CERTIFICATE AS TO OFFICIAL STATEMENT

The Official Statement dated July 6, 2006, prepared for use in the sale of the $7,670,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-K (Minneapolis College of Art and Design), to the best of the knowledge of the undersigned, did not as of its date and does not as of the date of this Certificate contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

WITNESS our hands this 20th day of July, 2006.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

Treasurer and Chief Financial Officer
and Authorized Institution Representative

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

Marianne T. Remedios

Marianne T. Remedios
Assistant Secretary and Executive Director

M:\DOCS\15003\000008\CER\G9288.DOC

OFFICIAL STATEMENT DATED JULY 6, 2006

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.")

$7,670,000
Minnesota Higher Education Facilities Authority
Revenue Bonds, Series Six-K
(Minneapolis College of Art and Design)

Dated Date: July 1, 2006

Interest Due: May 1 and November 1, commencing November 1, 2006

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP 60416H	Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP 60416H
2007	$285,000	4.05%	4.05%	GM 0	2013	$310,000	5.00%	4.53%	GT 5
2008	245,000	4.15%	4.15%	GN 8	2014	320,000	5.00%	4.63%	GU 2
2009	260,000	4.50%	4.25%	GP 3	2015	340,000	5.00%	4.68%	GV 0
2010	270,000	4.50%	4.33%	GQ 1	2016*	355,000	5.00%	4.73%	GW 8
2011	280,000	4.50%	4.42%	GR 9	2017*	370,000	5.00%	4.78%	GX 6
2012	295,000	5.00%	4.48%	GS 7					

$805,000 5.00% Term Bond due May 1, 2019* Price 101.054% CUSIP 60416H GZ1
$3,535,000 5.00% Term Bond due May 1, 2026 Price 100.000% CUSIP 60416H HA5

* *Priced to the optional call date of May 1, 2015.*

At the option of the Minnesota Higher Education Facilities Authority (the "Authority"), at the direction of Minneapolis College of Art and Design ("MCAD"), a Minnesota nonprofit corporation, the Bonds are subject to redemption on May 1, 2015 or thereafter at par in whole or in part prior to maturity, as described herein. The Bonds also are subject to optional redemption in whole or in part in certain cases of damage to or destruction or condemnation of the Main Building described in the Loan Agreement and the Indenture. The Bonds are subject to optional redemption in whole or in part in the event of a Determination of Taxability, as described herein. The Term Bonds are subject to mandatory redemption in installments as described herein. See "THE BONDS – Prior Redemption" and "THE BONDS – Determination of Taxability."

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 System" herein. Wells Fargo Bank, National Association will act as Trustee.

The Bonds are special obligations of the Authority payable solely from Loan Repayments made by or on behalf of MCAD pursuant to a Loan Agreement (the "Loan Agreement") dated as of July 1, 2006 between the Authority and MCAD, or out of other amounts pledged pursuant to the Indenture as described herein. The Loan Repayments will be a general obligation of MCAD.

THE BONDS SHALL NOT BE LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA (the "State") NOR SHALL THEY CONSTITUTE A DEBT FOR WHICH THE FAITH AND CREDIT OF THE AUTHORITY OR THE STATE, 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 Dougherty & Company LLC (the "Underwriter") subject to the approval of legality by Fryberger, Buchanan, Smith & Frederick, P.A., Duluth, Minnesota, Bond Counsel. Certain legal matters will be passed upon for MCAD by Moore, Costello & Hart, P.L.L.P., Saint Paul and Minneapolis, Minnesota; and for the Underwriter by Faegre & Benson LLP, Minneapolis, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about July 20, 2006.

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.

Dougherty & Company LLC

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.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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.

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. Certain information contained in this Official Statement has been obtained from sources other than records of the Authority or MCAD and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY OR 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 of such documents have not been included as appendices hereto, they will be furnished on request.

The Bonds have not been registered 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.

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS,

UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER MCAD NOR ANY OTHER PARTY EXPECTS OR INTENDS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

Any CUSIP numbers for the Bonds included in the Final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Bonds have been assigned by an organization unaffiliated with the Authority. The Authority is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Bonds or as set forth in the Final Official Statement. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

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MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

MEMBERS

David D. Rowland, Chair	Senior Vice President, The St. Paul Travelers Companies, Inc., Eden Prairie, Minnesota
Michael D. Ranum, Vice Chair	Chief Financial and Administrative Officer, Hazelden Foundation, Circle Pines, Minnesota
Mary F. Ives, Secretary	Real Estate Business Owner, Grand Rapids, Minnesota
Gary D. Benson	Vice President, Kraus-Anderson Construction Company, Midwest Division, New Brighton, Minnesota
Kathryn Balstad Brewer	Retired Banker and Educator, New Brighton, Minnesota
David B. Laird, Jr. (Ex Officio)	President, Minnesota Private College Council, Saint Paul, Minnesota
Mark Misukanis (Ex Officio)	Director of Fiscal Policy and Research, Minnesota Office of Higher Education, Saint Paul, Minnesota
Carla Nelson	Business Development and Marketing Director, Olmsted Financial Group, Rochester, Minnesota
Raymond VinZant, Jr.	Policy Representative, Office of U.S. Senator Norm Coleman, Saint Paul, Minnesota

There is one vacancy on the Board.

Marianne T. Remedios, Executive Director

Bond Counsel
Fryberger, Buchanan, Smith & Frederick, P.A.

Financial Advisor
Springsted Incorporated

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OFFICIAL STATEMENT

$7,670,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
REVENUE BONDS, SERIES SIX-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 $7,670,000 Revenue Bonds, Series Six-K (Minneapolis College of Art and Design) (the "Bonds" or the "Issue").

The Bonds are being issued pursuant to the provisions of Minnesota Statutes, Sections 136A.25 through 136A.42, inclusive, 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 to finance certain projects.

The Bonds are also issued pursuant to a Trust Indenture (the "Indenture") dated as of July 1, 2006 between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Trustee will also be the Registrar and Paying Agent for the Bonds.

Pursuant to a Loan Agreement between MCAD and the Authority relating to the Bonds, the Authority is loaning the proceeds of the Bonds to MCAD, and MCAD will covenant as a general obligation of MCAD to make Loan Repayments in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. MCAD proposes to apply the proceeds of the Bonds together with MCAD funds and funds available from Accounts held in trust by the Trustee for the Refunded Bonds to: (i) refund on an advance refunding basis the Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-D (Minneapolis College of Art and Design) (the "Series Five-D Bonds" or the "Refunded Bonds"), (ii) fund a debt service reserve, and (iii) pay certain issuance costs related to the Bonds. The principal amount of the Series Five-D Bonds to be refunded is $7,125,000. See "USE OF PROCEEDS" herein for a more detailed description of the refunding.

