OFFICIAL STATEMENT DATED AUGUST 20, 2001

NEW ISSUE **Moody's Rating: Baa2**

In the opinion of Bond Counsel, according to present State of Minnesota and federal laws, regulations and rulings, assuming compliance with certain covenants, the interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable income of individuals, estates and trusts for State of Minnesota income tax purposes, and is not an item of tax preference in determining federal or Minnesota alternative minimum tax applicable to individuals. Interest on the Bonds is subject to the State of Minnesota franchise tax applicable to corporations, including financial institutions, and is includable in the calculation of certain federal taxes imposed on corporations. The Bonds will not be designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code. (See "TAX EXEMPTION.")

$4,355,000
Minnesota Higher Education Facilities Authority
Revenue Bonds, Series Five-K
(Minneapolis College of Art and Design)

Dated Date: August 15, 2001 **Interest Due: May 1 and November 1, commencing November 1, 2001**

MATURITY SCHEDULE

Maturity (May 1)	Amount	Interest Rate	Yield	Maturity (May 1)	Amount	Interest Rate	Yield
2002	$25,000	3.500%	3.500%	2005	$25,000	4.125%	4.125%
2003	$25,000	3.750%	3.750%	2006	$25,000	4.250%	4.250%
2004	$25,000	4.000%	4.000%				

$ 400,000 4.750% Term Bonds due May 1, 2008 Yield 4.750%
$ 670,000 5.000% Term Bonds due May 1, 2011 Yield 5.000%
$1,375,000 5.250% Term Bonds due May 1, 2016 Yield 5.375%
$1,785,000 5.375% Term Bonds due May 1, 2021 Yield 5.500%

The Bonds are subject to optional redemption prior to maturity as described herein. (See "THE BONDS – Prior Redemption – Optional Redemption"). The Bonds will also be subject to optional redemption in whole or in part in certain cases of damage to or destruction or condemnation of the Project Facilities and in the event of a Determination of Taxability as described herein and in the Loan Agreement and the Indenture. Bonds maturing on May 1 in the years 2008, 2011, 2016 and May 1, 2021 are subject to mandatory redemption in installments as described herein.

The Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of $5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. See "THE BONDS -- Book Entry Only System" herein. Wells Fargo Bank Minnesota, National Association will act as Trustee.

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority (the "Authority") payable solely from Loan Repayments made by or on behalf of Minneapolis College of Art and Design, Minneapolis, Minnesota ("MCAD"), pursuant to a Loan Agreement between the Authority and MCAD, or out of other amounts pledged pursuant to the Indenture as described herein. The Loan Repayments are a general obligation of MCAD and are secured by a Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents (the "Mortgage") from MCAD to the Authority and assigned to the Trustee (see "RISK FACTORS -- Risk of Insufficient Collateral" herein).

THE BONDS SHALL NOT BE LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA, NOR SHALL THE BONDS CONSTITUTE A DEBT FOR WHICH THE FAITH AND CREDIT OF THE AUTHORITY OR THE STATE OF MINNESOTA, OR THE TAXING POWERS OF THE STATE, ARE PLEDGED. THE AUTHORITY HAS NO TAXING POWERS.

The Bonds are offered when, as and if issued by the Authority and accepted by Dain Rauscher Incorporated (the "Underwriter") subject to the approval of legality by Faegre & Benson LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for MCAD by Moore, Costello & Hart, P.L.L.P., St. Paul and Minneapolis, Minnesota; and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about August 29, 2001.

The Underwriter intends to engage in secondary market trading in the Bonds, subject to applicable securities laws. The Underwriter is not obligated, however, to repurchase any of the Bonds at the request of any holder thereof. For information with respect to the Underwriter, see "UNDERWRITING" herein.

Dain Rauscher Incorporated

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by the Authority, MCAD, or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, MCAD or the Underwriter. The information contained herein, except as it relates to the Authority and DTC, has been obtained from MCAD and is not guaranteed by the Authority as to accuracy or completeness. Except for information concerning the Authority, such information is not to be construed as a representation by the Authority. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of MCAD since the date hereof.

References in this Official Statement to laws, rules, regulations, agreements, and any other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices hereto, they will be furnished on request.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUE AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

The Bonds are exempt from registration with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. Neither these jurisdictions nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Certain of the parties involved in this financing have agreed to indemnify certain other parties for any untrue statement of a material fact contained in this Official Statement or any omission to state a material fact necessary to be stated in this Official Statement in order to make the statements contained herein not misleading.

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OFFICIAL STATEMENT

$4,355,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY REVENUE BONDS, SERIES FIVE-K (MINNEAPOLIS COLLEGE OF ART AND DESIGN)

(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and Minneapolis College of Art and Design ("MCAD"), an institution of higher education located in Minneapolis, Minnesota, in connection with the issuance of the Authority's $4,355,000 Revenue Bonds, Series Five-K (Minneapolis College of Art and Design) (the "Bonds," the "Series Five-K Bonds" or the "Issue").

The Bonds are being issued pursuant to the provisions of Sections 136A.25 through 136A.42, inclusive, Minnesota Statutes, as amended (the "Act"). The Authority was created pursuant to the Act and is authorized to issue its obligations to assist institutions of higher education within the State of Minnesota to finance certain projects.

The Bonds are also issued pursuant to a Trust Indenture (the "Indenture") between the Authority and Wells Fargo Bank Minnesota, National Association, as trustee (the "Trustee").

Pursuant to a Loan Agreement between MCAD and the Authority relating to the Bonds, the proceeds of the Bonds will be loaned to MCAD by the Authority to prepay, satisfy and discharge a portion of the outstanding balance of a conventional bank loan made by Wells Fargo Bank Minnesota, National Association (the "Conventional Loan"). Among other purposes, MCAD incurred the Conventional Loan to provide temporary financing for a Project that consists of: (i) the acquisition and refurbishing of two apartment buildings for student housing (the "Student Apartments"); (ii) the renovation and equipping of the Julia Morrison Memorial Building and the Library; and (iii) the demolition of an existing residence and the construction of a parking lot (the "Parking Lot"). In addition to prepaying the Conventional Loan, a portion of the Bond proceeds will be used to fund the Reserve Account and to pay certain costs of issuing the Bonds. See "PLAN OF FINANCE AND USE OF PROCEEDS," herein, for a more detailed description of the Conventional Loan and the use of Bond proceeds. MCAD will covenant as a general obligation of MCAD to make Loan Repayments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due.

The Bonds are secured by a pledge of the Loan Repayments, which are a general obligation of MCAD. Under the Loan Agreement, MCAD agrees to provide the funds necessary to make timely payment of the Loan Repayments. The Loan Repayments are secured by the Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents (the "Mortgage") granted from MCAD to the Authority with respect to the Student Apartments (the "Mortgaged Property"). The Mortgaged Property does not include the Parking Lot, the Julia Morrison Building or the Library. The Authority will assign the Mortgage to the Trustee as further security for the Bonds. See "RISK FACTORS -- Risk of Insufficient Collateral" and "SUMMARY OF SECURITY FOR THE BONDS" herein.

The Reserve Account will be funded in the amount of the Reserve Requirement from proceeds of the Bonds on the date of issuance. (See "RESERVE ACCOUNT" herein.)

The Bonds shall not be legal or moral obligations of the State of Minnesota nor constitute a debt for which the faith and credit of the Authority or the State of Minnesota or the taxing powers of the State are pledged. The Authority has no taxing powers.

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to such documents. See Appendices IV and V for definitions of certain words and terms used herein and for a description of certain provisions of the documents hereinafter referred to.

RISK FACTORS

No person should purchase Bonds without carefully reviewing the following information which sets forth some, but not all, of the factors which may affect the Owners' receipt of payments of the principal of, premium, if any, and interest on the Bonds.

Risk of Insufficient Collateral

The Bonds are secured solely by (a) a pledge by the Authority to the Trustee of amounts payable by MCAD under the Loan Agreement, (b) amounts in the Reserve Account which will be held by the Trustee and applied to the payment of principal and interest on the Bonds, and (c) a mortgage on and security interest in the Mortgaged Property, which as been assigned to the Trustee. The fair value of the Mortgaged Property is and will be less than the principal amount of the Bonds outstanding for much of the term that Bonds are outstanding. The Bonds are not secured by a mortgage on or security interest in any real property or personal property other than the Mortgaged Property.

Adequacy of Revenues

Payment of principal of and interest on the Bonds is intended to be made from Loan Repayments of MCAD. MCAD's ability to make Loan Repayments will be dependent on its ability to receive sufficient unrestricted revenues, including investment earnings and rental income, in excess of expenditures. MCAD's revenues and expenditures are subject to many conditions and factors, some of which may be beyond the control of MCAD and may change in the future to an extent that cannot be presently determined.

Prior and Future Liens and Mortgages

The Authority's $1,612,000 Revenue Notes, Series Three-Y (the "Series Three-Y Notes") issued on behalf of MCAD, of which $930,568 remains outstanding, are secured by a security interest in ordinary income from certain investments of MCAD. Such ordinary income will not be available to pay the Bonds or other obligations of MCAD to the extent it is required to pay the Series Three-Y Notes should a default occur under the Series Three-Y Notes. The Authority's $225,000 Revenue Notes, Series Three-S (the "Series Three-S Notes"), of which $93,810 remains outstanding, issued on behalf of MCAD to finance the acquisition by MCAD of two four-plex apartment buildings are secured by a first mortgage lien on both four-plex apartment buildings. Such mortgaged property would not be available to pay the Bonds or other obligations of MCAD to the extent the proceeds resulting from the foreclosure of such mortgaged property were needed to pay the Series Three-S Notes. See "SUMMARY OF SECURITY FOR THE BONDS – Liens and Mortgages" herein and "Long-Term Debt" in Appendix I.

Other than the Negative Pledge Property, which consists of the Parking Lot, the covenants in the Loan Agreement do not restrict MCAD's right or ability to mortgage, grant security interests in or otherwise encumber its real or personal property. See "SUMMARY OF SECURITY FOR THE BONDS -- Negative Pledge Property" herein. MCAD is further restricted by the terms of the loan agreement dated as of June 1, 2000 between the Authority and MCAD in connection with the issuance of the Authority's Revenue Bonds, Series Five-D (Minneapolis College of Art and Design) ("Series Five-D Bonds") in which MCAD covenanted, while the Series Five-D Bonds are outstanding, not to encumber the addition to MCAD's Main building that was financed by the Series Five-D Bonds.

Foreclosure of the Mortgage

The Bonds are limited obligations of the Authority and are payable from Loan Repayments by MCAD under the Loan Agreement or from the Reserve Account. If sufficient payments are not forthcoming from these sources to pay debt service on the Bonds, it may be necessary for the Trustee to exercise its remedies under the Indenture and the Mortgage. MCAD has not received an appraisal of the Mortgaged Property, and no assurance can be given as to the amount that could be realized upon sale of the Mortgaged Property at a foreclosure sale. The purchase price of the Mortgaged Property, when acquired by MCAD in May 2001, was less than one-half of the initial principal amount of the Bonds. The value of the Mortgaged Property upon foreclosure of the Mortgage may be affected by a number of factors. Attempts to foreclose under mortgages are sometimes met with litigation and/or bankruptcy proceedings, which proceedings could be protracted and cause delays in realizing on collateral and may otherwise limit the value of the collateral.

Reliance on Tuition and Fees

The adequacy of MCAD's revenues will be largely dependent on the amount of future tuition revenue received by MCAD. Such revenue in turn will depend primarily on the ability of MCAD to charge sufficient rates for tuition and to maintain enrollment levels. Future enrollment levels will depend on the number of students applying to MCAD and accepting offers of admission. A number of factors, including, without limitation, levels of tuition rates and fees, competition from other colleges, the number of students interested in pursuing a degree in the arts, a change in the number of college-age students and changing general economic conditions will influence the number of applicants to MCAD.

Debt Service and Pro Forma Debt Service Coverage

Certain historical operating revenues of MCAD and revenues estimated by MCAD, together with pro forma debt service coverage, are provided in Appendix I under the caption "Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year." The pro forma coverage is merely a mathematical computation as reflected in the applicable table and constitutes no assurance as to the future sufficiency of MCAD's revenues to satisfy MCAD's operations and debt service requirements for the Bonds and other indebtedness of MCAD. The Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year in Appendix I contains revenues that MCAD has estimated will be available from investments, based upon an increased spending rate and the December 2000 value of the pooled assets, and from rental income from the Student Apartments. These estimated amounts may not be available. See "Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year" in Appendix I.

Financial Aid

Approximately 84% of MCAD's students currently receive some form of financial aid covering tuition and fees or living expenses from MCAD and other sources. No assurance can be given that Federal and State financial aid will continue to be funded at current levels or that MCAD will continue to fund student aid at current levels. Curtailment of such aid may cause a decline in enrollment, which may in turn have an adverse effect on MCAD's revenues.

Construction Risks

MCAD acquired the Student Apartments in May 2001 and began refurbishing them in June, 2001. Demolition of the residence located on the portion of MCAD's property on which the Parking Lot will be constructed, along with the landscaping and construction of the Parking Lot, is expected to begin in Fall, 2001. Renovation and equipping of the Julia Morrison Memorial Building and the Library is expected to begin in May, 2002.

MCAD expects that all components of the Project will be completed by September 30, 2002. Estimated Project Costs are shown in "PLAN OF FINANCE AND USE OF PROCEEDS" herein. MCAD does not expect to enter into a construction contract with any single contractor that covers the entire Project. Therefore, there is a risk of the actual cost of the Project increasing above the estimate. Such an increase could affect the ability of MCAD to complete the Project without additional MCAD funds or additional borrowing or could require a change in the scope and extent of the Project. Unforeseen conditions and construction delays, including, but not limited to, work stoppages, shortages of materials or delays in receiving required approvals or permits, could adversely impact MCAD's ability to complete the Project on schedule and result in cost overruns.

Damage or Destruction

Although MCAD will be required to obtain certain insurance with respect to the Project as set forth in the Loan Agreement, there can be no assurance that MCAD will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss will not exceed the coverage of such insurance policies.

Obligation of MCAD

No entity or person other than MCAD is, or shall be, in any way liable or responsible for any payments to be made under the Loan Agreement, the Indenture, the Mortgage or the Bonds or the other obligations of MCAD. Accordingly, for payment of principal, interest, and premium, if any, on the Bonds, holders of the Bonds must look solely to the Loan Repayments, the Reserve Account and other funds, if any, held by the Trustee under the Indenture and proceeds from foreclosing on the Mortgage.

Bankruptcy

The ability of the Trustee to exercise rights under the Loan Agreement, Mortgage and the Indenture may be limited by bankruptcy, insolvency, reorganization or other similar laws or equitable principles related to or affecting the enforcement of creditors' rights generally.

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of MCAD:

(1) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, without being able to obtain corresponding increases in revenues.

(2) Adoption of Federal, State or local legislation or regulations having an adverse effect on the future operating or financial performance of MCAD.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), MCAD will enter into an undertaking (the "Undertaking") with the Trustee for the benefit of beneficial owners of the Bonds to provide certain financial information and operating data relating to MCAD to certain information repositories annually, and to provide notices of the occurrence of any of the material events enumerated in the Rule to such repositories or the Municipal Securities Rulemaking Board and to the Minnesota state information depository, if any. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Agreement to be executed by MCAD and the Trustee at the time the Bonds are delivered, a copy of which is available from MCAD or the Trustee. Appendix III contains a summary of the financial information and operating data to be provided annually, as well as the list of material events. The Continuing Disclosure Agreement may be amended under certain circumstances as permitted by the Rule. Furthermore, MCAD has reserved its right to discontinue providing information required by the Continuing Disclosure Agreement or the Rule, if a final determination is made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful, and to modify the terms of the Continuing Disclosure Agreement if a court of competent jurisdiction or MCAD determines that such modification is required by the Rule. MCAD has never failed to comply with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by MCAD to comply with the Undertaking will not constitute an event of default under the Loan Agreement, the Indenture or the Bonds (although holders may have other remedies at law or in equity). Nevertheless, if such a failure occurred, it would have to be reported by MCAD in accordance with the Rule and would have to be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by MCAD pursuant to the Undertaking, could adversely affect the value and marketability of the Bonds.

THE BONDS

General

The Bonds will be dated August 15, 2001. The Bonds will mature each May 1, commencing May 1, 2002, as set forth on the cover page of this Official Statement. The Bonds are being issued in denominations of $5,000 and integral multiples thereof not exceeding the amount maturing in any maturity, and shall be fully registered as to principal and interest. Interest on the Bonds will be payable on each May 1 and November 1, commencing November 1, 2001.

Book Entry Only System

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book entry system has been obtained from DTC, and neither the Authority nor MCAD takes any responsibility for the accuracy thereof.

DTC, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc.; the American Stock Exchange LLC; and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds within a single maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Prior Redemption

Mandatory Redemption

The Bonds maturing on May 1, in the years 2008, 2011, 2016 and 2021 will be called for redemption prior to their maturity dates on May 1 in the years as set forth below, at the principal amount thereof to be redeemed, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Bond and Interest Sinking Fund Account, in the respective amounts set forth below.

Term Bonds Due May 1, 2008

Year	Amount
2007	$195,000
2008*	$205,000

Term Bonds Due May 1, 2011

Year	Amount
2009	$210,000
2010	$225,000
2011*	$235,000

Term Bonds Due May 1, 2016

Year	Amount
2012	$245,000
2013	$260,000
2014	$275,000
2015	$290,000
2016*	$305,000

Term Bonds Due May 1, 2021

Year	Amount
2017	$325,000
2018	$340,000
2019	$355,000
2020	$375,000
2021*	$390,000

* *Final maturity*

The Bonds maturing in the years 2008, 2011, 2016 and 2021, to be retired pursuant to the mandatory redemption obligations set forth above, may, at the option of MCAD, be reduced by the principal amount of any Bonds of such maturity which at least 45 days prior to such redemption:

(1) have been delivered to the Trustee for cancellation; or
(2) have been purchased or redeemed (other than through operation of the Sinking Fund Subaccount) and canceled by the Trustee and not theretofore applied as a credit against such mandatory redemption obligations.

Optional Redemption

Bonds maturing on or after May 1, 2012 are subject to optional redemption at the request of MCAD on May 1, 2011 and on any day thereafter at par plus accrued interest. Redemption may be in whole or in part in such order of maturity as directed by MCAD and selected by random means within a maturity, in integral multiples of $5,000.

