
Series Six-E1, Hamline University Variable Rate Demand Revenue Bonds, June 2005	2016	9,580,000	4,665,000
Series Six-E2, Hamline University Variable Rate Demand Revenue Bonds, June 2005	2025	8,580,000	6,945,000

NOTE 6 - CONDUIT DEBT

Series Six-E3, Hamline University Variable Rate Demand Revenue Bonds, August 2006	2016	2,195,000	1,185,000
Series Six-F, Macalester College Revenue Notes, July 2005	2014	3,000,000	945,415
Series Six-G, St. John's University Revenue Bonds, August 2005	2026	39,300,000	28,425,000
Series Six-I, University of St. Thomas Revenue Bonds, February 2006	2023	38,860,000	27,755,000
Series Six-J1, Augsburg College Revenue Bonds, July 2006	2036	15,655,000	14,330,000
Series Six-J2, Augsburg College Variable Rate Demand Revenue Bonds, July 2006	2021	5,000,000	3,800,000
Series Six-K, Minneapolis College of Art & Design Revenue Bonds, July 2006	2026	7,670,000	6,035,000
Series Six-L, College of St. Catherine Revenue Notes, August 2006	2031	8,000,000	7,166,374
Series Six-M, College of St. Benedict Revenue Notes, October 2006	2016	7,345,000	4,038,435
Series Six-N, College of St. Catherine Revenue Bonds, April 2007	2027	6,500,000	5,567,504
Series Six-O, St. Olaf College Revenue Bonds, March 2007	2032	45,405,000	40,705,000
Series Six-P, Macalester College Revenue Bonds, March 2007	2032	39,490,000	33,715,000
Series Six-Q, Concordia University, St. Paul Revenue Bonds, October 2007	2037	18,155,000	16,435,000
Series Six-R, Bethel University Revenue Bonds, August 2007	2037	44,000,000	44,000,000
Series Six-S, College of St. Scholastica Revenue Bonds, November 2007	2027	8,170,000	7,065,000
Series Six-T, Carleton College Revenue Bonds, December 2008	2028	19,665,000	18,620,000
Series Six-U, St. John's University Revenue Bonds, June 2008	2033	11,375,000	10,555,000
Series Six-V, College of St. Benedict Revenue Bonds, May 2008	2023	19,430,000	12,550,000
Series Six-W, University of St. Thomas Revenue Bonds, December 2008	2030	18,305,000	17,075,000
Series Six-X, University of St. Thomas Revenue Bonds, June 2009	2039	58,405,000	55,990,000
Series Six-Z, Minneapolis College of Art and Design Revenue Notes, November 2009	2024	2,660,000	2,660,000
Series Seven-A, University of St. Thomas Revenue Bonds, December 2009	2039	79,440,000	77,770,000
Series Seven-B, Gustavus Adolphus College Revenue Bonds, August 2010	2035	41,680,000	41,250,000
Series Seven-C, Saint Mary's University of Minnesota Revenue Bonds, May 2010	2026	4,085,000	3,725,000
Series Seven-D, Carleton College Revenue Bonds, June 2010	2040	30,455,000	29,865,000
Series Seven-E, Hamline University Revenue Bonds, June 2010	2029	14,890,000	14,365,000

NOTE 6 - CONDUIT DEBT

Series Seven-F, St. Olaf College Revenue Bonds, August 2010	2030	32,440,000	31,335,000
Series Seven-G, Augsburg College Revenue Bonds, October 2010	2027	8,860,000	7,990,000
Series Seven-H, College of St. Scholastica Revenue Bonds, October 2010	2040	21,820,000	21,570,000
Series Seven-I, Macalester College Revenue Bonds, December 2010	2035	16,000,000	15,860,000
Series Seven-J, College of St. Scholastica Revenue Bonds, February 2011	2040	10,170,000	10,170,000
Series Seven-K1, Hamline University Revenue Bonds, March 2011	2018	8,810,000	8,810,000
Series Seven-K2, Hamline University Revenue Bonds, March 2011	2040	18,330,000	18,330,000
Series Seven-L, Hamline University Revenue Note, February 2011	2021	8,000,000	8,000,000
Series Seven-M, College of St. Benedict Revenue Bonds, December 2011	2036	9,135,000	9,135,000
Series Seven-N, Minneapolis College of Art & Design Revenue Bonds, April 2012	2023	3,215,000	3,215,000
Series Seven-O, University of St. Thomas Revenue Bonds, May 2012	2025	15,325,000	15,325,000
Series Seven-P, University of St. Thomas Revenue Bonds, May 2012	2032	12,300,000	12,300,000
Total		$ 1,123,832,118	$ 966,219,238

A summary of changes in conduit debt outstanding for the year ended June 30, 2012 is presented below.

CONDUIT DEBT - July 1, 2011	$ 988,771,890
ADDITIONS:	
Revenue Bonds Issued	39,975,000
REDUCTIONS:	
Principal Retirements	(30,692,652)
Refunding of Principal	(31,835,000)
CONDUIT DEBT - June 30, 2012	$ 966,219,238

NOTE 7 - 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, 2012, 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.

NOTE 8 - STATE EMPLOYEES' RETIREMENT FUND AND STATE UNCLASSIFIED EMPLOYEES' RETIREMENT PROGRAM

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

The statutory authority for State Employees' Retirement Fund (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%.

The statutory authority for State Unclassified Employees' Retirement Program (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 SERF are 5%, for both employer and employee; for SUERP the requirement is 5% for employees and 6% for the employer. Actual contributions were 100% of required contributions. Required contributions for the Authority were:

FISCAL YEAR		AMOUNT
2012	$	10,153
2011		10,432
2010		10,243

NOTE 9 - SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through August 30, 2012, the date which the financial statements were available to be issued.

Minnesota Higher Education Facilities Authority
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