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. See "SOURCE OF PAYMENT FOR THE BONDS – General" 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 "ACCOUNTS – Reserve Account" herein.

The Bonds shall not be legal or moral obligations of the State nor shall they constitute a debt for which the faith and credit of the Authority or the State 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 Bondholder's 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, and (b) amounts in the Reserve Account and other accounts and funds which will be held by the Trustee and applied to the payment of principal, premium, if any, and interest on the Bonds. The Bonds are not secured by a mortgage on or security interest in any real property or personal property.

Adequacy of Revenues; Prior or Future Liens

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. 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. Certain debt of MCAD is secured by mortgage liens, security interests and assignments of leases and rents and the property pledged or mortgaged would not be available to pay Bondholders until the debt so secured has been paid. See "Indebtedness of the College" in Appendix I. In addition, except to the extent limited by agreements that MCAD enters into in the future, MCAD may grant a mortgage or security interest in any of its property to secure existing or future indebtedness and the holders of such secured indebtedness would have a claim on the property that is senior to the unsecured claim of the Bondholders.

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.

Financial Aid

Approximately 90% 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.

Damage or Destruction

Although MCAD will be required to obtain certain insurance with respect to the Campus Buildings 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 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.

Bankruptcy

The ability of the Trustee to exercise rights under the Loan Agreement 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, such as limitations on tuition increases, 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 July 1, 2006. The Bonds will mature each May 1, commencing May 1, 2007, 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, 2006.

Prior Redemption

Mandatory Redemption

The Bonds maturing on May 1, 2019 and May 1, 2026 (the "Term Bonds") will be called for redemption 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 on May 1 of the years set forth below.

Term Bond Due May 1, 2019		Term Bond Due May 1, 2026	
Year	Amount	Year	Amount
2018	$390,000	2020	$435,000
2019*	$415,000	2021	$455,000
		2022	$480,000
		2023	$500,000
		2024	$530,000
		2025	$555,000
		2026*	$580,000

* *Final maturity*

The Term Bonds 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 Bond and Interest Sinking Fund Account) and canceled by the Trustee and not theretofore applied as a credit against such mandatory redemption obligations.

Optional Redemption

Bonds are subject to optional redemption at the request of MCAD on May 1, 2015 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 Main Building, 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).

Book Entry System

The Depository Trust Company ("DTC"), New York, New York, 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity. For further information on DTC, see "The Depository Trust Company" in Appendix VI.

USE OF PROCEEDS

The Plan of Finance

Bond proceeds, MCAD contributions, and funds available from accounts held in trust by the Trustee for the Refunded Bonds, will be used to

1. advance refund the outstanding Series Five-D Bonds (the "Refunded Bonds");
2. fund a debt service reserve; and
3. pay certain issuance costs.

The Refunded Bonds have outstanding principal in the amount of $7,125,000.

The Refunded Bonds have a final maturity date of May 1, 2026 and are callable in full on any date beginning May 1, 2010 at a price of 100% plus interest accrued to the redemption date. The Refunded Bonds are expected to be refunded in their entirety. See "USE OF PROCEEDS – Escrow Agreement."

The Refunded Bonds were issued to (i) construct, furnish and equip additional individual studio spaces for students, expand food service operation and commons area, replace roof and replace and update the central cooling system in MCAD's Main Building and (ii) refurbish, equip and otherwise improve seven existing student apartment buildings owned by MCAD.

Escrow Agreement

At the Issue Date, a portion of the Bond proceeds, funds from the Refunded Bonds accounts and certain MCAD funds will be deposited in the escrow account created under the Escrow Agreement among MCAD, the Authority and Wells Fargo Bank, National Association, as Escrow Agent, Trustee and Prior Bonds Trustee. The escrow account will be funded with cash and U.S. Treasury securities sufficient, along with earnings thereon, to (i) pay the interest due on the Refunded Bonds through May 1, 2010; (ii) pay the principal of the Refunded Bonds maturing on May 1, 2007 through 2010, at their maturity; and (iii) redeem at a redemption price equal to par plus accrued interest, on May 1, 2010 the Refunded Bonds maturing on May 1, 2011 and thereafter.

Grant Thornton, LLP, Certified Public Accountants, will deliver an independent verification report stating that the cash and investments held pursuant to the Escrow Agreement along with interest earned thereon will be sufficient to pay the principal of, premium on (as applicable), and interest on the Refunded Bonds as described above and to pay the redemption price of the Refunded Bonds on the redemption date. The verification report will also confirm the correctness of the mathematical computations supporting Bond Counsel's conclusion that the Bonds are not "arbitrage bonds" as defined in Section 148 of the Code.

SOURCES AND USES OF FUNDS

Sources	
Par Amount of Bonds	$7,670,000
Reoffering Premium	56,700
Accrued Interest	19,774
Transfers from Refunded Bonds Accounts	670,378
MCAD Contributions	19,496
Total Sources	$8,436,348
Uses	
Deposit to Refunding Account	$7,626,452
Debt Service Reserve	613,250
Deposit to Debt Service Fund	19,774
Costs of Issuance, Including Underwriters Discount	174,030
Rounding Amount	2,842
Total Uses	$8,436,348

In the event Bond 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.

SOURCE OF PAYMENT 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 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, the Reserve Account and other funds the Trustee holds under the Indenture. MCAD will agree, pursuant to the terms of 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. The Loan Repayments are a general obligation of MCAD. MCAD agrees to make such payments out of its operating funds or any other moneys legally available.

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 "GENERAL BOND RESERVE ACCOUNT" herein).

Negative Pledge Property

MCAD covenants in the Loan Agreement that, except for Permitted Encumbrances and as permitted by the Financial Covenants, 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 portion of MCAD's Main Building used for the common area, studio space and dining facilities, which is the portion financed by the Refunded Bonds.

Liens and Mortgages

The Bonds are not secured by a mortgage on or security interest in any real or personal property.

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 Revenue/Expenditure Test must be met.

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, 2006, the Trustee may require that MCAD, within 150 days after each Fiscal Year end, provide its financial statements for the preceding year accompanied by the report thereon of MCAD's Independent auditor. Unless and until the Trustee requests MCAD's annual financial statements, MCAD shall provide the Trustee with a certificate showing the amount of the Unrestricted Net Assets and Temporarily Restricted Net Assets and the method of valuation of such investments. 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. 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 MCAD 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 the encumbrance and for so long as both such encumbrance exists and any portion of the 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 thereafter incurred or 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 and unrealized 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 (if paid at their stated maturity dates or redeemed in accordance with a mandatory sinking fund schedule) will 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).