Extraordinary Optional Redemption

The Bonds are also subject to optional redemption at par plus accrued interest in integral multiples of $5,000, in whole or in part, on any date, (i) in certain cases of damage to or destruction or condemnation of the Project Facilities, and (ii) upon a Determination of Taxability as provided in the Loan Agreement (see "Determination of Taxability" herein and "SUMMARY OF DOCUMENTS — The Loan Agreement" in Appendix V).

Partial Redemption

If fewer than all Bonds of a maturity are called for redemption, the Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed.

In the case of Bonds of denominations greater than $5,000, if fewer than all of such Bonds then outstanding are to be called for redemption, then for all purposes in connection with redemption, each $5,000 of principal amount shall be treated as though it was a separate Bond of the denomination of $5,000 bearing the number borne by such fully registered Bond and a subnumber assigned by the Trustee. Interest shall cease to accrue on the portion of the principal amount of such Bond represented by such $5,000 unit or units of principal amount on and after the date fixed for redemption provided that funds sufficient for payment of the redemption price shall have been deposited with the Trustee and available for the redemption of said $5,000 unit or units on the date fixed for redemption, and in such event, such Bond shall not be entitled to the benefit or security of the Indenture or the Loan Agreement to the extent of the portion of its principal amount (and accrued interest to the date fixed for redemption and applicable premium, if any) represented by such $5,000 unit or units of principal amount, nor shall new Bonds be thereafter issued corresponding to said unit or units.

Notice of Redemption

Notice of any redemption shall be mailed to the registered Owners at their addresses shown on the registration books of the Authority and maintained by the Trustee not less than thirty days, and if more than 60 days, then again not less than 30 nor more than 60 days, before the date fixed for such payment. If moneys are available at the office of the Trustee to pay the redemption price on the date of redemption, any Bonds thus called shall not bear interest after the call date and, except for the purpose of payment by application of the funds so deposited, shall no longer be protected by the Indenture.

Determination of Taxability

If a Determination of Taxability is made that the interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of issuance, the Bonds shall bear additional interest equal to two percent (2.00%) per annum above the basic interest rate from the Date Of Taxability effective until the date on which the principal of the Bonds is paid. **If a Determination of Taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the additional interest on the Bonds.** See "TAX EXEMPTION" herein and "DEFINITION OF CERTAIN TERMS" in Appendix IV.

MCAD will have the option to prepay, to the extent that interest on the Bonds becomes subject to federal income taxes, the Loan Repayments, in full or in part on the next date for which due notice can be given or any date thereafter following a Determination of Taxability at a price of par and accrued interest (including additional interest from the Date of Taxability).

Additional Bonds

In addition to the Bonds, the Authority may in its discretion and at the direction of MCAD issue Additional Bonds (i) to provide funds to complete the Project, or (ii) to refund all or any portion of the then outstanding Bonds, or (iii) to provide funds for improvements to or alterations, repairs or replacement of the Project Facilities or (iv) for another project or projects, as defined in and authorized by the Act, provided that no such Additional Bonds will be issued under the Indenture or secured by the Trust Estate on a parity with the Bonds then outstanding unless:

1. The exclusion of interest on the outstanding Bonds from gross income of the holders of the Bonds for purposes of federal income taxation under the Code shall not be jeopardized by the issuance of the Additional Bonds.

2. No Default or Event of Default on the part of MCAD exists under the Loan Agreement.

3. MCAD furnishes evidence satisfactory to the Authority of MCAD's ability to meet debt service on the Additional Bonds and meet the requirements for additional debt under the Loan Agreement, deposits additional monies or investments in the Reserve Account. to the extent required by the Authority grants to the Trustee a security interest in additional collateral to be held by the Trustee under the Indenture, or a first mortgage lien on additional property under the Mortgage or any additional mortgage, and executes such supplements to the Loan Agreement and Indenture as bond counsel shall require.

PLAN OF FINANCE AND USE OF PROCEEDS

Plan of Finance

The financing of the Project and the prepayment of the Conventional Loan has been structured to comply with and to satisfy certain financial covenants and conditions contained within a Loan Agreement, dated as of June 1, 2000, between the Authority and MCAD (the "Five-D Loan Agreement"), pursuant to which the Authority loaned the proceeds of its Revenue Bonds, Series Five-D (Minneapolis College of Art and Design) to MCAD. Under the terms of the Five-D Loan Agreement MCAD may not incur additional Funded Debt (generally, indebtedness for borrowed money having a term of more than two years), unless MCAD satisfies certain financial covenants and conditions, including maintaining debt service coverage ratios. The Five-D Loan Agreement contains two exceptions to that restriction for incurring additional Funded Debt. One exception enables MCAD to incur Funded Debt in an amount not to exceed $7,500,000, so long as MCAD incurred the debt prior to May 31, 2001 and met certain other conditions. A second exception permits MCAD to incur Funded Debt that refinances existing Funded Debt. The Conventional Loan constitutes Funded Debt because the term was for greater than two years, and the Conventional Loan complies with the first exception to the financial covenants because the total principal amount is less than $7,500,000 and it was incurred prior to May 31, 2001. Borrowing the proceeds of the Bonds to prepay the outstanding balance of the Conventional Loan complies with the second exception to the financial covenants because such prepayment constitutes a refinancing of existing Funded Debt.

The Conventional Loan

On May 14, 2001, MCAD borrowed the proceeds of the Conventional Loan from Wells Fargo Bank Minnesota, National Association. The original principal amount of the Conventional Loan was $4,000,000. MCAD incurred the Conventional Loan to provide temporary financing for the Project as described below and for other purposes. Interest on the Conventional Loan is payable on the last day of each month, commencing June 30, 2001, and at an interest rate per annum of 1.0% below the prime rate in effect from time to time. The outstanding principal balance of the Conventional Loan is due and payable on May 15, 2003 and is prepayable at any time without penalty.

The Project

The Project consists of (i) acquiring, refurbishing and equipping of two apartment buildings for student housing (the "Student Apartments"); (ii) demolishing an existing residence and landscaping and constructing a parking lot (the "Parking Lot"); and (iii) renovating, refurbishing, equipping and otherwise improving the Julia Morrison Memorial Building and the Library. Acquisition and construction of the Project began in May, 2001 with completion expected in September, 2002.

MCAD's estimates of the costs for the Project are as follows:

Project Costs	
Refinance and refurbish Student Apartments	$2,700,000
Renovate Julia Morrison Memorial Building and Library	800,000
Demolish residence, landscaping and construction for Parking Lot	300,000
Total Project Costs	$3,800,000

MCAD acquired the Student Apartments on May 15, 2001 and began renovating and refurbishing the Students Apartments in June, 2001. Upon completion, the Student Apartments will have 40 units, including two resident advisor units, with a total occupancy of 89 residents, including three resident advisors. Average rent per tenant will be approximately $300 per month or $2,700 per academic year; resident advisors are not charged rent. The Parking Lot will be adjacent to the Student Apartments but is not part of the Mortgaged Property.

The improvements to the Julia Morrison Memorial Building include installing new windows and improving the stucco exterior of the building. The improvements to the Library include installing new windows.

The architect for the Project is Thorbeck Architects. The architect has over 30 years' experience providing architectural services, primarily in Minnesota. See also "RISK FACTORS -- Construction Risks" herein.

Use of Proceeds

The proceeds of the Bonds, a portion of the unspent proceeds from the Conventional Loan and other available funds of MCAD, if necessary, will be used to (i) prepay, satisfy and discharge the outstanding balance of the Conventional Loan that was incurred to finance, on a temporary basis, the Project, (ii) fund the Reserve Account in the amount of the Reserve Requirement, which initially is $420,944, and (iii) pay certain costs of issuing the Bonds. See “ACCOUNTS – Refinancing Account, Bond and Interest Sinking Fund Account, and Reserve Account.”

ESTIMATED SOURCES AND USES OF FUNDS

Sources	
Bond Proceeds	$4,355,000
Accrued Interest	8,771
Unspent Conventional Loan proceeds	2,000,000
MCAD Funds	56,272
Total Sources	$6,420,043
Uses	
Deposit to Refinancing Account to Prepay Conventional Loan	$4,000,000
Deposit to Construction Account	1,800,000
Deposit to Bond and Interest Sinking Fund Account	8,771
Debt Service Reserve	420,944
Issue Costs (including underwriter discount)	146,145
Original Issue Discount	44,183
Total Uses	$6,420,043

If issuance costs, including the Underwriter's discount, exceed 2% of the proceeds of the Bonds, defined as par less original issue discount, such excess will be paid by MCAD from sources other than Bond proceeds.

Accrued interest received at Bond Closing will be deposited into the Bond and Interest Sinking Fund Account and applied as a credit against the amount to be deposited in the Bond and Interest Sinking Fund Account on or before the next interest payment date.

FUTURE PROJECTS AND FINANCING

MCAD regularly improves and expands its physical plant and may incur indebtedness, including Funded Debt, in compliance with the financial covenants made in the Loan Agreement for these purposes. See "SUMMARY OF SECURITY FOR THE BONDS -- Financial Covenants" herein. MCAD does not anticipate financing any such projects with debt within the next 12 months.

SUMMARY OF SECURITY FOR THE BONDS

General

The Bonds are special obligations of the Authority payable solely from Loan Repayments made by MCAD as required by the Loan Agreement, from monies received pursuant to a foreclosure of the Mortgage or the damage to or condemnation of the Project, or out of other amounts pledged therefor under the Indenture including moneys and investments in the Reserve Account for the Bonds.

The Bonds are secured by a pledge by the Authority to the Trustee of the Loan Repayments that are a general obligation of MCAD. MCAD agrees under the Loan Agreement to make payments directly to the Trustee in such amounts and at such times as to assure that the

Trustee has sufficient funds with which to pay the principal of and interest on the Bonds. MCAD agrees to make such payments out of its operating funds or any other moneys legally available. The Loan Repayments are secured by the Mortgage, which will be assigned to the Trustee as further security for the Bonds. See "RISK FACTORS -- Risk of Insufficient Collateral."

MCAD covenants and agrees under the Loan Agreement to charge tuition fees, other fees, rentals and charges which, together with the general funds of MCAD or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement; to meet current operation and maintenance expenses of the Project Facilities; and to pay all other obligations of MCAD as they become due.

The Bonds shall not be legal or moral obligations of the State of Minnesota, nor shall the Bonds constitute a debt for which the faith and credit of the Authority or the State of Minnesota, or the taxing powers of the State, are pledged. The Authority has no taxing powers.

The Bonds are not secured by the General Bond Reserve of the Authority (see "ACCOUNTS — General Bond Reserve Account").

Negative Pledge Property

MCAD covenants in the Loan Agreement that except for Permitted Encumbrances, it will not mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment of its interest in, or permit the creation of any encumbrance on the Negative Pledge Property, which is the Parking Lot. The Parking Lot may be mortgaged, pledged, assigned or otherwise encumbered if MCAD maintains unrestricted net assets and temporarily restricted net assets of a combined value of $4,250,000. See also "Financial Covenants," subparagraph (b) below.

Liens and Mortgages

Pursuant to the Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents (the "Mortgage"), MCAD will grant to the Authority (i) a first mortgage lien on the real property consisting of the Student Apartments and all related real estate (but not including the Parking Lot), (ii) a security interest in all personal property located in the Student Apartments and on any related real estate, (iii) a security interest in all fixtures in the Student Apartments and on any related real estate, and (iv) an assignment of all leases and rents of the Student Apartments to secure MCAD's obligations to make Loan Repayments (see "RISK FACTORS -- Risk of Insufficient Collateral" and "SUMMARY OF DOCUMENTS -- The Mortgage"). The Authority will, in turn, assign its interest in the Mortgage to the Trustee.

The Bonds are not secured by a mortgage on or security interest in any real or personal property other than the Mortgaged Property. Moreover, as discussed below, MCAD has granted a security interest in certain revenues that may limit the availability of such revenues to pay the Bonds.

The Authority's $1,612,000 Revenue Notes, Series Three-Y (Minneapolis College of Art and Design) (the "Series Three-Y Notes") were issued on behalf of MCAD in 1994 to finance the construction of an addition to the west side of MCAD's Main building to add a floor for studio and other educational purposes. The Series Three-Y Notes are secured by a security interest in ordinary income from MCAD's permanently restricted net assets and unrestricted net assets, including all proceeds thereof (together, "Ordinary Income"). The security interest does not extend to any operating income of MCAD or any gifts, grants, bequests, donations and contributions to MCAD, nor does it extend to the income and gain derived therefrom, which are restricted by the donor or grantor to a particular purpose that is inconsistent with their use for payment of the Series Three-Y Notes. Prior to the occurrence of an event of default under the Series Three-Y Notes, MCAD may use the Ordinary Income for any lawful purpose. If such an event of default should occur under the Series Three-Y Notes, the Ordinary Income would not be available to pay the Bonds or other obligations of MCAD to the extent the Ordinary Income is required to discharge MCAD's obligations with respect to the Series Three-Y Notes. The final maturity of the Series Three-Y Notes is in 2006. Maximum annual debt service on the Series Three-Y Notes is approximately $220,000.

See also "RISK FACTORS – Prior and Future Liens and Mortgages" herein.

Financial Covenants

MCAD covenants in the Loan Agreement that:

a. For at least two of the preceding three complete Fiscal Years for which audited financial statements are available, the Adjusted Increase in Unrestricted Net Assets shall not be less than zero.

b. MCAD shall maintain the cash and investments held as Unrestricted Net Assets and Temporarily Restricted Net Assets having a total fair value of not less than $4,000,000 as of each fiscal year end. Commencing with the Fiscal Year ended May 31, 2001, the Trustee may require that MCAD furnish within 150 days after each fiscal year end financial statements for the preceding year accompanied by the report thereon of MCAD's Independent auditor. MCAD shall restore the fair value of cash and investments held as Unrestricted Net Assets and Temporarily Restricted Net Assets by the next Valuation Date to not less than $4,000,000. Until the Trustee requests the annual financial statements, MCAD shall certify to the Trustee each year that it has cash and investments as required. MCAD agrees not to pledge or otherwise encumber a portion of the Unrestricted Net Assets and Temporarily Restricted Net Assets having a fair value of not less than $4,000,000. If the College elects to encumber the Negative Pledge Property, all references to $4,000,000 in this subsection (b) shall mean $4,250,000 prospectively from the date of such encumbrances and for so long as both such encumbrance exists and any portion of the Series Five-K Bonds are outstanding.

   If, under generally accepted accounting principles applicable to MCAD, the terms Unrestricted Net Assets and Temporarily Restricted Net Assets are not used, then MCAD shall submit to the Trustee and the Authority a certificate of an independent certified accountant certifying the classifications which are substantially similar to those terms.

c. For so long as the Bonds remain outstanding, MCAD will not incur Funded Debt (except (i) Funded Debt which refinances existing Funded Debt and which does not increase the Maximum Annual Debt Service, and (ii) Funded Debt for capital projects for which MCAD has secured funds on hand or written and signed pledges of gifts in an amount equal to 80% of the estimated cost of such project), unless the Debt Service Coverage Ratio for each of the two most recent Fiscal Years for which audited financial statements are available was at least 110%, calculated by dividing the Net Income Available for Debt Service by the Maximum Annual Debt Service of (A) then Outstanding Funded Debt and (B) the Funded Debt proposed to be incurred; provided that if the additional Funded Debt proposed to be incurred is to finance student housing, student dining, student union or other revenue producing facilities, there shall be added to the amount of Net Income Available for Debt Service for each of the two most recent complete Fiscal Years for which audited financial statements are available, for purposes of this paragraph, the estimated amount of Net Income Available for Debt Service to be derived from such facility in the first Fiscal Year following the estimated date of completion of such facility as estimated in a report to MCAD and the Trustee of an Independent Management Consultant to MCAD; and provided further that if the Board of Trustees has increased tuition, student fees or other rates or charges at or after the end of such Fiscal Year, for purposes of this paragraph, there shall be added to Net Income Available for Debt Service for the two most recent complete Fiscal Years for which audited financial statements are available the annual amount of such increase, net of increased operating expenses, so as to reflect contribution to Net Income Available for Debt Service, as estimated in a report to MCAD and the Trustee of an Independent Management Consultant to MCAD.

For purpose of these covenants, the following terms shall have the following meanings:

"Adjusted Increase (Decrease) in Unrestricted Net Assets" means the Increase (Decrease) in Unrestricted Net Assets, as reported in the Statement of Activities section of the audited financial report of MCAD; adjusted to (a) exclude depreciation and amortization expense and include (as a reduction to Unrestricted Net Assets) the cost of current-year equipment acquisitions which have been acquired with unrestricted funds and capitalized; (b) exclude net assets released from restriction representing acquisition of land, buildings and equipment; (c) exclude extraordinary gains or losses; and (d) exclude investment income in excess of the spending rate and realized net gains or losses in excess of the spending rate approved by the Board of Trustees or an authorized committee thereof.

"Debt Service Coverage Ratio" means for any fiscal year, the ratio (expressed as a percentage) determined by dividing Net Income Available for Debt Service for the fiscal year by Maximum Annual Debt Service.

"Funded Debt" means (i) indebtedness for borrowed money having a maturity date of more than two years from the date of incurrence or assumption thereof by MCAD and which, under generally accepted accounting principles, is shown on MCAD's statement of financial position as a liability, including such indebtedness having a maturity date of less than two years if the maturity date may be extended beyond two years at the option of MCAD, and (ii) capital leases with a term of more than two years, including capital leases of less than two years if the lease may be renewed beyond two years at MCAD's option, which, under generally accepted accounting principles, are shown on the statement of financial position as a liability.

"Maximum Annual Debt Service" means the largest total amount of principal of and interest on Funded Debt required to be paid by MCAD in any Fiscal Year during which Bonds will (if paid at their stated maturity dates or redeemed in accordance with a mandatory sinking fund schedule) be outstanding and subject to adjustments in accordance with Section 6.14 of the Loan Agreement.

"Net Income Available for Debt Service" means, for any fiscal year, the Adjusted Increase (Decrease) in Unrestricted Net Assets (plus interest payments on Funded Debt).

For purposes of (a), (b) and (c) above, all capitalized terms used but not otherwise defined in the Loan Agreement shall have the meanings provided for audits of colleges and universities, as applied by Virchow, Krause & Company, LLP in the report of MCAD's financial statements for the Fiscal Year ended May 31, 2000.

ACCOUNTS

Summary

The Indenture will provide for the creation of certain trust accounts into which certain proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement are to be deposited. These accounts include a Construction Account, a Refinancing Account, a Bond and Interest Sinking Fund Account, a Reserve Account, and a Redemption Account. As described in the "ESTIMATED SOURCES AND USES OF FUNDS" herein, the net proceeds of original issue and sale of the Bonds are to be deposited into the Refinancing Account and the Construction Account, except that the Reserve Requirement will be deposited into the Reserve Account, and accrued interest will be deposited into the Bond and Interest Sinking Fund Account. Following Bond Closing, amounts received by the Trustee from MCAD as Loan Repayments are to be deposited into the Bond and Interest Sinking Fund Account, the Reserve Account and the Redemption Account as required by the Loan Agreement and used, to the extent needed, to redeem or pay the principal of and interest on the Bonds.

Construction Account

There shall be deposited initially into the Construction Account all proceeds of the Bonds, less the amount of the Underwriter's discount, the Reserve Requirement, and the amount deposited to the Refinancing Account to prepay a portion of the outstanding balance of the Conventional Loan. MCAD also shall transfer to the Trustee for deposit to the Construction Account all the remaining unspent proceeds of the Construction Loan less that portion required to be deposited to the Refinancing Account as described below. In addition to such proceeds of the Bonds and the Conventional Loan, MCAD has covenanted in the Loan Agreement that it will provide and apply additional funds, if any, which, together with Bond proceeds, will be sufficient to provide for the payment of all Project Costs and all other costs relating to the Project and the issuance of the Bonds. The Authority shall have no obligation to deposit any moneys in said Construction Account or apply moneys to Project Costs except proceeds of the Bonds or funds made available therefor by MCAD.

The moneys in the Construction Account shall be held in trust by the Trustee and applied to the payment and reimbursement of Project Costs and pending such application shall be subject to a lien and charge in favor of the Holders of the Bonds and shall be held for the further security of such Holders until paid out.

Payments may be made from the Construction Account for costs of improvement, acquisition, construction and equipping of the Project ("Project Costs"), provided, however, that proceeds of the Bonds may not be applied to the costs of issuance thereof (including the underwriter's discount) in an amount in excess of two percent (2%) of the proceeds (par value less original issue discount) of the Bonds.

Project Costs shall be paid only upon written order of the Authorized Institution Representative, provided that interest accruing on the Bonds during the Construction Period and any prepayment of the Conventional Loan may be paid from the Construction Account.

When the Project has been completed, any balance in the Construction Account shall be deposited to the Redemption Account, provided that at the request of MCAD the balance shall be deposited to the Bond and Interest Sinking Fund Account so long as the application of such deposit does not adversely affect the tax-exempt status of the Bonds.

Refinancing Account

Bond proceeds in the amount of $3,800,000 plus unspent Conventional Loan proceeds in the amount of $200,000, together with other available funds of MCAD, if necessary, shall be deposited to the Refinancing Account at Bond Closing to prepay the outstanding balance of the Conventional Loan plus accrued interest and prepayment penalty thereon (if any). All monies in the Refinancing Account shall be used by the Trustee to prepay, satisfy and discharge the Conventional Loan and to terminate all related loan agreements, financing statements and collateral security documents at Bond Closing.

Bond and Interest Sinking Fund Account

Initially there shall be deposited into the Bond and Interest Sinking Fund Account any amount of Bond proceeds representing accrued interest, which is to be used to pay interest on the Bonds. Deposits shall be made to the Bond and Interest Sinking Fund Account from transfers of amounts in other accounts, as permitted by the Indenture, and from Loan Repayments made by MCAD. Deposits into the Bond and Interest Sinking Fund Account shall be made at least five (5) Business Days prior to each interest payment date in amounts equal to interest and, if applicable, principal due on such interest payment date. The moneys and investments in the Bond and Interest Sinking Fund Account will be irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of and interest on the Bonds as and when such principal and interest shall become due and payable and for that purpose only.

Reserve Account

There shall be initially deposited into the Reserve Account from Bond proceeds the Reserve Requirement for the Series Five-K Bonds. The Reserve Account is irrevocably pledged to the payment of principal of and interest on the Series Five-K Bonds, as may be required from time to time. All amounts paid by MCAD as Loan Repayments not deposited or required to be deposited into the Bond and Interest Sinking Fund Account or the Redemption Account will be deposited into the Reserve Account in order to maintain the Reserve Account in an amount not less than the Reserve Requirement.

In the event that a withdrawal of funds from the Reserve Account reduces the balance therein to a sum less than the Reserve Requirement, MCAD shall forthwith restore the deficiency, provided that if such funds are withdrawn in order to make any rebate payment required to be made by the Authority under the Loan Agreement, the Authority shall restore such deficiency or shall reimburse MCAD for amounts so withdrawn. Investments in the Reserve Account shall be valued at market value. Investments in the Reserve Account shall be valued by the Trustee not less frequently than as of the first day of the calendar month next preceding November 1, 2001 and semiannually thereafter. If upon any valuation date, the amount on deposit in the Reserve Account (exclusive of accrued but unrealized interest on moneys or investments therein) is more than the amount of the Reserve Requirement, or more than the amount (if less than the Reserve Requirement) allowed for a reasonably required reserve fund under the Arbitrage Regulations, the Trustee shall forthwith transfer the excess to the Bond and Interest Sinking Fund Account. If on any valuation date the amount on deposit in the Reserve Account is less than the amount of the Reserve Requirement, then (unless the value of the amount on deposit exceeds the amount allowed for a reasonably required reserve fund under the Arbitrage Regulations) such deficiency shall be restored to an amount equal to the amount of the Reserve Requirement within not less than 30 days.

Interest and income in the Reserve Account shall be transferred to the Bond and Interest Sinking Fund Account, to the extent the amount on deposit in the Bond and Interest Sinking

Fund Account is less than the amount permitted for a bona fide debt service fund under the Arbitrage Regulations, and any excess interest and income to the Redemption Account. When funds on deposit in the Reserve Account, together with available funds in any other Account, shall be sufficient to pay the principal of and interest on all outstanding Bonds, when due, such funds shall be transferred, as appropriate, into the Bond and Interest Sinking Fund Account or the Redemption Account; provided that the Trustee is authorized, in its discretion, to use funds and investments in the Reserve Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if MCAD or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

Redemption Account

There shall be deposited to the Redemption Account all other amounts required to be deposited therein pursuant to any provision of the Loan Agreement or the Indenture.

Any amounts received that are not otherwise committed will be paid into the Redemption Account. Funds in this Account will be available to maintain required balances in other accounts and to purchase or redeem Bonds. No specific amounts are required. Notwithstanding the foregoing, the Trustee, in its discretion, is authorized to use funds and investments in the Redemption Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if MCAD or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

General Bond Reserve Account

Pursuant to its General Bond Resolution adopted October 31, 1972, the Authority has established and maintains a General Bond Reserve Account. In general, the General Bond Reserve Account secures certain revenue bonds of the Authority for which a deposit is made into the General Bond Reserve Account in compliance with the General Bond Resolution. In connection with the Bonds, the Authority will not require that MCAD deposit funds into the General Bond Reserve Account. **The Bonds will not be secured by the General Bond Reserve Account, and Bondholders will have no right to require the Authority to apply moneys or investments in the General Bond Reserve Account to the payment of the Bonds or interest thereon.**

Authorized Investments

Moneys on deposit to the credit of the Construction Account, Bond and Interest Sinking Fund Account, Reserve Account, and the Redemption Account will be invested by the Trustee only in investments as authorized by law from time to time which currently and generally are as follows: Direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states and local governments and state housing finance agencies, rated at least "AA" or "Aa" (if state obligations) or "AAA" or "Aaa" (if political subdivisions); revenue bond obligations of states and local governments insured by municipal bond insurance and rated at least "AAA" or "Aaa"; mutual funds or unit trusts which invest solely in the foregoing obligations, including funds managed by the Trustee; time deposits and other accounts fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least "A"; guaranteed investment contracts acceptable to the Trustee, issued or guaranteed by appropriate banks or insurance companies, which contracts rank on a parity with the senior unsecured debt of the issuer or guarantor and which are rated at least in the highest two rating categories of a nationally recognized rating agency; certain types of repurchase agreements;

and certain commercial paper maturing in 270 days or less. Section 5.04 of the Indenture sets forth further restrictions as to type and maturity of investments.

THE AUTHORITY

The Minnesota Higher Education Facilities Authority was created by Chapter 868, Laws of Minnesota, 1971 (Sections 136A.25 through 136A.42, Minnesota Statutes), for the purpose of assisting institutions of higher education within the State in the construction and financing of projects. The Authority consists of eight members appointed by the Governor with the advice and consent of the Senate. 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.

Marianne T. Remedios has been the Executive Director of the Authority since May 1, 2000. Ms. Remedios was the partner in charge of bond counsel services to the Authority at Faegre & Benson LLP, Minneapolis, Minnesota from 1991 to 2000. She was an associate and partner at Faegre & Benson LLP for almost 20 years.

Elaine J. Yungerberg has been Assistant Executive Director of the Authority since 1993.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed $650 million. The Authority has had 125 issues (including refunded and retired issues) totaling $818,263,307, of which $464,928,893 is outstanding as of August 1, 2001. 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.

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. Sectarian institutions are not eligible for assistance; however, the fact that an institution is sponsored by a religious denomination does not of itself make the institution sectarian. Application to the Authority is voluntary.

The scope of projects for which the Authority may issue bonds is broad, 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, or conducting of research, in the operation of an institution of higher education.

While the Authority retains broad powers to oversee planning and construction, the Authority's current policy is to permit the institution almost complete discretion with respect to these matters.

The Authority is also authorized to issue revenue bonds for the purpose of refunding bonds of the Authority then outstanding, including payment of any redemption premium thereon and any interest accrued or to accrue to the earliest or any subsequent date of redemption.

The operations of the Authority are financed solely from fees paid by the participating institutions; it has no taxing power.

Bond issuance costs, including fees of bond counsel, the financial advisor and the trustee, are paid by the participating institution.

FINANCIAL ADVISOR

The Authority has retained Springsted Incorporated, Advisors to the Public Sector, of St. Paul, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Bonds. In preparing the Official Statement, the Financial Advisor has relied upon MCAD officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the Authority to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

UNDERWRITING

The Bonds are being purchased by Dain Rauscher Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $4,260,735.00 (representing the aggregate principal amount of the Bonds less an underwriter's discount of $50,082.50 and original issue discount of $44,182.50) plus accrued interest with respect to the Bonds.

The Underwriter intends to offer the Bonds to the public initially at the offering price set forth on the front cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices.

MCAD has agreed in the Bond Purchase Agreement to indemnify the Underwriter and the Authority against certain civil liabilities, including certain potential liabilities under federal securities laws.

RATING

As noted on the cover page hereof, Moody's Investors Service, Inc. ("Moody's") has assigned a long-term rating of "Baa2" to the Bonds. The rating reflects only the view of such rating agency. Further information concerning the rating is available from Moody's. There is no assurance that the rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

The Authority and MCAD are unaware of any pending litigation or written threats of litigation that would affect the validity of the Bonds or materially affect the ability of MCAD to pay the principal of or interest on the Bonds as the same become due.

LEGALITY

The Bonds will be subject to the unqualified approving opinion as to validity and tax exemption by Faegre & Benson LLP, of Minneapolis, Minnesota, as Bond Counsel. A legal opinion in substantially the form set out in Appendix II herein will be delivered at Bond Closing.

Certain legal matters will be passed upon for MCAD by Moore, Costello & Hart, P.L.L.P., of St. Paul and Minneapolis, Minnesota; and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota.

Although it is serving in the capacity of Bond Counsel in connection with the issuance and sale of the Bonds, Faegre & Benson LLP previously has represented the Underwriter as underwriter's counsel in connection with other matters, as well as MCAD as its corporate counsel. In the future Faegre & Benson LLP may perform services for the Authority, the Underwriter, other underwriters, or other colleges and universities.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income under Section 103 of the Code. These requirements include, but are not limited to, (1) provisions relating to the expenditure of Bond proceeds, (2) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Bonds and other amounts, (3) provisions which require that certain investment earnings be rebated periodically to the Federal government and (4) provisions relating to the ownership and operation of the facilities financed or refinanced by the Bonds. Noncompliance with such requirements may cause interest on the Bonds to become includable in gross income for purposes of Federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained.

The Loan Agreement and the Indenture contain provisions (the "Tax Covenants"), including covenants of the Authority and MCAD, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph. If a Determination of Taxability occurs, however, whether or not as a result of violation of any of the Tax Covenants, the outstanding Bonds are subject to optional redemption without premium, and the Bonds shall bear additional interest at a rate of two percent (2%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. (See "THE LOAN AGREEMENT — Determination of Taxability" in Appendix IV). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

Under present provisions of the Code, interest on the Bonds is exempt from federal income taxes, including the alternative minimum tax imposed with respect to individuals and corporations, except that interest on the Bonds will be included in the computation of "adjusted current earnings", which may be an item of tax preference includable in alternative minimum taxable income used in calculating the alternative minimum tax that may be imposed with respect to corporations.

The Code imposes a branch profits tax equal to 30% of the "dividend equivalent amount" which is measured by "earnings and profits" effectively connected to the United States, net of certain adjustments. Included in the earnings and profits of a United States branch of a foreign corporation is income that would be effectively connected with a United States trade or business if such income were taxable, such as the interest on the Bonds.

In addition, interest on the Bonds is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of a property, casualty or other insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15% of the interest on the Bonds that is received or accrued during the taxable year. In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than 25% of its gross receipts is passive investment income.

The Code further provides that interest on the Bonds is includable in the calculation of modified adjusted gross income in determining whether Social Security or railroad retirement payments are to be included in taxable income of individuals.

Bondholders should consult their tax advisors with respect to collateral consequences arising from the receipt of interest on the Bonds, including without limitation the calculations of alternative minimum tax, or foreign branch profits tax liability, or the inclusion of social security or other retirement payments in taxable income.

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Faegre & Benson LLP, Bond Counsel, under present laws and rulings: interest on the Bonds is not includable in gross income for federal income tax purposes or in the taxable income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is not treated as a preference item in determining federal alternative minimum taxable income of individuals and corporations or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. However, the interest is includable in "adjusted current earnings" for purposes of computing the federal alternative minimum taxable income of corporations and is subject to the Minnesota franchise tax imposed on corporations, including financial institutions, measured by taxable income and the alternative minimum tax base.

The dollar amount of the initial offering price to the public of the Bonds maturing in the years 2016 and 2021 (the "Discount Bonds") is less than the principal amount of Series Five-K Bonds of such maturity. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that it is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond.

It is possible under the applicable provisions governing state and local income taxation in states other than Minnesota that interest on Discount Bonds may be taxable in the year of accrual, and may be deemed to accrue earlier than under federal law.

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds will not be "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986 relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

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MINNEAPOLIS COLLEGE OF ART AND DESIGN

Founded in 1886, Minneapolis College of Art and Design (MCAD) is an independent, accredited institution offering a four-year curriculum integrating the Liberal Arts into 14 professional Bachelor of Fine Arts degree majors in Fine Arts, Media Arts and Design; a four-year Bachelor of Science degree program in Visualization; a two-year Master of Fine Arts degree program in Visual Studies; and a one-year Post Baccalaureate certificate program. MCAD also offers educational opportunities to the general public through its Continuing Studies, distance learning and exhibition programs. From 1886 until 1988, MCAD was operated as part of the Minneapolis Society of Fine Arts (the "Society"). As part of a reorganization of the Society in 1988, MCAD became a separate nonprofit corporation with no affiliation to the Society.

MCAD is dedicated to educating people as professional artists and designers who will become visionary leaders. With a curriculum that is based on the belief that in order to become a professional artist, designer, or visualizer, one must study theory, skill, form and content, all MCAD programs center on the development of studio and professional skills encouraging students to think conceptually, formulate creative solutions and to make art. All MCAD programs challenge students to progress to the highest levels of artistic expression and intellectual investigation.

MCAD's campus is adjacent to the Minneapolis Institute of Arts and the Children's Theatre Company (neither of which is affiliated with MCAD) in a residential neighborhood approximately two miles south of downtown Minneapolis.

MCAD is an equal opportunity educator and employer, is accredited by the North Central Association of Colleges and Schools, National Association of Schools of Art and Design, and is a member of the Minnesota Private College Council and the Association of Independent Colleges of Art and Design.

Governance

MCAD is governed by a Board of Trustees that currently numbers 15 elected trustees, two ex officio trustees, and four life trustees. The board elects its own members other than the ex officio and the life trustees, and each elected trustee serves a three-year term. Elected trustees who have served three consecutive terms are not eligible for re-election until one year has elapsed after the end of their third term. MCAD's president and the president of the alumni association serve as ex officio trustees. Life Trusteeship acknowledges dedication and commitment to MCAD over an extended number of years.

Following is a list of the members of the MCAD Board of Trustees and their business or professional affiliation as of July 1, 2001.

Administration

The principal officers of MCAD are as follows:

President

John Slorp became President of MCAD on August 1, 1990. He has an MFA (1965) and a BFA (1963) from the California College of Arts and Crafts. Mr. Slorp has indicated his intention to retire from his position as MCAD's president effective as of May 2002. MCAD began a search for a new president in early 2001.

Vice-President of Human Resources and Administration

Pamela Newsome-Prochniak became MCAD's Vice-President of Human Resources and Administration on January 1, 1992. She has been with MCAD since January 9, 1989. She holds a BA degree from the University of Minnesota (1975) and a Master of Industrial Relations from the University of Minnesota Industrial Relations Program (1985).

Treasurer and Chief Financial Officer

James Hoseth became MCAD's Treasurer and Chief Financial Officer on June 1, 1993. He was previously MCAD's Director of Finance and has been with MCAD since May 16, 1990. He received his BA degree from Augsburg College (1969) and has an MBA from the University of Minnesota (1988). He is a certified public accountant in the state of Minnesota.

Provost and Vice-President of Academic Affairs

Andrea Nasset was appointed Provost and Vice president of Academic Affairs on January 1, 2001, after having served as MCAD's Vice President and Dean of Academic Affairs since May 29, 1995. Ms. Nasset passed away on July 21, 2001. She had been with MCAD since July 1989. The two Academic Deans (see their biographies below) who reported to the Provost will report directly to the President.

MCAD has two Deans as follows:

Dean of Studio Programs. Tom DeBiaso became the Dean of Studio Programs in August 1999. He was previously the Chair of MCAD's Media Arts Division. He has been with MCAD as a faculty member since 1973. He has a BA degree from St. Cloud State University in Studio Arts and an MA from St. Cloud State University in Film and Painting (1970).