"Revenue/Expenditure Test" means the Adjusted Increase in Unrestricted Net Assets shall not be less than zero.

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, 2005.

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 Refunding Account, a Bond and Interest Sinking Fund Account, a Reserve Account, a Costs of Issuance Account, and a Redemption Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Refunding Account, except that the Reserve Requirement will be deposited into the Reserve Account, issuance costs in the amount specified in the Indenture shall be deposited into the Costs of Issuance Account, and accrued interest will be deposited in 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.

Refunding Account

There shall be deposited initially into the Refunding Account certain Bond proceeds which shall be in an amount sufficient, along with MCAD contributions, available moneys from the Refunded Bonds Trustee, and earnings on such amounts, to pay the principal and interest as it comes due on the Refunded Bonds and the redemption price of the Refunded Bonds on the redemption date, as described herein. The monies deposited to this account shall immediately be transferred to the escrow account created under the Escrow Agreement to be invested and disbursed according to the terms of the Escrow Agreement. See "USE OF PROCEEDS – Escrow Agreement."

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 three (3) 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 Bonds. The Reserve Account is irrevocably pledged to the payment of principal of and interest on the 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, 2006 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 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.

Costs of Issuance Account

There shall be deposited into the Costs of Issuance Account the amount specified in the Indenture to be applied to the costs, fees and expenses incurred in connection with the issuance of the Bonds. The Trustee shall disburse funds from this account upon presentation to Trustee of an invoice approved by the Authorized Institution Representative or the Authorized Authority Representative. If funds remain in the Costs of Issuance Account after a period of six months the funds shall be transferred to the Bond and Interest Sinking Fund Account.

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.

Authorized Investments

Moneys on deposit to the credit of the Bond and Interest Sinking Fund Account, Reserve Account, the Costs of Issuance 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 any political subdivisions thereof, rated at least "AA" or "Aa" (if state obligations) or "AAA" or "Aaa" (if political subdivisions); revenue bond obligations of states and political subdivisions thereof, 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; constant dollar value money market funds investing in solely in direct United States agency obligations, qualifying state and political subdivision obligations and qualifying repurchase agreements, and rated in the highest rating category by a national rating agency, time deposits and other accounts fully insured by the Federal Deposit Insurance Corporation; 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.

Monies deposited in the Refunding Account will not be invested, but will be transferred to the escrow account created under the Escrow Agreement and will be invested subject to the investment requirements contained in the Escrow Agreement. See "USE OF PROCEEDS – Escrow 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.**

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 "SOURCE OF PAYMENT FOR THE BONDS – Financial Covenants" herein. MCAD does not anticipate financing any such projects with debt within the next 12 months.

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 Office of Higher Education 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 2000.

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 $800 million. The Authority has had 154 issues (including refunded and retired issues) totaling over $1 billion, of which approximately $643 million is outstanding as of June 1, 2006. 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.

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, it is current policy 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 and to refinance other debt for capital improvements.

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 trustee, are paid by the participating institution.

FINANCIAL ADVISOR

The Authority has retained Springsted Incorporated, Public Sector Advisors, of Saint 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 Dougherty & Company LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $7,657,670.05 (representing the aggregate principal amount of the Bonds plus reoffering premium of $56,700.05 less an underwriter's discount of $69,030.00) 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. This rating reflects only the view of such rating agency. Further information concerning such rating is available from Moody's.

Generally, a rating agency bases its ratings on the information and materials furnished it and on investigations, studies and assumptions by the rating agency. There is no assurance that such 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 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 Faegre & Benson LLP, of Minneapolis, Minnesota.

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 "SUMMARY OF DOCUMENTS - THE LOAN AGREEMENT — Determination of Taxability" in Appendix V). 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.

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Fryberger, Buchanan, Smith, Frederick, P.A., 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 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.

Original Issue Premium

Certain maturities of the Bonds have been sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

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 June 1, 2006.

Trustees:	Business Affiliation
David Andreas	Private Investor
Ruby Anik	Senior Vice President of Advertising, Best Buy Co., Inc.
Mary Ash Dearing	Chief Operating Officer, The Caldrea Company
Michael Halvorson	Owner, Halvorson and Associates
David Hartwell, Board Treasurer	President, Bellcomb Technologies
B. John Lindahl, Jr., Vice Chair	Private Investor
Lee Lynch	Retired Founder, Carmichael Lynch
Clinton H. Morrison	Director, Equity Research, Feltl and Company
Brian Palmer	Partner, Dorsey & Whitney LLP
Craig Rice	Executive Director, Minnesota Film and TV Board
James Ryman	Retired Vice President, State Farm Insurance
Patricia Bratnober Saunders	Artist, Educator
Rachael Scherer, Chair	Vice President of Investor Relations, Medtronic
Julie Snow	Principal, Julie Snow Architects
Gary Stern	President, Minneapolis Federal Reserve Bank
Missy Staples Thomson, Board Secretary	Director, Fannie Mae Minnesota Partnership
Hideki Yamamoto	Principal, Yamamoto Moss

Ex Officio Trustees:	
Jim Madson	Present, MCAD Alumni Association
Michael O'Keefe	President, MCAD

Life Trustees:	
Bruce Bean	President, Tartan Transportation Systems
Cy DeCosse	Artist and Photographer
Clinton Morrison	Managing General Partner, Morrison Associates

Administration

The principal officers of MCAD are as follows:

President

Michael O'Keefe is the President, Minneapolis College of Art and Design, named to the post in mid-2002. Mr. O'Keefe received his B.S. at Marquette University in Milwaukee in physics, mathematics, and philosophy and earned his M.S. at the University of Pittsburgh in nuclear physics and mathematics. He has an honorary doctor of letters from Hamline University.

Vice-President for Administration

Pamela Newsome-Prochniak became MCAD's Vice-President for Administration on January 1, 1992. She has been with MCAD since 1989. Ms. Newsome-Prochniak has an M.A. in Industrial Relations and a B.A. from the University of Minnesota, with coursework complete toward a Ph.D. in Philosophy.

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 B.A. degree from Augsburg College (1969) and has an M.B.A. from the University of Minnesota (1988). He is a certified public accountant in the state of Minnesota.