Dean of Liberal Studies. Mary McDunn became the Dean of Liberal Studies in August 1999. She was previously the Chair of the Liberal Arts Division. She has been with MCAD as a faculty member since 1990. She has a BS degree from the College of St. Scholastica in Writing and Education (1974) and an MA from the University of Wisconsin in Studio Arts (1989).

Facilities

MCAD's physical plant consists of buildings and grounds in Minneapolis, providing over 200,000 square feet of academic and residential space on approximately three acres. Of that space, approximately 40,000 square feet is leased from the Minneapolis Society of Fine Arts for $1 per year into perpetuity; the Julia Morrison Memorial Building and the Library are situated on this space. The campus consists of two academic buildings which provide classroom, office, studio and library facilities; ten residential buildings with a current capacity of 265 students, and a single family dwelling used to house visiting artists. As of May 31, 2000, the book value of all owned property and equipment, net of depreciation, was $4,186,690; buildings and contents have an insured value of $41,500,000. The campus buildings house graduate, undergraduate, post-baccalaureate and continuing education programs.

Library

MCAD's Library provides written and visual resources chiefly for MCAD's students and faculty, but is a resource for MCAD alumni and the public as well. Library services include open-shelf access to approximately 60,000 book volumes and some 200 periodicals and serials. Online and print indexes provide access to the periodical collection. Other materials include videotapes, CD-ROMS, and CD's as well as slide collection of 140,000 images. The Library is a participant in Online Computer Library Center, a worldwide bibliographic database and is also a member of the MINITEX Library Information Network, which provides, among other services, interlibrary loan with the University of Minnesota and other libraries nationwide.

Academic Information

MCAD follows an academic calendar of two four-month semesters during the school year. During each semester, the undergraduate student's normal load is five 3-credit courses for a total of 15 credits per semester.

The Bachelor of Fine Arts degree is awarded in the following majors: Advertising Design, Animation, Cartoon/Comic Art, Drawing, Film/Video, Fine Arts, Furniture Design, Graphic Design, Illustration, Interactive Media, Painting, Photography, Printmaking, and Sculpture.

The Bachelor of Science degree is awarded in Visualization.

The Master of Fine Arts degree is awarded in Visual Studies.

MCAD has a thirty credit Post Baccalaureate Certificate Program for study in any of the majors in its undergraduate program.

Faculty and Staff

MCAD's student-faculty ratio is approximately 11 to 1. MCAD believes each faculty member is entitled to full freedom in research and creative work and in the publication and exhibition of the results.

As of Fall 2000, MCAD employed 29 full-time and 58 part-time faculty. Staff members employed were 75 full-time and 15 part-time. Total faculty and staff numbered 177. Payroll for the Fiscal Year ended May 31, 2000, was $4,773,400 for permanent staff and faculty salaries, $627,000 for temporary semester faculty salaries, and $291,700 for temporary casual labor salaries; for a total of $5,692,100.

The following table lists the average salary of the members of the full-time MCAD faculty for the 1999/2000 academic year:

Position Title	Average Salary
Professor 5 years +	$58,200
Professor, 2-4 years	$56,700
Professor, 1st year at rank	$52,000
Associate Professor	$47,900
Associate Professor, 1st year at rank	$44,200
Assistant Professor	$41,300
Assistant Professor, 1st year at rank	$37,200

The following table lists the degrees and professional designations held by the full-time faculty members for the 1999/2000 academic year:

Degree	Number
Doctorate	5
Master of Fine Arts	17
Masters (Non-MFA)	3
Bachelor	4
TOTAL	29

The MFA degree is the terminal degree for studio faculty.

Freshman Applications, Acceptances and Enrollments

	1996/97	1997/98	1998/99	1999/00	2000/01
Applications	434	525	492	478	487
Accepted	379	411	363	349	351
% Accepted	87%	78%	74%	73%	72%
Fall Enrollment	186	198	165	169	188
% Enrolled of Accepted	49%	48%	45%	48%	54%
Mean ACT Scores	21.7	22.8	22.5	22.5	23

Student Body

The fall term enrollment at MCAD for the academic year 2000/2001 was 634, with a full-time equivalent ("FTE") enrollment of 584 students. Approximately 64% of the 2000/2001 freshman class were from the State of Minnesota.

Enrollments

The following table sets forth the enrollment at MCAD as of the fall term for the five most recent academic years. All figures are headcounts, except FTE Enrollment.

Program	1996/97	1997/98	1998/99	1999/00	2000/01
BFA	541	555	559	570	572
BS	0	5	11	17	27
Total Undergraduate	541	560	570	587	599
MFA	26	38	24	25	25
POSTBAC	0	0	0	6	10
Total Graduate	26	38	24	31	35
Total Enrollment	567	598	594	618	634
FTE Enrollment	504	539	539	563	584

Housing

Students may live either off campus or in one of MCAD's student apartments. As of fall 2000 MCAD had 9 student residences with a capacity of 205 beds with an actual occupancy of 204 beds. Approximately 30% of the degree-seeking student population for the 2000/2001 academic year resided in MCAD campus housing. In the fall of 2001, MCAD will increase its housing capacity by 69 beds with the acquisition and renovation of the Student Apartments, permitting approximately 40% of the degree-seeking student population to reside in MCAD campus housing in the 2001/2002 academic year.

Tuition

MCAD meets the cost of educational programs primarily through tuition and fees. The following table lists the tuition and mandatory fees charged full-time students in MCAD's major programs for the academic years listed.

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Undergraduate (full-time) per academic year	$14,710	$15,730	$16,750	$17,910	$19,060	$20.190
Fees	76	80	284	280	300	324
Total	$14,786	$15,810	$17,034	$18,190	$19,360	$20.514

The Board of Trustees reserves the right to revise charges from time to time. Although the Board of Trustees anticipates that it will be able to raise current tuition and fees without adversely affecting future enrollment, there can be no assurance that it will be able to do so. Future economic and other conditions may affect the ability to increase tuition and fees while sustaining current levels of enrollment.

Pension

Retirement benefits are provided to all faculty and staff who work at least 1,000 hours and have one year of service. Benefits are provided through a 403(b) retirement plan. Employees may elect to have their contributions sent to either TIAA-CREF or Lincoln Financial Group. MCAD contributes 8.5% of each participant's earnings each pay period. Each participant contributes 3.5% of his or her earnings. All pension funds of TIAA-CREF and Lincoln are approved to accept tax-deferred contributions. Employees may elect to transfer funds between TIAA-CREF and Lincoln to the extent allowed by the carriers. In addition, employees may make a change of institutions to which their funds are contributed. Employees may withdraw their retirement funds upon the termination of employment at age 55 or older. The cost of these benefits to MCAD was $234,700 for 1997, $246,000 for 1998, $313,000 for 1999, and $402,000 for 2000.

2000/2001 Comparison of Art Colleges, Schools or Institutes Selected by MCAD (Ranked by Tuition and Fees)

The following table shows tuition and fees charged for the 2000/2001 academic year at certain independent art colleges, art schools and art institutes selected by MCAD. The following list is not comprehensive and the art colleges, art schools and art institutes listed may vary from MCAD and each other by, among other factors, number of students and type of facilities.

College, School, or Institute	Tuition and Fees
Rhode Island School of Design	$21,860
Parsons School of Design (New York)	$21,830
School of the Art Institute of Chicago	$20,220
San Francisco Art Institute	$20,200
Pratt Institute (New York)	$20,084
California Institute of the Arts	$20,080
Maryland Institute, College of Art	$20,080
California College of Arts and Crafts	$19,460
Minneapolis College of Art and Design	**$19,360**
Art Center College of Design (Pasadena)	$18,890
Kansas City Art Institute	$18,218
University of the Arts (Philadelphia)	$17,850
Milwaukee Institute of Art & Design	$17,350
Center for Creative Studies (Detroit)	$16,526
Cleveland Institute of Art	$16,106
Ringling School of Art and Design (FL)	$15,670
Corcoran School of Art (DC)	$15,550
Memphis College of Art	$12,690

Source: "The Annual Survey of Colleges of the College Board, 2000-2001," *copyright © 2000 College Entrance Examination Board, as reported in The Chronicle of Higher Education, October 27, 2000.*

Financial Aid

Approximately 84% of MCAD's students receive some form of financial aid. The following table is a five-year summary of financial aid received from MCAD and non-MCAD sources.

Year ended June 30 (a)	1996	1997	1998	1999	2000
Number of MCAD Students (b)	491	487	496	506	583
MCAD Funds (c)	$631,086	$900,212	$1,046,581	$1,053,592	$1,691,161
Federal Aid Programs (d)	$325,289	$292,606	$324,819	$384,426	$449,696
Minnesota State Grant Program	$334,638	$376,510	$212,754	$308,048	$521,951
Federal Stafford Loan Program (e)	$2,288,175	$2,244,228	$2,017,025	$2,239,983	$2,532,819
Federal Perkins Loan (f)	$190,564	$187,287	$212,800	$181,642	$190,662
Work Study (g)	$144,356	$156,975	$184,875	$197,977	$197,000
Total Financial Aid	$3,914,108	$4,157,818	$3,998,854	$4,365,668	$5,583,289

(a) The federal fiscal year ends on June 30
(b) Total Number of MCAD Students receiving at least one form of financial aid (unduplicated)
(c) Restricted and unrestricted MCAD funds
(d) Reported combined Federal Pell and Supplemental Educational Opportunity Grant
(e) Reported combined Federal Stafford Subsidized and Unsubsidized loans
(f) Includes 25% MCAD share as required by regulation
(g) Includes federal, state and MCAD work-study funds.

Future Fundraising

Since March 2000 C.W. Shaver & Company, Inc. has advised MCAD's capital campaign effort through the training and coordination of MCAD's current Institutional Advancement staff and Board of Trustees. No capital campaign goals have been established at this time. MCAD has not conducted a capital campaign since 1988. Prior to that time, capital campaigns were conducted on behalf of MCAD as part of the Minneapolis Society of Fine Arts.

Endowment Funds

The following table states the net assets for endowment and similar funds, including assets held in trust for the benefit of MCAD, as of May 31, for each of the Fiscal Years 1997 through 2000. See notes 2 and 6 to the financial statements in Appendix VI.

	Net assets as of May 31:			
Net Asset Classification	1997	1998	1999	2000
Permanently Restricted (Endowment)	$11,135,963	$12,093,724	$12,562,993	$12,586,514
Unrestricted (Quasi-Endowment)	17,157,260	21,451,522	22,830,460	25,058,050
Total:	$28,293,223	$33,545,246	$35,393,453	$37,644,564

For the Fiscal Year ended May 31, 2001, MCAD's internal and unaudited financial statements show that Permanently Restricted assets were $13,000,548 and Unrestricted (Quasi-Endowment) assets were $21,891,072.

Although the earnings on and appreciation of the Permanently Restricted Net Assets may be expended by MCAD for a variety of purposes, subject to certain restrictions imposed by law or the donors of such funds, only the assets categorized on MCAD's financial statements as Unrestricted Net Assets could be expended for the general purposes of MCAD.

Investments

MCAD's investments, which are shown in MCAD's financial statements as "pooled assets," had a fair value of $31,641,844 as of May 31, 2000. In addition, MCAD is a beneficiary of trusts that hold assets for the benefit of MCAD with a fair value of $5,720,787 as of May 31, 2000. For the Fiscal Year ended May 31, 2001, MCAD's internal and unaudited financial statements show that MCAD's pooled assets had a fair value of $29,361,773 and that the trusts of which MCAD is a beneficiary hold assets for the benefit of MCAD with a fair value of $5,697,937.

The total return approach is followed for pooled assets investments and the trust investments. Under this approach, the assets are invested for the greatest overall investment return and investment income to be distributed is established as a percentage of a three-year moving average market value of the investments. This percentage for the pooled assets investments is determined annually by the Board of Trustees. For Fiscal Years 1999 and 2000 the percentage was approximately 4.87% and 4.86% respectively, resulting in distributions to MCAD in Fiscal Years 1999 and 2000 of $1,040,000 and $1,170,000, respectively. The percentage was increased to 7.07% for Fiscal Year 2001, resulting in a distribution of $1,735,000 in Fiscal Year 2001. Based on the approved percentage of 6.87% for Fiscal Year 2002, MCAD expects to receive a distribution of $2,047,000 in such Fiscal Year.

For Fiscal Year 2000, the total return on the above investments was 11.16%, or $4,044,371, net of trustee funds paid for the administration of investments totaling $199,707.

Gifts and Grants

Gifts and grants revenues received by net asset classification for Fiscal Years 1996, 1997, 1998, 1999 and 2000, as reported in the annual financial statements of MCAD, are as follows:

Year Ended May 31	Unrestricted	Temporarily Restricted	Permanently Restricted
2000	$ 463,893	$438,455	$ 43,661
1999	$ 443,674	$197,622	$264,027
1998	$1,249,286	$365,578	$283,737
1997	$ 513,549	$426,891	$ 92,676
1996	$ 726,123	$213,603	$ 28,297

Financial Statements

MCAD's fiscal year ends May 31 of each year. Financial records have historically been maintained on the fund accounting system and financial statements are prepared on the accrual basis of accounting. Appendix VI sets forth the financial statements of MCAD for the fiscal year ended May 31, 2000, audited by Virchow, Krause & Company, LLP, Minneapolis, Minnesota, with comparable statements for fiscal year ended 1999. The firm has not participated in the preparation of this Official Statement and expresses no opinion on its contents.

Summaries of Unrestricted Revenue and Expense

The table on the following page sets forth MCAD's statements of unrestricted activities for the Fiscal Years ended May 31, 1996 through 2000. This table should be read in conjunction with the financial statements found in Appendix VI.

MINNEAPOLIS COLLEGE OF ART AND DESIGN
Statement of Unrestricted Activities

For the years ended May 31,

	1996	1997	1998	1999	2000
REVENUES, GAINS AND OTHER SUPPORT					
Tuition & Fees	$6,699,388	$7,489,000	$8,179,108	$8,950,501	$10,081,966
Less: Scholarships and grants	(1,299,684)	(1,403,030)	(1,721,243)	(1,711,615)	(1,794,237)
Net tuition and fees	5,399,704	6,085,970	6,457,865	7,238,886	8,287,729
Federal government grants	116,316	113,758	150,638	119,697	166,136
State government grants	378,699	22,802	20,126	35,733	42,200
Private gifts and grants	231,108	376,989	1,078,522	288,244	255,557
Endowment income -- spending rate	492,467	729,200	758,378	835,952	936,088
Trust income	120,081	126,502	136,556	150,309	207,403
Investment income	50,383	40,122	91,248	81,353	99,969
Gains on investments	1,294,914	2,306,114	3,069,130	1,074,727	2,117,873
Other sources	120,364	118,213	123,876	121,913	146,809
Sales and services of auxiliary enterprises	1,181,780	1,000,806	1,079,431	1,145,932	1,168,533
	9,385,816	10,920,476	12,965,770	11,092,746	13,428,297
Net assets released from restrictions	7,255,579	1,479,028	1,493,132	919,820	1,358,209
Total Revenues, Gains and Other Support	16,641,395	12,399,504	14,458,902	12,012,566	14,786,506
EXPENSES AND LOSSES					
Program expenses					
Instruction	3,849,361	4,351,808	4,787,356	4,997,246	5,579,307
Public service	156,041	161,691	164,273	171,653	204,412
Academic support	926,955	930,038	1,094,217	1,191,816	1,212,724
Student services	838,752	1,195,017	1,260,436	1,284,995	1,623,531
Auxiliary enterprises	925,056	1,272,881	1,272,283	1,291,387	1,430,240
Support expenses					
General administration	1,238,134	1,406,016	1,491,134	1,603,584	1,878,406
Allocable expenses					
Operation and maintenance	1,148,746	1,167,489	1,033,280	1,099,470	1,245,314
Depreciation	429,040	346,592	345,201	328,289	328,101
Interest and amortization	157,099	148,048	132,693	115,873	98,188
Less: Allocated expenses		(1,662,129)	(1,511,174)	(1,543,632)	(1,671,603)
Total Expenses and Losses	9,669,184	9,317,451	10,069,699	10,540,681	11,928,620
Net Increase (Decrease) in Unrestricted Net Assets	6,972,211	3,082,053	4,389,203	1,471,885	2,857,886
NET ASSETS -- Beginning of Year	8,307,213	15,279,424	18,361,477	22,750,680	24,222,565
NET ASSETS -- END OF YEAR	**$15,279,424**	**$18,361,477**	**$22,750,680**	**$24,222,565**	**$27,080,451**

Source: Audited financial statements of the College for fiscal years ended May 31, 1996 - 2000.

Long-Term Debt

MCAD has the following long-term debt outstanding as of August 1, 2001:

(a) $225,000 Minnesota Higher Education Facilities Authority Revenue Notes, Series Three-S (Minneapolis College of Art and Design), dated July 1, 1993, interest rate of 6.18%, principal and interest payments of $13,415 due semiannually each January 1 and July 1 through July 1, 2005. $93,810 in principal remains outstanding. The notes are a general obligation of MCAD, secured by a mortgage on the apartment buildings acquired with the note proceeds.

(b) $1,612,000 Minnesota Higher Education Facilities Authority Revenue Notes, Series Three-Y (Minneapolis College of Art and Design), dated June 1, 1994, interest rate of 6.33%, principal and interest payments of $110,011 due semiannually each December 1 and June 1 through June 1, 2006. $930,568 remains outstanding. The notes are a general obligation of MCAD, secured by a security interest in certain income from Permanently Restricted Net Assets and Unrestricted Net Assets, including proceeds.

(c) $7,920,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-D (Minneapolis College of Art and Design), dated June 15, 2000, interest rates of 5.25% - 6.75%, principal payable each May 1 beginning 2002 through 2026. $7,920,000 remains outstanding. The bonds are a general obligation of MCAD, secured by a debt service reserve fund.

(d) $4,000,000 Wells Fargo Bank Minnesota, National Association, term loan, dated May 14, 2001, interest rate of 1.0% below the Prime Rate, payable May 15, 2003. $4,000,000 remains outstanding. The term loan was incurred to provide temporary financing for the Project and will be repaid with proceeds from the Bonds.

Short-Term Debt

MCAD maintains an unsecured line of credit with a bank under which MCAD may borrow up to $1,000,000 with interest payable at a variable rate of prime plus 1/2%. As of the date hereof, MCAD has no borrowing under this line of credit. The line of credit expires on December 31, 2001. MCAD expects to renew the line of credit annually.

Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year

The following table shows information related to the pro forma debt service coverage for existing Funded Debt of MCAD, excluding the Conventional Loan, combined with the debt service on the Bonds for each Fiscal Year ending May 31 (FY) shown. The following additional information should be reviewed in connection with the table.

Column 3 of the table shows the estimated earnings on the Reserve Account for the Bonds. MCAD expects to use all Reserve Account earnings to pay interest on the Bonds. Therefore, those estimated earnings are subtracted from Actual Debt Service on the Bonds for purposes of calculating the Combined Long Term Estimated Debt Service shown in Column 5 of the table.

Column 6 shows the pro forma amount available for debt service for FY 2002 and was calculated as shown in footnote (d) to the table. FY 2000 Net Income Available for Debt Service in the amount of $387,272 is based on the audited financial statements of MCAD for FY 2000 and is consistent with the definition of Net Income Available for Debt Service contained in the financial covenants in the Loan Agreement regarding incurrence of Funded Debt by MCAD. The calculation of the pro forma amount available for debt service shown for FY 2002 includes

FY 2000 Net Income Available for Debt Service, plus MCAD's estimates of additional income expected to be received from pooled assets and rental income, net of estimated expenses, from the Student Apartments in Fiscal Year 2002.

The pro forma amount available for debt service of $1,401,672 shown for FY 2002 was calculated by adding $1,014,400 to FY 2000 Net Income Available for Debt Service. MCAD estimates the additional $1,014,400 will be available from the following sources:

Pooled Assets

MCAD expects that $877,000 of additional income will be available in FY 2002 from its pooled assets (compared to FY 2000). MCAD expects that its distribution in FY 2002 will exceed the distribution made in FY 2000 by $279,000 because of improved average market performance of its pooled assets during the twelve quarters ending December 31, 2000. MCAD expects to receive $598,000 of additional income in FY 2002 from its pooled assets, based on a Board-approved increase in the percentage used to determine income to be distributed from MCAD's pooled assets for FY 2002. See "Investments" in Appendix I of this Official Statement.

Net Rent Income

MCAD estimates that rental of the Student Apartments will generate additional rent income, net of estimated operating expenses, which may be applied to debt service on the Bonds in the amount of $137,400 in FY 2002.

There can be no assurance that the additional amounts estimated by MCAD and included in the pro forma amount available for debt service for Fiscal Year 2002 will be available from net rent income during Fiscal Year 2002 or any subsequent Fiscal Year. In addition, with regard to pooled assets, there can be no assurance that adverse changes in market value of the pooled assets investments will not reduce revenues available to MCAD in Fiscal Year 2002 or subsequent Fiscal Years.

The table on the following page is intended merely to show the relationship of pro forma amounts available for debt service of MCAD for Fiscal Year 2002 to a statement of combined annual debt service of MCAD after giving effect to the issuance of the Bonds, based on actual debt service requirements for the Bonds and existing MCAD debt (excluding the Conventional Loan). There is no assurance that the future amounts available for debt service, debt service and debt service coverage of MCAD or the respective relationships thereof will correspond to pro forma amount available for debt service, combined debt service, pro forma debt service coverage or the respective relationships thereof shown by or reflected in the table on the following page.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year

Fiscal Year Ending May 31,	Actual Debt Service on the Bonds (a)	Estimated Earnings on Reserve Acct	Existing Long Term Net Debt Service (b)	Combined Long Term Est. Debt Service (c)	Pro Forma Amount Available for Debt Serv (d)	Pro Forma Coverage (Times)(e)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2002	$185,382	$17,364	$868,283	$1,036,301	$1,401,672	1.35
2003	249,663	23,152	865,670	1,092,181	1,401,672	1.28
2004	248,725	23,152	867,569	1,093,142	1,401,672	1.28
2005	247,725	23,152	863,768	1,088,341	1,401,672	1.29
2006	246,694	23,152	851,279	1,074,821	1,401,672	1.30
2007	415,631	23,152	618,042	1,010,521	1,401,672	1.39
2008	416,369	23,152	617,497	1,010,714	1,401,672	1.39
2009	411,631	23,152	621,285	1,009,764	1,401,672	1.39
2010	416,131	23,152	619,105	1,012,084	1,401,672	1.38
2011	414,881	23,152	621,125	1,012,854	1,401,672	1.38
2012	413,131	23,152	620,556	1,010,535	1,401,672	1.39
2013	415,269	23,152	618,993	1,011,110	1,401,672	1.39
2014	416,619	23,152	616,437	1,009,904	1,401,672	1.39
2015	417,181	23,152	617,887	1,011,916	1,401,672	1.39
2016	416,956	23,152	618,012	1,011,816	1,401,672	1.39
2017	420,944	23,152	616,812	1,014,604	1,401,672	1.38
2018	418,475	23,152	619,287	1,014,610	1,401,672	1.38
2019	415,200	23,152	620,106	1,012,154	1,401,672	1.38
2020	416,119	23,152	619,268	1,012,235	1,401,672	1.38
2021	410,963	23,152	621,775	1,009,585	1,401,672	1.39

(a) Based on the August 8, 2001 sale of the Bonds.

(b) Excludes Conventional Loan which is being prepaid with Bond proceeds. Net of earnings on invested reserve amounts. Excludes 2022-2026 debt service on outstanding debt that matures beyond the final maturity of the Bonds.

(c) Column 2 plus Column 4 less Column 3.

(d)

Fiscal Year ended May 31, 2000 Increase in Unrestricted Net Assets		$2,857,886
Plus:	Depreciation & amortization	329,299
	Interest expense on Funded Debt	96,990
Less:	Equipment acquired with unrestricted funds	(46,579)
	Net assets released from restrictions	(122,734)
	Investment return in excess of spending rate:	
	Temporarily restricted released from restrictions	(609,717)
	Unrestricted investments	(2,117,873)
Fiscal Year 2000 Net Income Available for Debt Service		$387,272
Plus:	Expected increased income from pooled assets	877,000
Plus:	Estimated increase in Net Rent income (estimate provided by MCAD)	137,400
Fiscal Year 2002 Pro Forma amount available for debt service		$1,401,672

(e) Column (6) divided by Column (5)

PROPOSED FORM OF LEGAL OPINION

FAEGRE & BENSON LLP
2200 NORWEST CENTER, 90 SOUTH SEVENTH STREET
MINNEAPOLIS, MINNESOTA 55402-3901
TELEPHONE 612-336-3000
FACSIMILE 612-336-3026

(Form of Opinion of Bond Counsel)

$4,355,000
Minnesota Higher Education Facilities Authority
Revenue Bonds, Series Five-K
(Minneapolis College of Art and Design)

We have acted as bond counsel in connection with the issuance by the Minnesota Higher Education Facilities Authority (the "Authority") of its fully registered (initially book entry) Revenue Bonds, Series Five-K (Minneapolis College of Art and Design), in the aggregate principal amount of $4,355,000 (the "Bonds"), dated August 15, 2001, in denominations of $5,000 each and integral multiples thereof, maturing on May 1 in the years and amounts and bearing interest at the basic rates per annum as follows:

May 1 of the Year	Amount	Basic Interest Rate
2002	$25,000	3.500%
2003	$25,000	3.750%
2004	$25,000	4.000%
2005	$25,000	4.125%
2006	$25,000	4.250%
2008	$400,000	4.750%
2011	$670,000	5.000%
2016	$1,375,000	5.250%
2021	$1,785,000	5.375%

The Bonds are subject to both mandatory redemption by operation of a sinking fund and optional redemption prior to the stated maturities thereof as provided in the Bonds and in the Indenture referred to below. Interest on the Bonds is payable on each May 1 and November 1, commencing November 1, 2001. In the event of a Determination of Taxability (as defined in the Indenture and the Loan Agreement referred to below), the Bonds are subject to additional interest and optional redemption. Interest is payable by check or draft mailed or sent by wire transfer to the registered owner, and principal is payable at the principal corporate trust office of Wells Fargo Bank Minnesota, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee"). The Bonds are issued for the purpose of funding a loan from the Authority to Minneapolis College of Art and Design, a Minnesota nonprofit corporation and owner/operator of an institution of higher education located in Minneapolis, Minnesota (the "College"), the proceeds of which will be used to prepay, satisfy and discharge certain outstanding indebtedness of the College incurred on a temporary basis to finance the acquisition, construction and equipping of certain educational facilities. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College, the Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents (the "Mortgage"), from the College to the Authority and assigned to the Trustee, and the Trust Indenture (the "Indenture") between the Authority and the Trustee, each dated as of August 1, 2001, one or more opinions of Moore, Costello & Hart, P.L.L.P., as counsel to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officials of the College without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of Moore, Costello & Hart, P.L.L.P. as to the Loan Agreement and the Mortgage having been duly authorized and executed and being binding upon the College and as to the corporate organization, tax-exempt status, good standing and powers of the College, and upon a lender's title insurance policy or a commitment for a lender's title insurance policy as to title to the Land (as defined in the Loan Agreement and the Indenture), and upon owners' and encumbrances reports as to title to or the exclusive right to use the remainder of the Project Site (as defined in the Loan Agreement), without examining the records of the College or original title records or abstracts of title.

We have not been engaged or undertaken to verify the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (except only matters set forth as our opinion in the Official Statement).

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Authority is an agency of the State of Minnesota with authority under Sections 136A.25 to 136A.42, Minnesota Statutes, to issue the Bonds, to loan the proceeds thereof to the College, to execute and deliver the Loan Agreement and the Indenture to secure the Bonds, and to assign the Mortgage to the Trustee.

2. The Loan Agreement and the Indenture are valid and binding instruments of the parties thereto, enforceable in accordance with their terms.

3. The Bonds are secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payment held by the Trustee under the Loan Agreement.

4. Assuming compliance with the covenants in the Loan Agreement and Indenture, the interest on the Bonds (including original issue discount properly allocable to an Owner thereof) is not includable in gross income for purposes of Federal income taxation or in taxable income of individuals, estates and trusts for purposes of Minnesota income taxation under present laws and rulings. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in "adjusted current earnings" for purposes of the computation of "alternative minimum taxable income" of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Bonds are "private activity bonds" within the meaning of Section 141(a) and "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code. Ownership of the Bonds will result in

disallowance of a deduction for a portion of the interest expense of a "financial institution" under Section 265(b) of the Code. Reference is made to the caption "Tax Exemption" in the Official Statement for a description of the effect of certain provisions of the Code relating to, among other things, the branch profits tax imposed on foreign corporations, losses incurred by property and casualty insurance companies, Subchapter C earnings of S corporations, net investment income of foreign corporations, and the taxability of Social Security and railroad retirement benefits.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Indenture, the Mortgage and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in accordance with general principles of law.

Dated at Minneapolis, Minnesota, August 29, 2001.

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INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE

Annual Reporting

The Annual Report Date will be the earlier of (a) thirty days after the Board of Trustees of MCAD approves and accepts the audited financial statements or (b) 270 days after the fiscal year-end, commencing with the fiscal year ended May 31, 2001. The Annual Report will contain:

1. Audited financial statements for the most recent complete fiscal year.

2. The following financial and operating data contained in Appendix I to the Final Official Statement:

   a. Information as of the end of the most recent complete academic or fiscal year, as appropriate, of the matters covered by the Sections entitled:

      - Faculty and Staff
      - Freshman Applications, Acceptances and Enrollments
      - Student Body
      - Enrollments
      - Tuition
      - Financial Aid
      - Pensions
      - Future Fundraising
      - Gifts and Grants

   b. Information as to gifts, bequests and grant support for the most recent complete fiscal year, identifying major source groups.

   c. Information as to any publicly-announced capital campaign, including stated goals and progress toward the goals.

Material Events to be Disclosed

The events enumerated in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, which are to be disclosed, if material, are as follows:

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
(v) Substitution of credit or liquidity providers, or their failure to perform;
(vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
(vii) Modifications to rights of security holders;
(viii) The giving of notice to redeem any Bonds other than for a sinking fund redemption;
(ix) Defeasances;
(x) Release, substitution, or sale of property securing repayment of the securities and;
(xi) Rating changes.

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APPENDIX IV

DEFINITION OF CERTAIN TERMS

Act: Sections 136A.25 to 136A.42, Minnesota Statutes, as amended.

Additional Bonds: Any Additional Bonds issued by the Authority on behalf of the College pursuant to section 2.09 of the Indenture.

Authority: The Minnesota Higher Education Facilities Authority, an agency of the State of Minnesota.

Authorized Authority Representative: The person at the time designated to act on behalf of the Authority by written certificate furnished to the College and the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by its Chair, Secretary or Executive Director or any officer authorized to act on behalf of the foregoing officers. Such certificate may designate an alternate or alternates.

Authorized Institution Representative: The President, the Provost and Vice President of Academic Affairs, or the Treasurer of the College or any other person at the time designated to act on behalf of the College by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person and signed on behalf of the College by the Chair, the Vice-Chair or the Secretary of its Board of Trustees. Such certificate may designate an alternate or alternates.

Authorized Investments: Investments authorized for moneys in the accounts created under the Indenture and described in Section 5.04 thereof.

Board of Trustees: The Board of Trustees of the College, including any committee authorized to act for such board.

Bond and Interest Sinking Fund Account: The account established pursuant to the Indenture into which the Authority and the Trustee shall deposit certain moneys for payment of principal of and interest on the Bonds.

Bond Closing: The original issuance, sale and delivery of the Bonds.

Bonds: Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-K (Minneapolis College of Art and Design).

Bond Resolution: The Series Resolution of the Authority adopted on July 18, 2001, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

Bond Year: (a) The period from the Issue Date to the close of business on May 1, 2002 and (b) each succeeding 12-month period ending at the close of business on May 1 of each year in which the outstanding Series Five-K Bonds, if paid at their stated maturity dates, shall be outstanding.

Building Equipment: Those items of goods, equipment, furnishings, furniture, inventory, machinery or other tangible personal property now or hereafter owned by the College and located on the Project Site and acquired from funds other than the proceeds of the Conventional Loan.

Business Day: Any day other than Saturday, Sunday, a legal holiday in the State of Minnesota, or any other day that banks in Minnesota, or DTC or its successor as depository are not open for business.

Certificate: A certification in writing required or permitted by the provisions of the Loan Agreement or the Indenture to be signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of the Loan Agreement, each Certificate shall include the statements provided for in the Loan Agreement.

College: Minneapolis College of Art and Design of Minnesota, a Minnesota nonprofit corporation as owner and operator of the Institution, its successors and assigns.

Construction Account: The account established under the Indenture for the deposit of certain Bond proceeds, certain Conventional Loan proceeds, and other funds to be used for the payment of Project Costs.

Continuing Disclosure Agreement: The Continuing Disclosure Agreement, dated as of August 1, 2001, between the Trustee and the College.

Conventional Loan: That certain variable rate Promissory Note from the College to Wells Fargo Bank Minnesota, National Association, dated May 14, 2001 and maturing May 15, 2003, in the original total principal amount of Four Million Dollars ($4,000,000), representing Funded Debt, as defined in the Series Five-D Loan Agreement, incurred by the College to temporarily finance the acquisition, construction, improving, equipping and furnishing of student housing and other facilities to be used by the Institution.

Determination of Taxability: A Notice of Deficiency issued by the Internal Revenue Service or a final decision of a court of competent jurisdiction to the effect that the interest payable on the Bonds is includable in gross income for purposes of federal income taxation by reason of the application of the provisions of Section 103 of the Internal Revenue Code, related sections and regulations thereunder, in effect on the date of issuance of the Bonds, as more fully provided in the Loan Agreement. A determination that interest on the Bonds is includable in the computation of any alternative minimum tax is not a Determination of Taxability.

Event of Default: An Event of Default described in the Indenture or the Loan Agreement and summarized in this Official Statement in the sections entitled "THE INDENTURE - Events of Default" and "THE LOAN AGREEMENT - Events of Default."

Financial Journal: <u>Northwestern Financial Review</u>, <u>The Bond Buyer</u>, or any other newspaper or journal devoted to financial news published in the English language in Minneapolis or St. Paul, Minnesota, or in the City of New York, New York.

Fiscal Year: The College's fiscal year, initially the 12-month period commencing on June 1 in each year.

General Bond Resolution: The General Bond Resolution adopted by the Authority on October 31, 1972, and any amendments thereto.

Holder, Bondholder, or Owner: The person in whose name a Bond is registered, except, if any Bond is in book entry form, with respect to any consent or approval, the terms shall mean the beneficial owner of the Bond.

Indenture: The Trust Indenture between the Authority and Wells Fargo Bank Minnesota, National Association, as Trustee, dated as of August 1, 2001, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

Independent: Independent, when used with reference to an attorney, engineer, architect, certified public accountant, consultant, insurance consultant, or other professional person, means a person who (i) is in fact independent, (ii) does not have any material financial interest in the College or the Institution the transaction to which such Certificate or opinion relates (other than the payment to be received for professional services rendered), (iii) is not connected with the Authority or the College or the Institution as an officer, employee or member of the Authority, the College or the Institution or the Board of Trustees of the College and (iv) is satisfactory to the Trustee.

Independent Management Consultant: An Independent certified public accountant, Independent financial consultant or Independent management consultant having a favorable reputation for skill and experience in studying and reporting on operations of private nonprofit institutions of higher education satisfactory to the Authority.

Institution: Minneapolis College of Art and Design, a Minnesota institution of higher education located in Minneapolis, Minnesota and owned and operated by the College.

Internal Revenue Code: The Internal Revenue Code of 1986 and amendments thereto.

Issue: The Bonds.

Issue Date: The date on which the Bonds are delivered to the original purchasers thereof upon original issuance.

Land: The land and interests in land defined in and covered by the Mortgage, as the same may exist from time to time and initially, generally comprised of that portion of the Project Site that constitutes the student apartment buildings, as more specifically described in the Loan Agreement.

Loan Agreement: The Loan Agreement between the Authority and the College dated as of August 1, 2001, as amended or supplemented from time to time.

Loan Repayments: Certain payments required to be made by the College to the Trustee pursuant to the Loan Agreement.

Mortgage: The Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents, dated as of August 1, 2001, from the College to the Authority and as assigned by the Authority to the Trustee, as amended or supplemented from time to time.

Mortgaged Property: The Land, improvements, equipment and all other tangible or intangible property which is subject to the lien of the Mortgage.

Negative Pledge Property: The parking lot constructed with funds from the Construction Account.