Provost and Vice-President of Academic Affairs

Professor Vince Leo was appointed Vice President of Academic Affairs in 2003. Professor Leo received his M.A. from Ohio State University. He was recently a McKnight Foundation Fellow.

Faculty

Lester Shen is the Associate Dean, Bachelor of Science Program. Professor Shen received his Ph.D. from the University of Minnesota.

Professor Karen Wirth is the Chair of the Fine Arts faculty. Professor Wirth received her MFA from the University of Minnesota.

Associate Professor Katherine Turczan is the Chair of the Media Arts faculty. Professor Turczan received her M.F.A. from Yale University.

The position of Chair of the Design faculty is currently vacant. MCAD has started the process for filling this position

Associate Professor Mary McDunn is the Chair of the Liberal Arts faculty. Professor McDunn received her M.A. from the University of Wisconsin.

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, constructed in 1916, and the Library are situated on this space. The campus consists of two academic buildings which provide classroom, office, studio and library facilities; and ten residential buildings with a current capacity of 284 students. MCAD also leases a building for Master of Art studios located approximately one mile from campus.

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, an image 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, Animation, Comic Art, Drawing, Filmmaking, Fine Arts Studio, Furniture Design, Graphic Design, Illustration, Interactive Media, Painting, Photography, Print Paper Book, 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 two semester Post Baccalaureate Certificate Program for study in advanced communications, art and design skills.

Faculty and Staff

MCAD's student-faculty ratio is approximately 12 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 2004, MCAD employed 25 full-time faculty, 7 visiting faculty, and 57 part-time faculty. Staff members employed were 99 full-time and 14 part-time. Total faculty and staff numbered 202. Payroll for the Fiscal Year ended May 31, 2005, was $6,401,000 for permanent staff and faculty salaries, $1,024,000 for temporary semester faculty salaries, and $453,000 for temporary casual labor salaries; for a total of $7,878,000.

The following table lists the average salary of the members of the full-time MCAD faculty for the 2004/2005 academic year:

Position Title	Average Salary
Professor 5 years +	$65,510
Professor, 2-4 years	$63,853
Professor, 1st year at rank	$58,571
Associate Professor	$53,897
Associate Professor, 1st year at rank	$49,740
Assistant Professor	$46,438
Assistant Professor, 1st year at rank	$41,868

The following table lists the degrees and professional designations held by the full-time faculty members for the 2004/2005 academic year:

Degree	Number
Doctorate	4
Master of Fine Arts	15
Masters (Non-MFA)	4
Bachelor	2
TOTAL	25

The MFA degree is the terminal degree for studio faculty.

New Student Applications, Acceptances and Enrollments

	2002/03	2003/04	2004/05	2005/06	2006/07*
Applications	493	571	611	616	711
Accepted	363	368	423	407	459
% Accepted	74%	64%	69%	66%	65%
Fall Enrollment	216	205	187	190	N/A
% Enrolled of Accepted	60%	56%	44%	47%	N/A
Mean ACT Scores	22	23	23	23	23

* *As of May 31, 2006.*

Student Body

The fall term enrollment at MCAD for the academic year 2005/2006 was 718, with a full-time equivalent ("FTE") enrollment of 686 students. Approximately 64% of the 2005/2006 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	2001/02	2002/03	2003/04	2004/05	2005/06
BFA	545	567	561	603	623
BS	32	40	46	53	48
Total Undergraduate	577	607	607	656	671
MFA	25	30	33	34	33
POSTBAC	19	23	26	22	14
Total Graduate	44	53	59	56	47
Total Enrollment	621	660	666	712	718
FTE Enrollment	589	625	632	668	686

Housing

Students may live either off campus or in one of MCAD's student apartments. As of fall 2005 MCAD had 10 student residences with a capacity of 284 beds, which were 98% occupied. Approximately 40% of the student population for fall 2005 resided in MCAD campus housing.

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.

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Undergraduate (full-time) per academic year	$20,190	$21,300	$22,400	$23,550	$24,800	$25,980
Fees	324	344	370	360	240	130
Total	$20,514	$21,644	$22,700	$23,910	$25,040	$26,110

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. The cost of these benefits to MCAD was $449,000 for 2004 and $511,200 for 2005.

2005/2006 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 2005/2006 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	$29,775
California Institute of the Arts	27,735
Pratt Institute (New York)	27,230
School of the Art Institute of Chicago	27,150
Cleveland Institute of Art	27,017
Maryland Institute, College of Art	26,920
California College of the Arts	26,100
San Francisco Art Institute	25,670
Minneapolis College of Art and Design	**25,040**
Art Center College of Design (Pasadena)	24,844
University of the Arts (Philadelphia)	24,330
College for Creative Studies (Detroit)	23,116
Corcoran College of Art and Design (DC)	22,800
Kansas City Art Institute	22,392
Milwaukee Institute of Art & Design	22,350
Ringling School of Art and Design (FL)	21,400
Memphis College of Art	17,460

Source: Information was obtained from each individual college's website in June 2006.

Financial Aid

Approximately 90% 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)	2001	2002	2003	2004	2005
Number of MCAD Students Receiving Aid (b)	562	563	589	636	658
MCAD Funds (c)	$1,769,984	$2,256,679	$2,825,261	$2,898,237	$3,122,676
Federal Aid Programs (d)	449,626	583,578	540,840	578,674	601,977
Minnesota State Grant Program	522,540	627,545	593,328	538,413	463,475
Federal Stafford Loan Program (e)	2,506,159	2,748,877	2,923,930	3,260,606	3,321,075
Federal Perkins Loan (f)	184,162	195,000	194,250	171,015	194,868
Work Study (g)	237,731	207,390	229,799	264,327	257,695
Total Financial Aid	$5,670,202	$6,619,069	$7,307,408	$7,711,272	$7,961,766

(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

MCAD does not have any capital campaign goals 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 2001 through 2005. See notes 2 and 6 to the financial statements in Appendix VII.

	Net Assets as of May 31:				
	2001	2002	2003	2004	2005
Permanently Restricted (Endowment)	$13,130,465	$12,848,112	$12,737,602	$13,020,077	$13,518,247
Unrestricted (Quasi-Endowment)	21,891,072	18,877,443	16,542,456	18,071,921	19,661,759
Total	$35,021,537	$31,725,555	$29,280,058	$31,091,998	$33,180,006

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 can 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 $34,417,367 as of April 30, 2006. In addition, MCAD is a beneficiary of trusts in which assets held for the benefit of MCAD had a fair value of $5,726,674 as of April 30, 2006.