Net Proceeds: When used with respect to proceeds of insurance or a condemnation award, moneys received or receivable by the College as owner or lessee and the Trustee as secured party pursuant to the Indenture, less the cost of recovery (including attorneys' fees) of such moneys from the insuring company or the condemning authority plus investment earnings thereon.

Opinion of Counsel: A written opinion of counsel (who need not be Independent Counsel unless so specified) appointed by the College or the Authority and acceptable to the Trustee, and to the extent required by the provisions of the Loan Agreement, each Opinion of Counsel shall include the statements provided for in the Loan Agreement.

Outstanding: When used as of any particular time with reference to Bonds, without regard to capitalization of such term, means (subject to the provisions of the Indenture pertaining to Bonds held by the Authority and the College) all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have been deposited theretofore with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture pertaining to replacement of Bonds.

Permitted Encumbrances: As of any particular time, (i) liens for ad valorem taxes and special assessments not then delinquent, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that an independent engineer certifies will not interfere with or impair the use of or operations being conducted in the Project Facilities, (iii) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to properties similar in character to the Project Facilities (including, with respect to Project Equipment, purchase money security interests and equipment leases), and as do not in the aggregate, in the opinion of independent counsel, materially impair the property affected thereby for the purposes for which it was acquired or is held by the College, (iv) those additional encumbrances set forth in Exhibit C to the Loan Agreement.

Project: To prepay, satisfy and discharge a portion of the outstanding balance of the Conventional Loan, including accrued interest thereon and prepayment penalties (if any), incurred by the College to provide temporary financing for a Project consisting of (a) the acquisition, refurbishing, equipping and furnishing of two apartment buildings and related real estate, landscaping and parking for student housing, (b) the renovation, refurbishing, improvement and equipping of the Julia Morrison Memorial Building and the Library, and (c) the demolition of an existing residence on the College's campus and the construction, installation and landscaping of a parking lot.

Project Buildings means (i) the two apartment buildings, (ii) the Julia Morrison Memorial Building and the Library, and (iii) the Parking Lot, all of which are to be acquired, constructed, improved, renovated and/or equipped with proceeds of the Conventional Loan, including investment earnings.

Project Costs: Costs properly payable from the Construction Account in relation to the Project.

Project Equipment: All fixtures, equipment, and other personal property of a capital nature acquired with proceeds of the Conventional Loan, including investment earnings, and installed and located in or as part of any Project Building.

Project Facilities: The Project Site, the Project Buildings, and the Project Equipment.

Project Site: the land on which any Project Buildings are or will be located or otherwise to be improved as part of the Project, described in Exhibit A to the Loan Agreement.

Redemption Account: The Redemption Account created under the Indenture for deposit of any moneys received which are not otherwise committed. Moneys in the Redemption Account shall be used (i) to create and maintain the required balance in the Bond and Interest Sinking Fund Account, (ii) to create and maintain the required balance in the Reserve Account, and (iii) to redeem or prepay outstanding Bonds or to purchase outstanding Bonds for redemption and cancellation. Moneys in the Redemption Account may be used in the discretion of the Trustee to pay rebate due to the United States under Section 148 of the Internal Revenue Code if the College or the Authority fails to provide for payment of any rebate.

Refinancing Account: The Refinancing Account created under the Indenture, into which at Bond Closing will be placed a portion of the Bond proceeds, a portion of the Conventional Loan proceeds, and, if necessary, available funds of MCAD, sufficient to prepay the outstanding principal balance of the Conventional Loan, plus accrued interest and prepayment penalty (if any).

Regular Record Date: The 15^{th} day (whether or not a Business Day) of the calendar month immediately preceding an Interest Payment Date.

Reserve Account: The Reserve Account established under the Indenture, into which at Bond Closing will be placed Bond proceeds in the amount of the Reserve Requirement. Moneys in the Reserve Account shall be used to pay principal of and interest on the Bonds if moneys in the Bond and Interest Sinking Fund Account or Redemption Account are not sufficient therefor and may be used in the discretion of the Trustee to pay rebate due to the United States under Section 148 of the Internal Revenue Code if the College or the Authority fails to provide for payment of any rebate.

Reserve Requirement: (i) If no Additional Bonds are outstanding, the maximum amount of principal of and interest on the Bonds payable in any remaining Bond Year or (if less) 10% of the proceeds (par value less original issue discount, if any) received from the issuance and sale of the Bonds or (if less) 125% of the average annual debt service of the Bonds or (ii) if Additional Bonds are outstanding, the sum of (A) the amount set forth in subsection (i) plus (B) the maximum amount of principal of and interest on Additional Bonds payable in any remaining Bond Year or (if less) 10% of the proceeds (par value less original issue discount, if any) received from the issuance and sale of the Additional Bonds or (if less) 125% of the average annual debt service of the Additional Bonds.

Series Five-K Bonds: The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-K (Minneapolis College of Art and Design).

Special Record Date: The record date set by the Trustee for the purpose of paying defaulted interest.

Trust Estate: All the rights, interests and security given to the Trustee under the Indenture as security for the Bonds.

Trustee, Registrar, Paying Agent: Wells Fargo Bank Minnesota, National Association.

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SUMMARY OF DOCUMENTS

THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and reference is made to the full text of the Loan Agreement for a complete recital of its terms. Certain words and terms used in this summary are defined in "DEFINITIONS OF CERTAIN TERMS," Appendix IV to this Official Statement.

Construction of Project

The College represents that construction, acquisition and installation of the Project will be substantially completed by no later than September 30, 2002 and all amounts in the Construction Account will be expended by no later than August 1, 2004, subject only to "force majeure," as provided in the Loan Agreement. The College may apply to the Authority at any time to delete from the Project any building, system or equipment proposed to be acquired, constructed or improved as part of the Project, or to add any building, system or equipment to the Project, or both, and upon approval of the Authority, the description of the Project shall accordingly be amended by a supplement to the Loan Agreement executed by the Authority and the College, a copy of which shall be furnished to the Trustee, provided that no such amendment of the description of the Project shall be approved if the Project, as so amended, will not constitute an authorized "project" under the Act or will adversely affect the tax exempt status of interest on the Bonds and an Opinion of Counsel to such effects is furnished. The College agrees that it has previously paid or will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs exceed the proceeds of the Bonds, including investment earnings in the Construction Account.

Loan Repayments

Under the Loan Agreement, the College agrees to make Loan Repayments in amounts and at times sufficient to provide for payment in full of all principal of and interest on the Bonds when due. To provide for such payments the College covenants to pay for the account of the Authority in immediately available funds the following amounts:

(a) at least five (5) business days prior to each May 1 and November 1, commencing November 1, 2001, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest, or as principal and interest, on the Series Five-K Bonds on such interest payment date, provided however, that there shall be credited against such obligations (i) the net amount of funds and investments then on deposit to the credit of the Bond and Interest Sinking Fund Account, and (ii) any credits permitted by Sections 5.02, 5.03 or 5.04 of the Indenture (relating to the transfer to the Bond and Interest Sinking Fund Account of certain investment earnings and certain excess funds); and

(b) on or prior to a date established for the optional redemption or mandatory redemption and prepayment of the Bonds, into the Redemption Account such amount, if any, as shall be necessary and sufficient to provide for the redemption of any Series Five-K Bonds called for redemption from the Redemption Account; and

(c) forthwith into the Bond and Interest Sinking Fund Account or Redemption Account, as appropriate, the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account or the Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal, premium (if any) and interest on the Series Five-K Bonds then due or then to become due (whether at maturity, or by call for redemption, or by acceleration of maturity); and

(d) into the Reserve Account forthwith any amounts then required to be deposited therein by the Indenture; and

(e) into any fund or account designated by the Trustee funds in the amount determined by the Trustee to be necessary to comply with the provisions of Section 6.09(f) of the Loan Agreement and Section 5.05 of the Indenture (relating to arbitrage rebate).

There is reserved to the College the right to prepay all or part of the Loan and to redeem Bonds prior to their maturity in certain events as described under "THE BONDS."

As additional payments the College agrees to pay the annual fee of the Authority, fees and expenses of the Trustee, rebate of certain excess investment earnings to the United States, and certain other expenses.

The obligations of the College to make the payments and to perform and observe the other agreements contained in the Loan Agreement are absolute and unconditional except as otherwise provided in case of force majeure as described in the Loan Agreement, and are secured by the Mortgage.

The College has the option to prepay all or part of the Loan on May 1, 2011 and on any date thereafter. The College also has the option to prepay the Loan, in whole or in part, on any date in the event of damage to or destruction or condemnation of the Project Facilities and in the event of a Determination of Taxability on the next date for which due notice can be given and any date thereafter as more fully provided in Sections 5.08, 5.09 and 6.09 of the Loan Agreement, at a redemption price equal to par plus accrued interest and in such connection to direct the Trustee to redeem outstanding Bonds.

Use of Project Facilities

The College agrees to use the Project Facilities as educational facilities, in compliance with law and ordinance requirements, and not as facilities for sectarian instruction or religious worship, nor primarily in connection with a program of a school or department of divinity for any religious denomination. The College agrees not to permit use of the Project Facilities in such manner or to such an extent as would result in loss of the tax-exemption of interest on the Bonds under the Internal Revenue Code or loss of its status as an exempt organization under Section 501(c)(3) of the Code.

Maintenance of Project Facilities

The College agrees that, so long as there are Bonds outstanding, the College will keep the Project Facilities in good repair and good operating condition at its own cost, making such repairs, modifications and replacements as are necessary so that the Project will remain a "project" under the Act and interest on the Bonds will be exempt from federal income taxation. The College may lease or sublease or enter into agreements in the ordinary course of business for the use of the Project Facilities, so long as (i) the tax-exempt status of the Bonds will not be affected thereby, (ii) such lease, sublease or use agreement shall not be inconsistent with the Loan Agreement, the Mortgage, the Indenture, or the Act, (iii) the College shall remain fully obligated under the Loan Agreement and the Mortgage as if such lease, sublease or use agreement had not been made, and (iv) in the case of any lease to or occupancy by persons who are not students, employees or faculty of the College, an opinion of Bond Counsel is provided to the Trustee to the effect that tax exemption of the interest on the Bonds is not adversely affected.

Operating Expenses and Liens

Except for Permitted Encumbrances, the College will not permit any liens to be established or to remain against the Project Facilities including any mechanics liens for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the College may in good faith contest any liens filed or established against the Project Facilities and may permit the items so contested to remain undischarged and unsatisfied during the period of such contest unless the Authority or Trustee shall notify the College that, in the opinion of independent counsel, by nonpayment of any such items the Project Facilities will be subject to loss or forfeiture, in which event the College shall promptly pay all such items.

Taxes and Other Governmental Charges

The College will pay all taxes, special assessments, license fees and governmental charges of any kind that may at any time be lawfully assessed or levied against, or with respect to the operations of the College, or the Project Facilities or any improvements, equipment or related property installed or brought by the College therein or thereon, or the Bonds, the Loan Agreement, the Mortgage, the Indenture, or the interest of the Authority, the Trustee, or the Bondholders therein.

The College may, at its expense, in good faith contest any such taxes, assessments, license fees and other charges and may permit the taxes, assessments, license fees or other charges so contested to remain unpaid during the period of such contest unless the Authority or the Trustee shall notify the College that, in the opinion of independent counsel, by nonpayment of any such items the Project Facilities or any part thereof, or the revenue therefrom will be subject to loss or forfeiture, in which event such items shall be paid promptly.

Insurance

The College is required to maintain, or cause to be maintained, insurance as follows:

(a) Insurance against loss and/or damage to the Project Facilities and contents, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to $250,000.

(b) Comprehensive general public liability insurance, including umbrella liability insurance, against liability for personal injury in the minimum amount for each occurrence of $5,000,000 and aggregate for each year of $5,000,000, with a deductible amount of not more than $250,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of $250,000.

(c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College.

Upon the written request of the College, the Trustee (i) may permit modifications to such insurance requirements and deductible amounts, including permission for the College to be self-insured in whole or in part for any comprehensive general public liability, upon such terms and conditions as the Trustee may require, and (ii) shall permit modifications to such insurance requirements and deductible amounts, including permission for self-insurance, in accordance with the recommendation of an independent insurance consultant employed by the College and satisfactory to the Trustee.

The College is required to furnish to the Trustee policies or certificates or binders evidencing the required insurance. Each required policy shall contain a provision that the insurer will not cancel or modify the policy without giving written notice to the College and the Trustee at least thirty days before the cancellation or modification becomes effective.

Damage or Destruction

If any part of the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than $1,000,000, the College will promptly repair, rebuild or restore the property with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss exceeds $1,000,000, the College shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

If the Bonds are redeemed, the available Net Proceeds or (if less) the pro rata portion in respect of any Project Building shall be used for redemption or purchase of outstanding Bonds. For purposes of the provision, "pro rata portion" shall mean the following percentages of the principal amount of outstanding Bonds: thirty-one percent (31%) of the principal amount of each of the two student apartment buildings and eighteen percent (18%) of the principal amount of outstanding Bonds in the case of the Julia Morrison Building and the Library.

Condemnation

If at any time before the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), title to any part of the Project Facilities, and site thereof, shall be taken in any proceeding involving the exercise of the right of eminent domain, there shall be no abatement in the Loan Repayments, and to the extent that the Net Proceeds of the award is not greater than $1,000,000, the College will promptly repair, rebuild or restore the property with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss exceeds $1,000,000, the College shall either redeem the Bonds in whole or in part or rebuild, restore or replace such facilities, as more fully provided in the Loan Agreement.

If the Bonds are to be redeemed, the available Net Proceeds (or if less, the pro rata portion) in respect to any Project Building and site thereof which the College elects not to repair, rebuild, or restore shall be used for redemption or purchase of outstanding Bonds. For purposes of this provision, "pro rata portion" shall be defined as set forth above under "Damage or Destruction."

Removal of Project Equipment and Building Equipment

The College may remove or release Project Equipment and Building Equipment from the Project Facilities and from the lien of the Mortgage if no Default exists and upon the following conditions:

(a) the College may substitute furnishings, equipment and related property for any Project Equipment and Building Equipment, provided that such substitution shall not materially impair the character or revenue producing significance of the Project Facilities;

(b) the College may release any equipment from the definition of Project Equipment (with or without the physical removal thereof) without substitution therefor, provided that the College pays a sum equal to the then value of such Project Equipment as determined by an independent engineer selected by the College, to the Trustee for deposit in the Redemption Account; provided that if the depreciated book value of the equipment so released was less than $25,000, such release and such deposit to the Redemption Account may be effected without such determination of value and Certificate by an Independent Engineer upon such showing by the College as may be satisfactory to the Trustee;

(c) the College may remove any Building Equipment without substitution therefor provided that such removal will not materially impair the character or revenue producing significance of the Project Facilities.

In connection with (a), (b), and (c) above, if the depreciated book value of the Project Equipment or Building Equipment to be substituted, removed or released equals or exceeds $25,000, the College will deliver to the Trustee a certificate signed by the Authorized Institution Representative stating that the substitution, removal or release of such equipment will not materially impair the character or revenue producing significance of the Project Facilities.

Indemnification

The College agrees to hold the Authority, its members and employees, harmless against any claim, cause of action, suit or liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project Facilities and the use thereof, including that caused by any negligence of the Authority or anyone acting in its behalf, provided that the indemnity shall be effective only to the extent of any loss that may be sustained by the Authority in excess of the net proceeds received by the Authority from any insurance carried with respect to the loss sustained.

The College agrees to indemnify and hold harmless the Authority against any and all losses, claims, damages or liability to which the Authority may become subject under law, and to reimburse the Authority for any out-of-pocket legal and other expenses (including reasonable counsel fees) incurred by the Authority in connection with investigating any such losses, claims, damages, or liabilities or in connection with defending any actions, insofar as the same relate to information furnished to the Authority by the College in connection with the sale of the Bonds.

College to Maintain its Existence and Accreditation

The College agrees that during the term of the Loan Agreement it will maintain its existence as a nonprofit corporation and maintain the Institution as an institution of higher education under the laws of Minnesota and its accreditation as an institution of higher education by recognized accrediting agencies and that it will not consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or transfer all or substantially all of its assets to another institution except upon the conditions provided in the Loan Agreement. The conditions are the following: (a) if the surviving, resulting or transferee institution, as the case may be, is other than the College, such surviving, resulting or transferee corporation shall assume in writing all of the obligations of the College in the Loan Agreement and the Mortgage, and be either a state university or college or a nonprofit corporation and a nonprofit institution of higher education under the laws of Minnesota, eligible to be a participating nonprofit institution under the Act, and complies and will comply with the provisions of the Loan Agreement against unlawful discrimination and requiring that the institution be nonsectarian; and (b) the College shall furnish to the Trustee an opinion of bond counsel that such consolidation, merger or transfer shall have no effect upon the tax-exempt nature of the interest on the Bonds under the Internal Revenue Code and regulations thereunder.

$150,000,000 Limitation on Outstanding Non-Hospital Bonds

The College has represented that the sum of the principal amount of the Bonds, plus the respective outstanding aggregate principal amounts of all tax-exempt non-hospital bonds issued on behalf of or for the benefit of the College and all organizations under common management or control with the College (other than qualified hospital bonds and tax-exempt bonds issued after August 5, 1997 which proceeds have been or will be applied to capital expenditures incurred after August 5, 1997), within the meaning of Section 145 of the Internal Revenue Code, does not exceed $150,000,000. Under the Loan Agreement, unless the College obtains an opinion of nationally recognized bond counsel that the tax-exempt status of the Bonds will not be affected, in no event will the College affiliate or consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets as an entirety if the effect of any such transaction would adversely affect the tax-exempt status of the Bonds, such as by exceeding limitations on the outstanding aggregate principal amounts of all tax-exempt bonds issued by or on behalf of the College or such other resulting entity, and all organizations under common management or control with the College or such resulting entity within the meaning of Section 145 of the Internal Revenue Code.

Federal Income Tax Status

The College represents that it presently is and agrees that it shall take all appropriate measures to assure that it remains an organization described in Section 501(c)(3) of the Internal Revenue Code, exempt from income taxes under Section 501(a) of such Code.

Institution to be Nonsectarian

The College agrees that the Institution will continue to be nonsectarian; will not require or forbid attendance by students or any other persons at religious worship or acceptance of any religious creed; and will not promulgate the distinctive doctrines, creeds or tenets of any particular religious sect. All courses of study at the Institution, including any religion or theology courses, will be taught according to the academic requirements of the subject matter and professional standards.

Determination of Taxability

In the event a Determination of Taxability is made that interest payable on the Bonds is includable in gross income for purposes of federal income taxation under the provisions of the Internal Revenue Code and regulations thereunder as in effect at the date of issuance of the Bonds, the affected Bonds shall bear additional interest at the rate of two percent (2.00%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. In addition, in the event of such Determination of Taxability, the Bonds shall be subject to optional redemption as a whole or in part on the next date for which due notice can be given or any date thereafter and the redemption price shall be equal to par plus accrued interest (including additional interest from the Date of Taxability). If a Determination of Taxability should occur, any monetary damage or loss resulting from or incident thereto shall be limited to the additional interest, as more fully set forth in the Loan Agreement.

Financial Covenants

The College covenants and agrees, so long as the Bonds shall remain outstanding, to comply with the financial covenants described under the heading "Summary of Security for the Bonds" in this Official Statement. The Loan Agreement includes provisions requiring the College to satisfy a Revenue/Expenditure test, requiring the College to maintain certain cash and investments held as Unrestricted Net Assets and Temporarily Restricted Net Assets having a set minimum value, and governing incurrence of additional debt.

Negative Pledge

The College covenants that it will not mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment of its interest in or permit the creation of any encumbrance on the Negative Pledge Property. The College may lease or sublease or enter into agreements in the ordinary course of business for the use of all or any part of the Negative Pledge Property so long as (i) the tax exempt status of the Bonds is not be affected thereby, (ii) no such lease, sublease or agreement is inconsistent with the provisions of this Loan Agreement, and (iii) the College remains fully obligated under the Loan Agreement as if such lease, sublease or agreement had not been made. Before the College may enter into any such lease, sublease or agreement, the College shall furnish the Authority and the Trustee with an Opinion of Counsel who is bond counsel to the Authority which provides that such lease, sublease or agreement will not adversely affect the tax exempt status of interest on the Bonds. Notwithstanding the foregoing, the College may mortgage, grant a lien upon, pledge, grant a security interest in, make an assignment for security of its interest in and permit the creation of any encumbrance on the Negative Pledge Property (separately and collectively, "encumber" or "encumbrance"), if the College provides to the Authority and the Trustee a Certificate of an Authorized Institution Representative pursuant to the Loan Agreement reflecting the College's election to so encumber the Negative Pledge Property and the College's acknowledgment that the financial covenant of Section 6.14(b) of the Loan Agreement shall be satisfied, prospectively, by substituting $4,250,000 for $4,000,000 in such subsection for so long as both such encumbrance exists and any portion of the Series Five-K Bonds are outstanding.

Other Covenants

The College further agrees to provide financial statements and other information to the Authority, the Trustee and other information repositories, to comply with all applicable laws and regulations against unlawful discrimination, and not to discriminate unlawfully on account of religion, race, color, creed or national origin in the use of the Project Facilities; to provide and file such financing statements and other instruments of further assurance as the Authority or Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds and to comply with the applicable rebate requirements under Section 148 of the Code and regulations thereunder; and to observe all applicable State laws and regulations, including those of the Authority and the Minnesota Higher Education Services Office, subject to the right of contest. The College agrees to indemnify the Authority from losses arising from certain representations made by the College regarding the absence of hazardous waste on the Project Facilities.

The Authority further agrees to comply with the applicable rebate requirements imposed under Section 148 of the Internal Revenue Code with respect (but only with respect) to amounts paid by the College to the Authority as the Authority's annual fee under the Loan Agreement.

Events of Default

Following are Events of Default under Section 7.01 of the Loan Agreement:

(a) If the College shall fail to make any Loan Repayment when due and either (i) the moneys on deposit in the Bond and Interest Sinking Fund Account, Reserve Account, or Redemption Account, as the case may be, on a Bond principal or interest payment date or redemption date are insufficient to pay when due principal, premium, if any, and interest on the Bonds, or (ii) such failure shall continue for 5 Business Days after notice from the Trustee or the Authority to the College that such payment has not been made; or

(b) If the College shall fail to comply with the provisions of Section 6.09(f) of the Loan Agreement (relating to arbitrage calculation and rebate requirements); or

(c) If the College shall fail to maintain the balance in the Reserve Account in the amount of the Reserve Requirement, provided failure to comply with such requirement shall not become an Event of Default unless the College fails to restore such deficiency within a period of thirty (30) days after written notice specifying such deficiency and requesting that it be remedied is given to the College by the Authority or the Trustee; or

(d) If the College shall fail to observe and perform for reasons other than force majeure any other covenant, condition or agreement on its part under the Loan Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied; or

(e) If the College files a petition in voluntary bankruptcy, or for the composition of its affairs or for its corporate reorganization under any state or Federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the property of the College; or

(f) If a court of competent jurisdiction shall enter an order, judgment or decree against the College in any insolvency, bankruptcy, or reorganization proceeding, or appointing a trustee or receiver of the College or of the whole or any substantial part of the property of the College, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof; or

(g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the College or of the whole or any substantial part of its property, and such custody or control shall not be terminated within ninety days from the date of assumption of such custody or control, or

(h) If there shall occur an event of default (as defined therein) under the Mortgage.

The term "force majeure" as used above includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; orders, regulations or laws of any kind of the government of the United States of America or of the State of Minnesota or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the College. The provisions of paragraph (d) above, are subject to the further limitation that if the Default can be remedied but not within a period of thirty days after notice and if the College has taken all action reasonably possible to remedy such default within such thirty-day period.

the default shall not become an Event of Default for so long as the College shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The College agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the College from carrying out its agreements.

Remedies on Default

Whenever any Event of Default shall have happened, and be subsisting, the Loan Agreement provides that any one or more of the following steps may be taken:

(a) The Trustee may declare all or any amount of Loan Repayments thereafter to become due and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Trustee (or the Authority with respect to certain sections of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due.

(c) The Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture, or to foreclose on the Mortgage in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to the actions set forth above shall be applied first to advances and expenses, and then to payment of interest, principal and premium, if any, on the Bonds as provided in Section 7.04 of the Indenture, and any excess to the College.

Amendments

Except as otherwise provided in the Loan Agreement or in the Indenture, subsequent to issuance of the Bonds and so long as any Bonds are outstanding, the Loan Agreement may not be amended without the prior written consent of the Trustee.

THE INDENTURE

The following constitutes a summary of certain provisions of the Trust Indenture (the "Indenture"). This summary does not purport to be complete and reference is made to the full text of the Indenture for a complete recital of its terms. Certain words and terms used in this summary are defined in "DEFINITIONS OF CERTAIN TERMS," Appendix IV to this Official Statement.

Granting Clauses

Pursuant to the Indenture, the Authority grants to the Trustee, as security for the Holders of the Bonds, the following:

(1) all right, title and interest of the Authority under the Loan Agreement and all Loan Repayments and other sums due under the Loan Agreement, except the Authority's annual fee and rights to indemnity and reimbursement;

(2) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be paid and maintained under the Indenture, (ii) the moneys and investments in the Refinancing Account not paid out to prepay, satisfy and discharge the Conventional Loan, (iii) moneys and investments in the Construction Account not paid out for Project Costs, and (iv) all accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof; and

(3) any and all other property of every name and nature from time to time conveyed. mortgaged, assigned or transferred, or in which a security interest is granted, by the Authority or the College or by anyone in behalf of them or with their written consent, to the Trustee, including, but not limited to, the Mortgage.

Accounts

Bond proceeds and revenues derived under the Loan Agreement or Indenture shall be deposited into accounts held by the Trustee as described in "ACCOUNTS," contained in the body of this Official Statement.

Trustee's Right to Payment

The Trustee shall have a first lien, with right of payment prior to payment of interest on or principal of the Bonds for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created by the Indenture and exercise and performance of the powers and duties of the Trustee under the Indenture, and the cost and expenses incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence, or willful default of the Trustee).

Additional Bonds

In addition to the Series Five-K Bonds, the Indenture permits the issuance of one or more series of Additional Bonds by the Authority, acting at the request of the College, equally and ratably secured on a parity with the Series Five-K Bonds to provide funds for the following purposes: (i) completion of the Project, (ii) refunding of all or any series or portion of series of then outstanding Series Five-K Bonds or Additional Bonds, (iii) improvements or alterations, repairs or replacement of the Project Facilities, or (iv) other project or projects as authorized by the Act.

The issuance of Additional Bonds requires, among other things, evidence satisfactory to the Authority of the College's ability to meet debt service on the Additional Bonds and comply with certain financial covenants set forth in the Loan Agreement. Furthermore, to the extent required by the Authority, the College shall make additional deposits to the Reserve Account and execute supplements to the Loan Agreement, the Mortgage and the Indenture. Additional Bonds may not be issued unless in the opinion of bond counsel the exclusion of interest on the outstanding Bonds from gross income of the holders for federal income tax purposes shall not be jeopardized.

Covenants of the Authority

Under the Indenture the Authority covenants, among other things, to perform its various undertakings and agreements; not to extend the maturity of any of the Bonds or the time of payment of any claims for interest; to take such action or cause and permit the Trustee to take such action as may be necessary and advisable to enforce the covenants, terms and conditions of the Loan Agreement, if such action shall, in the discretion of the Trustee, be deemed to be in the best interests of the Authority or the Bondholders; to comply with the applicable rebate requirements under Section 148 of the Code and regulations thereunder; to keep proper books, accounts and records; and not to issue or permit to be issued any Bonds under the Indenture in any manner other than in accordance with the provisions of the Indenture and not to suffer or permit any default to occur under the Indenture. Under the Act, and it is expressly agreed that, the Authority has no obligation to make any advance or payment or incur any expense or liability from its general funds for performing any of the conditions, covenants or requirements of the Indenture or from any funds other than Loan Repayments or money in the Accounts.

Events of Default

The following are Events of Default under the Indenture:

(a) If payment of the principal of any of the Bonds, when the same shall become due and payable (whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise), shall not be made; or

(b) If payment of any interest on the Bonds when the same shall become due and payable (in which case interest shall be payable to the extent permitted by law on any overdue installments of interest, in each case at the interest rate borne by the Bonds in respect of which such interest is overdue) shall not be made; or

(c) If the Authority shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, or in any supplemental indenture on the part of the Authority to be performed, and such default shall have continued for a period of sixty days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and to the College (giving the College the privilege of curing such default in the name of the Authority, if permitted by law) by the Trustee, which may give such notice in its discretion and shall give such notice upon written request of the Holders of not less than a majority in principal amount of the Bonds then outstanding; or

(d) If any "event of default" on the part of the College, as that term is defined in the Loan Agreement or the Mortgage, shall occur and be continuing.

Remedies

If an Event of Default exists, the Trustee may, and upon written request of the Holders of a majority in aggregate principal amount of Bonds outstanding shall, by notice in writing delivered to the Authority, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable subject, however, to the right of the Holders of a majority in aggregate principal amount of Bonds then outstanding, by written notice to the Authority and to the Trustee, to annul such declaration and destroy its effect at any time if all covenants with respect to which default shall have been made shall be fully performed or made good, and all arrears of interest upon all Bonds outstanding and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other indebtedness secured by the Indenture (except the principal of any Bonds which have not then attained their stated maturity and interest accrued on such Bonds since the last interest payment date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereto.

In the case of a breach of any covenant or condition of the Indenture, the Loan Agreement or the Mortgage, the Trustee, anything therein contained to the contrary notwithstanding and without any request from any Bondholder (subject, however to its rights to indemnity and notice provided in the Indenture), shall be obligated to take such action or actions for the enforcement of its rights and the rights of the Bondholders and the rights of the Authority under the Loan Agreement or the Mortgage as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, to foreclose the Mortgage, to enforce the Loan Agreement, to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Concerning the Trustee

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to its reference or prime rate, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses, advances and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the College to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of $10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court. Provision is also made for removal of the Trustee by Bondholders or the Authority, at the request of the College, provided that the Authority may, but is not required to remove the Trustee with or without the request of the College if an Event of Default has occurred and is continuing or a default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

Concerning the Bondholders

No Bondholder shall have any right to institute any proceeding in equity or at law for the enforcement of the Indenture or for any remedy under the Loan Agreement unless a default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such default shall have become an Event of Default and the Holders of a majority in aggregate principal amount of Bonds outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided in the Indenture; and no one or more Bondholders shall have the right to affect, disturb, or prejudice the lien of the Indenture by his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all Bonds outstanding.

The Trustee, upon the written request of the Holders of a majority in principal amount of the Bonds at the time outstanding, shall waive any default under the Indenture and its consequences, except a default in the payment of the principal of the Bonds at the date of maturity specified therein; provided, however, that a default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Trustee and the Holders of the Bonds shall be restored to their former positions and rights respectively. No waiver of any default or Event of Default, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Provision is made for meetings of Bondholders, proof of ownership of Bonds and execution of consents and other instruments by Bondholders.

Payment, Defeasance and Release

If the Authority and the College shall:

(a) pay or cause to be paid the principal of, and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal and interest, if any, on the outstanding Bonds by depositing with the Trustee at or at any time before maturity an amount either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all Bonds outstanding, or

(c) deliver to the Trustee (1) proof that notice of redemption of all of the outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the College for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such outstanding Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of the redemption price on the date such Bonds are to be redeemed and on any interest payment dates, or

(d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided,

and shall also pay or provide for the payment of the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148 of the Internal Revenue Code, then at the request of the Authority or the College all the Trust Estate shall revert to the Authority and the College as their interests appear, and the entire estate, right, title and interest of the Trustee, and of registered owners of such Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all such Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent (and, in the case of defeasance under paragraph (b) above, as to effect on tax exempt status), and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

When the Authority or the College shall have deposited at any time with the Trustee in trust for the purpose, in the manner provided, or left with it if previously so deposited, cash or direct obligations of the United States of America sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due date of such interest or to the date fixed for redemption, for the use and benefit of the Holders thereof, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be outstanding thereunder; and from and after such redemption date or maturity, interest on such Bonds so called for redemption shall cease to accrue.

Supplemental Indentures

The Authority and the Trustee may enter into such supplemental indentures as shall by them be deemed necessary or desirable for any one or more of the following purposes, among others:

(a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;

(b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority or any successor;

(c) to evidence the succession of any other department, agency, body or corporation to the Authority;

(d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any supplemental indenture and which shall not impair the security of the same;

(e) to create a series of and authorize Additional Bonds; and

(f) to modify the Indenture as authorized by the Bondholders pursuant to Section 11.04 of the Indenture.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds under the Indenture then outstanding shall have the right to consent to and approve such supplemental indentures as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions of the Indenture or in any supplemental indenture; provided, however, that such provision shall not be construed as permitting without the consent of the Holders of all such Bonds (a) an extension of the maturity of any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture (except as provided in Section 2.09 of the Indenture), or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or to amendments to the Loan Agreement.

Amendments to the Loan Agreement and the Mortgage

The Authority and the Trustee may, without the consent of or notice to any of the Bondholders, consent to and (if requested) execute any amendment, change or modification of the Loan Agreement or the Mortgage as may be required (a) by the provisions of the Loan Agreement, the Mortgage or the Indenture, or (b) for the purpose of curing any ambiguity or formal defect or omission, or (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement or the Mortgage or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds.

Except for amendments, changes or modifications provided for in the preceding paragraph, neither the Authority nor the Trustee may consent to any amendment, change or modification of the Loan Agreement or the Mortgage without the written approval or consent of the Holders of not less than 51% in aggregate principal amount of the Bonds at the time outstanding, given and procured as provided in the Indenture. However, the Indenture does not permit a reduction in, or a postponement of, the Loan Repayments under the Loan Agreement without the consent of the Holders of all the Bonds then outstanding.

Registration

The Bonds shall be fully registered as to principal and interest at the office of the Trustee, which shall also perform the functions of registrar and paying agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. If the Bonds are no longer in book entry form, Bonds may be exchanged only for a new Bond or Bonds of the same series, aggregate principal amount, maturity and basic interest rate of any authorized denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at his address as shown on the registration books of the Trustee subject to applicable procedures while in book entry form.

THE MORTGAGE

At or prior to the closing, the College will execute and deliver to the Authority, and the Authority will assign to the Trustee, a Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents (the "Mortgage"), to be dated as of August 1, 2001, to secure the Bonds. The following is a summary of certain provisions of the Mortgage.

Under the Mortgage, in order to secure its obligations under the Loan Agreement, including payment of Loan Repayments in amounts and at times sufficient to pay the principal of, premium, if any, and interest on the Bonds, the College grants to the Authority a first mortgage lien on its right, title and interest in and to the land described in Exhibit A to the Mortgage (the "Land"), and any buildings now standing or hereafter constructed or placed upon the Land, including the Project and equipment purchased with proceeds of the Conventional Loan located therein, constituting the Project Facilities (collectively, the "Mortgaged Property"). The Mortgage assigns all of the College's rights, title and interest in all present and future leases of the Mortgaged Property and rents arising from such leases or other uses of the Mortgaged Property. The Mortgage grants a security interest in all of the general intangibles, rents, issues, condemnation awards, insurance proceeds and similar revenues and income (the "Revenues and Income") arising from the ownership of the Mortgaged Property.

The Loan Agreement provides that the College may release land and equipment from the lien of the Mortgage upon certain conditions more fully described under the captions "THE LOAN AGREEMENT – Removal of Project Equipment and Building Equipment" and "THE LOAN AGREEMENT – Release of Real Property" in this Appendix.

Events of Default

The following are Events of Default under the Mortgage:

(a) If an event of default (as defined therein) under the Loan Agreement has occurred and is continuing; or

(b) If an event of default (as defined therein) under the Indenture has occurred and is continuing; or

(c) If the College violates or fails to perform any covenants under the Loan Agreement or the Mortgage for a reason other than force majeure (as defined in the Loan Agreement) for a period of thirty days after written notice from the Authority or the Trustee specifying the default and requesting that it be remedied or for such further period of time as the Trustee shall permit; or

(d) If any representation of the College in the Mortgage or the Loan Agreement is incorrect in any material respect.

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2000 AND 1999.