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 2005 and 2004 the percentage was approximately 4.86% and 4.86% respectively, resulting in distributions to MCAD in Fiscal Years 2005 and 2004 of $1,256,000 and $1,369,000, respectively.

For Fiscal Year 2005, the total return on the above investments was 10.04%, or a gain of $3,402,455, net of trustee fees in the amount of $86,907 paid for the administration of investments. MCAD currently does not have any interest rate swaps or other derivative investments.

Gifts and Grants

Gifts and grants revenues received by net asset classification for Fiscal Years 2001 through 2005, as reported in the annual financial statements of MCAD, are as follows:

Year Ended May 31	Unrestricted	Temporarily Restricted	Permanently Restricted
2005	$299,765	$457,521	$202,530
2004	240,396	389,602	167,972
2003	263,619	393,426	210,353
2002	357,464	516,641	169,200
2001	307,043	460,100	602,889

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 VII sets forth the financial statements of MCAD for the Fiscal Year ended May 31, 2005, audited by Virchow, Krause & Company, LLP, Minneapolis, Minnesota, with comparable statements for Fiscal Year ended 2004. 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, 2001 through 2005. This table should be read in conjunction with the financial statements found in Appendix VII.

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MINNEAPOLIS COLLEGE OF ART AND DESIGN
Statement of Unrestricted Activities

For the years ended May 31,

	2001	2002	2003	2004	2005
REVENUES, GAINS AND OTHER SUPPORT					
Tuition & Fees	$11,494,736	$12,075,606	$13,308,085	$14,654,895	$15,734,558
Less: Scholarships and grants	(2,065,386)	(2,338,815)	(3,012,061)	(3,076,223)	(3,311,214)
Net tuition and fees	9,429,350	9,736,791	10,296,024	11,578,672	12,423,344
Federal government grants	145,874	176,661	114,335	131,001	138,120
State government grants	62,350	42,511	0	30,349	26,224
Private gifts and grants	307,043	357,464	263,619	240,396	299,765
Endowment income -- spending rate	1,459,086	1,452,145	1,130,733	1,050,023	952,471
Trust income	218,341	218,593	215,873	195,386	201,321
Investment income	208,580	147,961	85,097	74,686	86,048
Gains on investments (losses)	(3,166,978)	(3,044,346)	(2,334,987)	1,255,181	1,236,245
Other sources	83,986	100,276	77,640	100,591	90,136
Sales and services of auxiliary enterprises	1,303,438	1,542,790	1,895,045	1,864,094	1,833,256
	10,051,070	10,730,846	11,743,379	16,520,379	17,286,930
Net assets released from restrictions	826,865	874,332	983,227	1,124,983	1,206,015
Total Revenues, Gains and Other Support	10,877,935	11,605,178	12,726,606	17,645,362	18,492,945
EXPENSES AND LOSSES					
Program expenses					
Instruction	6,052,863	6,570,372	6,605,718	7,367,476	8,085,683
Public service	200,281	265,234	249,165	206,879	203,160
Academic support	1,304,682	1,332,046	1,402,522	1,199,497	1,152,665
Student services	1,785,822	2,217,443	2,136,860	2,248,069	2,388,353
Auxiliary enterprises	1,687,786	1,950,638	2,212,599	2,230,958	2,130,710
Support expenses					
General administration	2,208,705	2,193,913	2,011,786	2,154,997	1,959,771
Allocable expenses					
Operation and maintenance	1,410,485	1,372,990	1,351,428	1,712,786	1,841,909
Depreciation	404,909	580,617	627,103	563,092	567,101
Interest and amortization	213,661	733,056	792,143	769,923	746,671
Less: Allocated expenses	(2,029,055)	(2,686,663)	(2,770,674)	(3,045,801)	(3,155,681)
Total Expenses and Losses	13,240,139	14,529,646	14,618,650	15,407,876	15,920,342
Change in Unrestricted Net Assets	(2,362,204)	(2,924,468)	(1,892,044)	2,237,486	2,572,603
NET ASSETS -- Beginning of Year	27,080,451	24,718,247	21,793,779	19,901,735	22,139,221
NET ASSETS -- END OF YEAR	**$24,718,247**	**$21,793,779**	**$19,901,735**	**$22,139,221**	**$24,711,824**

Source: Audited financial statements of the College for fiscal years ended May 31, 2001 - 2005.

Long-Term Debt

MCAD has the following long-term debt outstanding as of May 31, 2006:

1. $7,920,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-D (Minneapolis College of Art and Design), dated June 15, 2000, with a final maturity of May 1, 2026. The bonds are a general obligation of MCAD, secured by a debt service reserve fund. The remaining principal amount of $7,125,000 is being refunded by the Bonds.

2. $4,355,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-K, dated August 15, 2001 at various rates of interest; principal outstanding is $4,230,000 with a final maturity of May 1, 2021. The proceeds were used to repay a portion of the outstanding balance of a conventional bank loan which provided temporary financing for a project that consisted of the acquisition and refurbishing of two apartment buildings for student housing, the renovation and equipping of the Julia Morrison Memorial Building and the Library, and the demolition of an existing residence and the construction of a parking lot. The bonds are a general obligation of the University, secured by a debt service reserve fund, a mortgage on the student apartments and certain related real estate financed with the bonds, a security interest in personal property and fixtures in the student apartments and an assignment of leases and rents of the student apartments.

After the issuance of the Bonds, the College's total long-term debt outstanding will be $11,900,000, which includes the Bonds and excludes the Refunded 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, 2006. MCAD expects to renew the line of credit annually.

MCAD Annual Debt Service

Fiscal Year	Debt Service on the Bonds*	Outstanding Long-Term Debt Service	Combined Long-Term Debt Service
2007	$ 577,443	$ 525,642	$ 1,103,085
2008	608,117	416,369	1,024,486
2009	612,950	411,631	1,024,581
2010	611,250	416,131	1,027,381
2011	609,100	414,881	1,023,981
2012	611,500	413,131	1,024,631
2013	611,750	415,269	1,027,019
2014	606,250	416,619	1,022,869
2015	610,250	417,181	1,027,431
2016	608,250	416,956	1,025,206
2017	605,500	420,944	1,026,444
2018	607,000	418,475	1,025,475
2019	612,500	415,200	1,027,700
2020	611,750	416,119	1,027,869
2021	610,000	410,963	1,020,963
2022	612,250	- 0 -	612,250
2023	608,250	- 0 -	608,250
2024	613,250	- 0 -	613,250
2025	611,750	- 0 -	611,750
2026	609,000	- 0 -	609,000
	$12,168,110	$6,345,511	$18,513,621

* *Debt service on the Bonds in Fiscal Year 2007 is net of accrued interest.*

The above schedule assumes no prepayments or redemption other than mandatory sinking fund redemptions. Any additional MCAD indebtedness will increase MCAD's debt service requirements in the future.