Virchow, Krause & Company, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Minneapolis College of Art and Design
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of Minneapolis College of Art and Design as of May 31, 2000 and 1999 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 audits provide 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 Minneapolis College of Art and Design at May 31, 2000 and 1999 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

VIRCHOW, KRAUSE & COMPANY, LLP

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
July 10, 2000

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF FINANCIAL POSITION
May 31, 2000 and 1999

ASSETS

	2000	1999
Cash and cash equivalents	$ 921,932	$ 835,534
Student accounts receivable, less allowance for doubtful accounts of $49,000 and $196,600	345	445
Inventories	277,916	233,580
Prepaid expenses and deferred charges	91,644	41,278
Government grants receivable	10,536	410,967
Other receivables	47,994	79,811
Contributions receivable (Note 4)	20,000	126,802
Mortgage receivable - related party (Note 5)	118,610	121,282
Student notes receivable, less allowance for doubtful notes of $243,000 and $238,000	913,956	886,272
Investments (Note 6)	37,362,631	35,146,974
Deferred bond expense	898	2,096
Deposits with trustee	67	114
Construction in progress (Note 7)	2,551,085	
Property, plant and equipment, net (Note 7)	4,186,690	4,468,210
TOTAL ASSETS	$ 46,504,304	$ 42,353,365

LIABILITIES AND NET ASSETS

	2000	1999
LIABILITIES		
Accounts payable	$ 1,849,376	$ 362,247
Accrued liabilities	822,941	673,116
Deferred revenue	61,655	79,106
Advance deposits	46,187	55,266
Long-term debt (Note 8)	1,302,851	1,555,682
Deposits held in custody for others		1,337
Government grants refundable	753,081	724,863
Total Liabilities	4,836,091	3,451,617
NET ASSETS (Note 2)		
Unrestricted	27,080,451	24,222,565
Temporarily restricted	2,001,248	2,116,190
Permanently restricted	12,586,514	12,562,993
Total Net Assets	41,668,213	38,901,748
TOTAL LIABILITIES AND NET ASSETS	$ 46,504,304	$ 42,353,365

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 2000
With Comparative Totals for 1999

	2000				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	1999 Total
REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 10,081,966			$ 10,081,966	$ 8,950,501
Less: Scholarships and grants	(1,794,237)			(1,794,237)	(1,711,615)
Net tuition and fees	8,287,729			8,287,729	7,238,886
Federal government grants	166,136			166,136	119,697
State government grants	42,200			42,200	35,733
Private gifts and grants	255,557	$ 438,455	$ 43,661	737,673	749,893
Endowment income - spending rate	936,088	233,912		1,170,000	1,040,000
Trust income	207,403	44,295		251,698	192,577
Investment income	99,969			99,969	81,353
Gains (losses) on investments	2,117,873	609,717	(104,917)	2,622,673	1,583,034
Other sources	146,809	300		147,109	122,213
Sales and services of auxiliary enterprises	1,168,533	1,365		1,169,898	1,146,542
	13,428,297	1,328,044	(61,256)	14,695,085	12,309,928
Net assets released from restrictions (Note 3)	1,358,209	(1,358,209)			
Total Revenues, Gains and Other Support	14,786,506	(30,165)	(61,256)	14,695,085	12,309,928
EXPENSES					
Program expenses					
Instruction	5,579,307			5,579,307	4,997,246
Public service	204,412			204,412	171,653
Academic support	1,212,724			1,212,724	1,191,816
Student services	1,623,531			1,623,531	1,284,995
Auxiliary enterprises	1,430,240			1,430,240	1,291,387
Support expenses					
General administration	1,878,406			1,878,406	1,603,584
Allocable expenses					
Operation and maintenance	1,245,314			1,245,314	1,099,470
Depreciation	328,101			328,101	328,289
Interest and amortization	98,188			98,188	115,873
Less: Allocated expenses	(1,671,603)			(1,671,603)	(1,543,632)
Total Expenses	11,928,620			11,928,620	10,540,681
Increase (Decrease) in Net Assets	2,857,886	(30,165)	(61,256)	2,766,465	1,769,247
Reclassification of prior year's gifts		(84,777)	84,777		
NET ASSETS - Beginning of Year	24,222,565	2,116,190	12,562,993	38,901,748	37,132,501
NET ASSETS - END OF YEAR	$ 27,080,451	$ 2,001,248	$ 12,586,514	$ 41,668,213	$ 38,901,748

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 1999

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 8,950,501			$ 8,950,501
Less: Scholarships and grants	(1,711,615)			(1,711,615)
Net tuition and fees	7,238,886			7,238,886
Federal government grants	119,697			119,697
State government grants	35,733			35,733
Private gifts and grants	288,244	$ 197,622	$ 264,027	749,893
Endowment income - spending rate	835,952	204,048		1,040,000
Trust income	150,309	42,268		192,577
Investment income	81,353			81,353
Gains on investments	1,074,727	303,065	205,242	1,583,034
Other sources	121,913	300		122,213
Sales and services of auxiliary enterprises	1,145,932	610		1,146,542
	11,092,746	747,913	469,269	12,309,928
Net assets released from restrictions (Note 3)	919,820	(919,820)		
Total Revenues, Gains and Other Support	12,012,566	(171,907)	469,269	12,309,928
EXPENSES				
Program expenses				
Instruction	4,997,246			4,997,246
Public service	171,653			171,653
Academic support	1,191,816			1,191,816
Student services	1,284,995			1,284,995
Auxiliary enterprises	1,291,387			1,291,387
Support expenses				
General administration	1,603,584			1,603,584
Allocable expenses				
Operation and maintenance	1,099,470			1,099,470
Depreciation	328,289			328,289
Interest and amortization	115,873			115,873
Less: Allocated expenses	(1,543,632)			(1,543,632)
Total Expenses	10,540,681			10,540,681
Increase (Decrease) in Net Assets	1,471,885	(171,907)	469,269	1,769,247
NET ASSETS - Beginning of Year	22,750,680	2,288,097	12,093,724	37,132,501
NET ASSETS - END OF YEAR	$ 24,222,565	$ 2,116,190	$ 12,562,993	$ 38,901,748

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,766,465	$ 1,769,247
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	328,101	328,289
Amortization	1,198	1,197
Gain on investments	(3,066,660)	(1,840,299)
Decrease in allowance for student receivables	(147,602)	(27,752)
Increase in allowance for student notes receivable	5,000	13,000
Loan cancellations	5,445	3,745
Changes in assets and liabilities		
Student accounts receivable	147,702	117,910
Inventories	(44,336)	(11,176)
Prepaid expenses and deferred charges	(50,366)	42,951
Government grants receivable	400,431	(328,572)
Other receivables	31,817	(4,616)
Estate receivable		390,000
Contributions receivable for operations	42,025	321,198
Accounts payable	48,239	65,655
Accrued liabilities	149,825	77,792
Deferred revenue	(17,451)	7,988
Advance deposits	(9,079)	(2,179)
Deposits held in custody for others	(1,337)	
Contributions restricted for long-term investment	(43,661)	(264,027)
Net Cash Flows from Operating Activities	545,756	660,351
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) sales of investments, net	851,003	(841,794)
Deposits with trustee	47	32
Repayments of mortgage receivable	2,672	2,491
Purchases of property, plant and equipment	(1,158,776)	(29,411)
Disbursements of loans to students	(161,200)	(173,271)
Repayments of loans from students	123,071	112,223
Net Cash Flows from Investing Activities	(343,183)	(929,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on indebtedness	(252,831)	(242,146)
Receipts of contributions restricted for long-term investment	108,438	264,027
Increase in refundable government grants	28,218	48,181
Net Cash Flows from Financing Activities	(116,175)	70,062
Net Increase (Decrease) in Cash and Cash Equivalents	86,398	(199,317)
CASH AND CASH EQUIVALENTS - Beginning of Year	835,534	1,034,851
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 921,932	$ 835,534
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 100,088	$ 117,440
Noncash investing activities		
Property, plant and equipment acquired through accounts payable	1,438,890	

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Minneapolis College of Art and Design (the College) is a private college that focuses exclusively on the education of undergraduate and graduate students in visual art and design. The accounting policies of the College reflect practices common to universities and colleges and conform to generally accepted accounting principles. The more significant accounting policies are summarized below:

General - The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets—permanently restricted, temporarily restricted and unrestricted, as follows.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of assets other than cash are recorded at their estimated fair value.

Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the College has adopted the following accounting policies:

Reporting as Temporarily Restricted Revenues - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment - Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the College's depreciation policies.

Cash Equivalents - The College considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents.

Investments - Investments in marketable equity and debt securities are recorded at fair value. Other investments are recorded at cost, except those items received as gifts, which are recorded at fair value at the date of gift.

Physical Plant and Equipment - Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings and building improvements, 7 to 45 years; furniture, fixtures and equipment, 3 to 5 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes equipment acquisitions in excess of $5,000.

Inventories - Bookstore inventories are carried at the lower of cost or market using the first-in, first-out (FIFO) method.

Government Grants Refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Pension Plan - Certain full-time employees of the College participate in a contributory defined contribution pension plan. For the years ended May 31, 2000 and 1999, the College contributed 8.5% and 8.0%, respectively, of eligible employees' salaries into individual pension accounts. Benefits are based on amounts accumulated for the account of each individual employee at date of retirement or termination. Total pension expense for the years ended May 31, 2000 and 1999 was approximately $402,000 and $313,000, respectively.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes - The Internal Revenue Service has determined that the College qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. Donations to the College are tax deductible.

Grants to Specified Students - Amounts received from state and federal agencies, designated for the benefit of specified students, are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amounts of such grants were $452,554 and $272,474, respectively, during the year ended May 31, 2000. The amounts of such grants were $395,442 and $275,938, respectively, during the year ended May 31, 1999.

Use of Estimates - The preparation of financial statements in conformity with 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund-Raising and Advertising Costs - Fund-raising expenses totaled $229,000 and $231,000 for the years ended May 31, 2000 and 1999, respectively. Advertising costs are expensed when incurred and totaled $98,600 and $48,400 for the years ended May 31, 2000 and 1999, respectively.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets consisted of the following at May 31, 2000 and 1999:

	2000	1999
Endowment funds	$ 12,586,514	$ 12,562,993

Temporarily restricted net assets consisted of the following at May 31, 2000 and 1999:

	2000	1999
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 294,862	$ 287,070
Net investment in plant	1,706,386	1,829,120
	$ 2,001,248	$ 2,116,190

At May 31, 2000 and 1999, the College's unrestricted net assets were allocated as follows:

	2000	1999
Operations	$ 188,277	$ 164,167
Long-term investment (quasi-endowment funds)	25,058,050	22,830,460
Loans to students	155,877	143,734
Replacement of plant facilities	500,000	
Net investment in plant	1,178,247	1,084,204
	$ 27,080,451	$ 24,222,565

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows for the years ended May 31, 2000 and 1999:

	2000	1999
Scholarships, instruction and other departmental support	$ 1,235,475	$ 797,088
Amortization of contributions expended for long-lived assets	122,734	122,732
	$ 1,358,209	$ 919,820
These assets were reclassified to unrestricted net assets for:		
Operating	$ 625,758	$ 494,023
Long-term investment	609,717	303,065
Plant	122,734	122,732
	$ 1,358,209	$ 919,820

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at May 31, 2000 and 1999 included the following unconditional promises to give:

	2000	1999
Unrestricted – operations		$ 42,025
Temporarily restricted - scholarships		84,777
Permanently restricted - endowment	$ 20,000	
Net Unconditional Promises to Give	$ 20,000	$ 126,802

All contributions receivable as of May 31, 2000 are expected to be collected within one year.

In addition, the College had received a conditional promise to give totaling $165,000 and $120,000 as of May 31, 2000 and 1999, respectively, that is not recognized as an asset in the financial statements. The amount is restricted for fellowships and related gallery expenses and is expected to be collected by May 31, 2001.

NOTE 5 - MORTGAGE RECEIVABLE - RELATED PARTY

The mortgage receivable consists of a secured home mortgage from the president of the College. The mortgage is due in monthly installments of $922 with interest at 7%, the final installment being due in 2020.

NOTE 6 - INVESTMENTS

Investments consisted of the following at May 31, 2000 and 1999:

	2000		1999	
	Fair Value	Cost	Fair Value	Cost
Pooled Assets				
Money market funds	$ 1,239,804	$ 1,239,804	$ 661,630	$ 661,630
Bonds, notes and certificates	7,805,330	8,014,018	8,212,037	8,207,798
Stocks	20,731,496	13,163,816	19,412,272	13,405,565
Limited partnership	1,865,214	1,865,214	1,036,916	1,036,916
	31,641,844	24,282,852	29,322,855	23,311,909
Separately Invested Assets Held in Trust				
Money market funds	246,162	246,162	89,675	89,675
Bonds, notes and certificates	1,633,193	1,679,721	1,872,008	1,876,624
Stocks	2,478,282	1,939,823	2,590,938	1,785,433
Mutual funds	1,363,150	1,043,569	1,271,498	937,441
	5,720,787	4,909,275	5,824,119	4,689,173
TOTAL	$ 37,362,631	$ 29,192,127	$ 35,146,974	$ 28,001,082

These investments were classified at May 31, 2000 and 1999 as follows:

	2000	1999
Operating net assets	$ 35,107	$ 24,475
Long-term net assets	37,327,524	35,122,449
	$ 37,362,631	$ 35,146,924

Included in the separately invested assets held in trust are four trusts which, by donor stipulation, require that capital gains be reinvested as a part of principal.

The College follows the total return concept for the endowment investments. Under this concept, endowment income to be distributed is established as a percentage of the three-year moving average market value of the pooled assets. This percentage is determined annually by the Board of Trustees, and for fiscal years 2000 and 1999 was 4.86% and 4.87% respectively. Based on this formula and spending rate, the total distributable income for the years ended May 31, 2000 and 1999 amounted to $1,170,000 and $1,040,000, respectively, which has been included in operating net assets. Earnings in excess of the spending rate are reinvested in the quasi-endowment funds.

For fiscal 2000, the total return on the above investments was 11.16%, or $4,044,371, net of trustee fees paid for the administration of endowment investments totaling $199,707. The total return includes net gains of $3,066,660. For fiscal 1999, the total return on the above investments was 8.33%, or $2,815,258, net of trustee fees paid for the administration of endowment investments totaling $192,833. The total return includes net gains of $1,840,299.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at May 31, 2000 and 1999:

	2000	1999
Land	$ 568,377	$ 568,377
Furniture, fixtures and equipment	1,025,292	978,711
Buildings and building improvements	7,806,217	7,806,217
	9,399,886	9,353,305
Accumulated depreciation	(5,213,196)	(4,885,095)
	$ 4,186,690	$ 4,468,210

Construction in progress at May 31, 2000 totaled $2,551,085 and related to the addition and improvements to the College's main building and the remodeling of its student apartments. Total costs are expected to approximate $7,900,000 and will be funded primarily by external debt. (See note 11.)

NOTE 8 - LONG-TERM DEBT

Long-term debt consisted of the following at May 31, 2000 and 1999:

	2000	1999
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Two-K, mature in the amount of $95,000 on February 1, 2001, plus semi-annual interest payments at 8.75% (original amount $830,000).	$ 95,000	$ 185,000
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-S, require semiannual principal and interest payments of $13,415 through July 1, 2005 with an interest rate of 6.18% (original amount of $225,000).	123,505	141,848
Minnesota Higher Education Facilities Authority Revenue Notes, Series Three-Y, require semi-annual principal and interest payments of $110,011 through June 1, 2006 with an interest rate of 6.33% (original amount of $1,612,000).	1,084,346	1,228,834
	$ 1,302,851	$ 1,555,682

The proceeds from the Minnesota Higher Education Facilities Authority Revenue Bonds, Series Two-K were obtained by the Minneapolis Society of Fine Arts in 1986 to finance the expansion and remodeling of the College's facilities. The bond agreement requires that the College maintain unrestricted quasi endowment funds equal to at least 110% of the principal balance outstanding.

The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-S were issued in 1994 to refinance the mortgages on the 206-210 East 26th Street apartments and finance the purchase of the 200-204 East 26th Street apartments.

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-Y were issued June 1, 1994 to finance the main building addition. The bond agreement requires the College to maintain as unpledged and unencumbered various endowment assets (classified as unrestricted or temporarily restricted) with a total fair market value of not less than $4,000,000.

The College has a line of credit agreement under which it may borrow up to $400,000 with interest at the prime rate plus .50%. At May 31, 2000 and 1999, the College did not have any outstanding borrowings against its line. The line of credit expires on December 31, 2000.

Total scheduled maturities of all debt for each of the five years subsequent to May 31, 2000 are: $268,300; $184,400; $196,200; $208,800; and $222,200, respectively. Interest expense totaled $96,990 and $114,676 during the years ended May 31, 2000 and 1999, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

On July 1, 1988, the Minneapolis Society of Fine Arts (the Society) transferred a portion of its assets to form a new nonprofit corporation, the Minneapolis College of Art and Design (the College), separate and independent from the Society. The assets, totaling $5,800,529, were transferred to the College pursuant to a real estate trust agreement (Trust) for the purpose of preserving a unified land use. The Trust held title to these assets which included land and certain buildings (main College buildings) on the College's campus. During the year ended May 31, 1998, the Real Estate Trust was dissolved and title to all former trust property was assigned to the College. The Society has the right-of-first-purchase option if the College vacates more than 75% of the buildings on the former trust land as computed by square footage.

The College leases the Morrison building from the Society. The lease, which has been extended into perpetuity, requires lease payments of $1 per year. Since the building is an integral part of the Society's property, there is no clearly measurable and objective basis for determining the fair value of the lease. As a result, revenue and expense equal to the fair value of the lease payment have not been recorded.

The College purchased certain services during the year under the terms of its service contract with the Society. This contract is subject to renewal on an annual basis. Services purchased include security and boiler. The cost of these services totaled $306,835 and $297,750 for the years ended May 31, 2000 and 1999, respectively.

The College must also pay its pro rata share of the costs associated with the parking ramp lot. These costs totaled $63,405 and $93,067 for the years ended May 31, 2000 and 1999, respectively.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments accounts receivable, notes and mortgages. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes and mortgages are limited due to the College holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the midwestern United States. In addition, the College's student's receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities. As of May 31, 2000, management considers the College to have no significant concentration of credit risk.

NOTE 11 – SUBSEQUENT EVENT

During June 2000, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Five-D (Minneapolis College of Art and Design) on behalf of the College totaling $7,920,000. The bond proceeds will be used to finance an addition and improvements to the College's main building and to remodel and equip seven existing student apartments owned by the College. The revenue bonds have interest rates varying from 5.25% to 6.75% and mature in annual installments of $145,000 to $220,000 on May 1, 2002 through 2010 with payments of $3,160,000 and $3,155,000 due May 1, 2020 and 2026, respectively. The term bonds maturing in the years 2010 and 2026 are subject to annual sinking fund payments on May 1 in the years 2011 through 2026 in amounts varying from $235,000 to $615,000.