The following table shows MCAD's Net Income Available For Debt Service for Fiscal Year ended May 31, 2005, maximum annual debt service on the Bonds plus other outstanding long term debt of MCAD upon issuance of the Bonds and the coverage ratio of Fiscal Year 2005 Net Income Available for Debt Service to Maximum Annual Debt Service. The table is intended merely to show the relationship of MCAD's Net Income Available for Debt Service for Fiscal Year 2005 to MCAD's Maximum Annual Debt Service upon issuance of the Bonds. It is not intended and should not be considered a projection of future revenues, expenses, debt service or debt service coverage of MCAD. There is no assurance that the future amounts available for debt service or Maximum Annual Debt Service will correspond to the amounts or relationship set forth in the table.

Fiscal Year 2005 Net Income Available for Debt Service
and Pro Forma Coverage Calculation

Increase in Unrestricted Net Assets	$2,572,603
Plus:	
Depreciation & Amortization	579,752
Interest Expense on Funded Debt	734,020
Less:	
Equipment acquired with unrestricted funds	(12,595)
Net Assets released from restrictions	(122,732)
Investment return in excess of spending rate	
Temporary restrictions released	(299,873)
Unrestricted Investments	(1,236,245)
Fiscal Year 2005 Net Income Available for Debt Service	$2,214,930
Maximum Annual Debt Service	$1,103,085
Ratio of Fiscal Year 2005 Net Income Available for Debt Service to Maximum Annual Debt Service	2.01 times

Maximum annual debt service includes actual debt service on the Bonds (net of accrued interest) and on MCAD's existing outstanding long term debt, excluding the Refunded Bonds.

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PROPOSED FORM OF LEGAL OPINION

LAW OFFICES

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$7,670,000
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
REVENUE BONDS, SERIES SIX-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 Six-K (Minneapolis College of Art and Design), in the aggregate principal amount of $7,670,000 (the "Bonds"), dated July 1, 2006. The Bonds mature on May 1 in the years 2007 through 2017, and on May 1, 2019 and 2026, and bear interest at the interest rates per annum specified in the Indenture (defined below) for each maturity subject to an increase in such interest rates in the event of a Determination of Taxability. The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as provided in the Indenture.

The Bonds are issued for the purpose of funding a loan from the Authority to the Minneapolis College of Art and Design (the "College"), a Minnesota nonprofit corporation, located in Minneapolis, Minnesota, in order to finance the refunding of an outstanding series of bonds namely, the Authority's $7,920,000 Revenue Bonds, Series Five-D (Minneapolis College of Art and Design), dated June 15, 2000, as further described in the Loan Agreement. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College and the Trust Indenture (the "Indenture") between the Authority and Wells Fargo Bank, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee") each dated as of July 1, 2006, one or more opinions of Moore Costello & Hart PLLP, 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 PLLP as to the Loan Agreement having been duly authorized and executed and being binding upon the College, as to the corporate organization, tax-exempt status, good standing and powers of the College, and as to title to the Project Site (as defined in the Loan Agreement and Indenture), all without examining the records of the College or original title records or abstracts of title.

Except as set forth in our opinion to Dougherty & Company, LLC dated the date hereof, 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, and we express no opinion relating thereto (except to the extent, if any, stated 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 and to execute and deliver the Loan Agreement and the Indenture to secure the Bonds.

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, as assignee, under the Loan Agreement.

4. Assuming compliance with certain covenants in the Loan Agreement and Indenture, under existing laws, regulations, rulings and decisions as presently construed, the interest on the Bonds 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. 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, however, 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.

The rights of the holders of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and receivership proceedings and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in accordance with principles of equity.

Dated: July 20, 2006

Respectfully submitted,

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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, 2006. 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:

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

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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DEFINITION OF CERTAIN TERMS

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

Authority: The Minnesota Higher Education Facilities Authority.

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 and in that case, specimen signatures for the alternates shall be provided as well.

Authorized Denominations: $5,000 and any integral multiples thereof.

Authorized Institution Representative: The President, the Vice President for Administration, the Treasurer and Chief Financial Officer 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 and in that case, specimen signatures for the alternates shall be provided as well.

Authorized Investments: Investments authorized for moneys in the accounts created under the Indenture and summarized in this Official Statement in the section entitled "ACCOUNTS – Authorized Investments."

Beneficial Owner: With respect to any Authorized Denomination of a Bond in Book-Entry Form, each person who beneficially owns such Bond in such Authorized Denomination and on whose behalf, directly or indirectly, such authorized denomination of Bond is held by the Depository pursuant to the Book-Entry System.

Board of Trustees: The Board of Trustees of the College, and includes the Executive Committee or any other 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 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.

Bond Purchase Agreement: The Bond Purchase Agreement among the Authority, the College, and the Underwriter regarding the Series Six-K Bonds.

Bond Resolution: The Series Resolution of the Authority adopted on June 21, 2006, authorizing the Series Six-K Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

Bond Year: With respect to the Series Six-K Bonds, (a) the period from the Issue Date to the close of business on May 1, 2007, and (b) each succeeding 12-month period ending at the close of business on May 1 of each year in which the outstanding Series Six-K Bonds, if paid at their stated maturity dates, will be outstanding.

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

Book-Entry Form: All Bonds, if such Bonds are all held (i) in the name of the Depository (or its nominee) with each Stated Maturity evidenced by a single Bond certificate or (ii) with the approval of the College, Authority and Trustee, in any similar manner for which Beneficial Owners do not receive Bond certificates evidencing their beneficial ownership in any Bond.

Book-Entry System: A system of recordkeeping, securities clearance and funds transfer and settlement maintained for securities by the Depository and its Participants.

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 acquired from funds other than the proceeds of the Bonds or the Prior Bonds.

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

Campus Buildings: All the buildings and facilities which are owned or leased by the College and located on the College's campus located in Minneapolis, Minnesota, as further defined in the Loan Agreement.

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

Continuing Disclosure Agreement: The Continuing Disclosure Agreement between the Trustee and the College, dated as of July 1, 2006.

Costs of Issuance Account: The account established under the Indenture into which the Authority and Trustee shall deposit certain moneys for payment of costs of issuance of the Series Six-K Bonds.

Date of Taxability: The date as of which the interest on the Bonds is determined to be includable in the gross income of the Owners thereof, provided that no Bond shall bear additional interest for any period for which the statute of limitations shall be a bar to the assertion or collection of a deficiency of federal income taxes from the Owner of such Bond.

Depository: DTC, or any other person who shall be a Holder of all Bonds of any series directly or indirectly for the benefit of Beneficial Owners and approved by the Authority, College and Trustee to act as the Depository; provided any Depository shall be registered or qualified as a "clearing agency" within the meaning of Section 17A of the Securities Exchange Act of 1934, as amended.

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.

DTC: The Depository Trust Company in New York, New York, its successors or assigns.

Escrow Agreement: The Escrow Agreement among the College, the Authority, the Escrow Agent and the Prior Bonds Trustee, dated as of July 1, 2006, relating to the refunding and redemption of the Prior Bonds.

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

Financial Journal: *The Bond Buyer*, *Finance & Commerce* or any other newspaper or journal devoted to financial news published in the English language in Minneapolis or Saint 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 shall be registered except if any Bond is in Book-Entry Form, with respect to any consent or approval of a Holder of Bonds of such series, the terms shall mean the Beneficial Owner.

Indenture: The Trust Indenture between the Authority and Wells Fargo Bank, National Association, as Trustee, dated as of July 1, 2006, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

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

Interest Payment Date: May 1 and November 1 of each year, commencing November 1, 2006, and any other date on which the principal of and interest on the Bonds shall be payable.

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

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

Letter of Representations: The Letter of Representations from the Authority to the Depository and the Letter of Representations from the Trustee to the Depository, any amendments thereto, and any other agreement among such parties governing the obligations of such parties (or their successors) in respect of beneficial ownership (and the recording and transfer thereof), and payment and notices concerning the Bonds; provided no such amendment or other agreement shall be entered into unless the Authority or College shall certify that the same shall not materially prejudice the rights of any Beneficial Owner who has not consented thereto.

Loan Agreement: The Loan Agreement between the Authority and the College relating to the Bonds, dated as of July 1, 2006, as amended or supplemented from time to time.

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

MCAD: The College.

Main Building: The College's main building, including the addition thereto which was a part of the Prior Bonds Project.

Negative Pledge Property: The addition to the College's Main Building for the commons area, dining facility and studio space described as part of the Project Site in the Loan Agreement. The Negative Pledge Property does not include the portions of the Main Building existing prior to construction of the addition pursuant to the Prior Loan Agreement.

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 or 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.

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 the payment or redemption of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited 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 Article III of 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, and (iv) those additional encumbrances set forth in Exhibit C to the Loan Agreement.

Prior Bond Documents: The Prior Indenture and the Prior Loan Agreement.

Prior Bonds: The Authority's Revenue Bonds, Series Five-D (Minneapolis College of Art and Design), dated June 15, 2000, which were issued in the original principal amount of $7,920,000, and of which $7,125,000 are currently Outstanding.

Prior Bonds Project: The use of the proceeds of the Prior Bonds to provide funds loaned to the College to finance (i) the construction of an addition to the College's main building containing a commons area, a dining facility and studio space; (ii) a roof replacement; (iii) the improvement of a central air handling system; and (iv) the renovation and refurbishing, including renovation, remodeling and equipping of seven existing student apartment buildings, and related site improvements.

Prior Bonds Trustee: Norwest Bank Minnesota, National Association, now known as Wells Fargo Bank, National Association, in its capacity as the Trustee under the Prior Indenture.

Prior Indenture: The Trust Indenture, dated as of June 1, 2000, by and between the Authority and the Prior Bonds Trustee, relating to the Prior Bonds.

Prior Loan Agreement: The Loan Agreement, dated as of June 1, 2000, by and between the College and the Authority relating to the Prior Bonds and the Project Facilities.

Project: The Project consists of the advance refunding of the outstanding principal of the Prior Bonds, paying all accrued interest on the Prior Bonds through their date of maturity or redemption, funding a debt service reserve and paying certain issuance costs of the Bonds.

Project Buildings: (i) The addition to the College's Main Building for a commons area and a studio space, and (ii) the seven existing apartment buildings renovated and refurbished, as acquired, improved and constructed with the proceeds of the Prior Bonds, including investment earnings thereon.

Project Equipment: All fixtures, equipment, and other personal property of a capital nature acquired with proceeds of the Bonds or the Prior Bonds, including investment earnings.

Project Facilities: The Project Site, the Project Buildings, and the Project Equipment as the same may at any time exist.

Project Site: The land described on Exhibit A to the Loan Agreement, which is owned by the College, and on which any Project Buildings are located.

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.

Refunded Bonds: The Prior Bonds.

Refunding Account: The Refunding Account established under the Indenture into which the Authority and Trustee shall deposit a portion of the proceeds of the Series Six-K Bonds. Amounts on deposit in the Refunding Account shall not be invested but shall be immediately transferred to the Escrow Agent to be deposited in the escrow account established under the Escrow Agreement.

Reference Rate: The interest rate per annum announced from time to time by Wells Fargo Bank, National Association, as its prime or reference rate, regardless of whether the interest rate is actually charged to any customer of said bank.

Regular Record Date: The 15th day (whether or not a Business Day) of the calendar month next 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 thereof 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: The least of (i) the maximum amount of principal of and interest on the Series Six-K Bonds that accrues and is payable in any remaining Bond Year or (ii) 10% of the proceeds (par value less original issue discount, if any) received from the issuance and sale of the Series Six-K Bonds, subject to Arbitrage Regulation limitations or (iii) 125% of the average annual debt service of the Series Six-K Bonds.

Series Five-D Bonds: The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-D (Minneapolis College of Art and Design), dated June 15, 2000, issued in the original principal amount of $7,920,000.

Series Five-D Bond Account: The Bond and Interest Sinking Fund Account created under the Prior Indenture.

Series Five-D Redemption Account: The Redemption Account created under the Prior Indenture.

Series Five-D Reserve Account: The Reserve Account created under the Prior Indenture.

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

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

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

Underwriter: Dougherty & Company LLC as original purchaser of the Series Six-K Bonds.

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, contained herein.

Redemption of Prior Bonds

On the Issue Date, the Authority and the College agree that proceeds of the Series Six-K Bonds held in the Refunding Account, together with cash and securities held by the Prior Bonds Trustee on such date in the Series Five-D Reserve Account, the Series Five-D Bond Account and the Series Five-D Redemption Account, shall be transferred to and deposited in the escrow account established under the Escrow Agreement for the defeasance and redemption of the Prior Bonds and used to pay principal and interest and redemption premium, if any, when due through, and to redeem the outstanding Prior Bonds on May 1, 2010, in accordance with Article III of the Prior Indenture and the terms of the Escrow Agreement. The College agrees that it will provide, from available general funds, any additional amounts necessary to pay when due and to redeem the Prior Bonds, and that the Authority shall have no obligation to provide moneys to pay the Prior Bonds or costs of such refunding, other than from the funds and accounts described above. The Authority and the College agree to direct the Prior Bonds Trustee to cause proper and timely notice of redemption of the Prior Bonds to be given by such trustee on behalf of the Authority and the College in accordance with the provisions for such redemption under the Prior Indenture.

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 and premium, if any, on the Bonds when due. To provide for such payments the College covenants to pay for the account of the Authority in the following amounts:

(a) at least three (3) Business Days prior to each May 1 and November 1, commencing November 1, 2006, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest on the Bonds on such interest payment date, and, at least three (3) Business Days prior to each May 1, commencing on May 1, 2007, a sum equal to the amount payable as principal on such principal 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 5.01, 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 Bonds called for redemption from the Redemption Account; and

(c) 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 Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal of, premium, if any, and interest on the 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 any amounts required to be deposited therein by Section 5.02 of 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.

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 the College's 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 the Bonds outstanding, the College will keep the Project Facilities in good repair and good operating condition at its own cost, and will make such repairs, modifications, and replacements as are necessary in the judgment of the College that the Project Facilities will remain a "project" under the Act and interest on the Bonds will be exempt from federal income taxation. Except for removal of certain equipment, the College shall maintain title and possession of the Project Facilities, provided the College may sell, transfer, convey, 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) no such sale, transfer, conveyance, lease, sublease or use agreement shall be inconsistent with the Loan Agreement, the Indenture or the Act, (iii) the College shall remain fully obligated under the Loan Agreement as if such sale, transfer, conveyance, 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, 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

The College will pay all utility charges and other charges arising from the operations of the Project Facilities which, if unpaid, would become a lien on the Project Facilities; provided, that the College may in good faith contest such utility and other charges and any mechanics' or other liens filed or established against the Project Facilities, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom 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 will be subject to loss or forfeiture, in which event the College shall promptly pay and cause to be satisfied and discharged all such unpaid 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 bought by the College therein or thereon, or the Bonds, the Loan Agreement, 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 and any appeal therefrom 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, with certain deductible amounts, as follows:

(a) Insurance against loss and/or damage to the Campus Buildings, including fire and extended coverage in an amount not less than insurable replacement value of the Campus Buildings or the principal amount of the outstanding Bonds or (if greater) 80% of the full insurable replacement value of the Campus Buildings, with a deductible amount of up to $250,000.

(b) Comprehensive general public liability insurance including blanket contractual liability and personal injury liability and automobile insurance 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 up to $250,000 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, provided that the College may be self-insured with respect to all or a part of its liability for workers' compensation.

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 insurance, 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 for (a) and (b) above, in accordance with the recommendation of an independent insurance consultant employed by the College and satisfactory to the Trustee.

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 30 days before the cancellation or modification becomes effective. On or before September 1 of each year, the College shall provide the Trustee with a certificate of insurance compliance.

Damage or Destruction

If the Main Building 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 damaged or destroyed with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Main Building as an educational facility. To the extent that the claim for loss resulting from such damage or destruction 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 a portion thereof as provided for in the Loan Agreement, shall be used for redemption or purchase of outstanding Bonds. If less than all Net Proceeds is deposited in the Redemption Account (if all or a portion of the Bonds are to be redeemed) and if no Default exists, the balance of the Net Proceeds shall be returned by the Trustee to the College.

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 the Main Building shall be taken in any proceeding involving the exercise of the right of eminent domain, the College shall either redeem the Bonds in whole or in part or rebuild or restore such facility, as more fully provided in the Loan Agreement.

If the Bonds are to be redeemed, the available Net Proceeds (or if less than all the outstanding Bonds are to be redeemed, a portion thereof as provided for in the Loan Agreement) in respect to the Main Building which the College elects not to repair, rebuild or restore shall be used for redemption or purchase of outstanding Bonds. If less than all Net Proceeds is deposited in the Redemption Account (if all or a portion of the Bonds are to be redeemed) and if no Default exists, the balance of the Net Proceeds shall be returned by the Trustee to the College.

Removal of Project Equipment and Building Equipment

The College may remove Project Equipment and Building Equipment from the Project Facilities if no Default exists and upon the following conditions:

(a) the College may substitute 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 or value 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 for the redemption and prepayment of the Bonds; provided that if the depreciated book value of any item of equipment so removed was less than $25,000, such release without substitution 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; and

(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 or value of the Project Facilities.

In connection with (a) and (b) above, if the depreciated book value of the Project Equipment or, in connection with (c) above, the depreciated book value of 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, as the case may be, 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.

Existence and Accreditation of College

The College agrees that during the term of the Loan Agreement it will maintain its existence as a nonprofit corporation and will maintain the Institution's existence as a nonprofit institution of higher education under the laws of Minnesota, accredited as such by recognized accrediting agencies, and that it will not dissolve or otherwise dispose of all or substantially all of its assets or all or substantially all the assets of the Institution, or consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, except upon the conditions provided in the Loan Agreement. The conditions are the following: (a) if the surviving, resulting or transferee corporation or institution, as the case may be, is other than the Institution, such surviving, resulting or transferee corporation shall assume in writing all of the obligations of the College in the Loan Agreement and shall be either a state university or college or a nonprofit corporation operating or authorized to operate an 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 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), within the meaning of Section 145 of the Internal Revenue Code, does not exceed $150,000,000. Under the Loan Agreement, in no event will the College consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets or the assets of the Institution as an entirety if the effect of any such transaction would be to 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 (other than qualified hospital bonds), within the meaning of Section 145 of the Internal Revenue 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.

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.

Determination of Taxability

In the event a Determination of Taxability is made at any time 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 Bonds shall bear additional interest at the 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. In addition, in the event of such Determination of Taxability, the Bonds shall be subject to optional redemption, in whole or in part, on the next date for which due notice can be given or any date thereafter and the redemption price therefor shall be equal to par plus accrued interest (including additional interest from the Date of Taxability).

Other Covenants

The College further agrees to comply with all applicable laws and regulations against unlawful discrimination, and not to discriminate on account of religion, race, color, creed or national origin; to provide and file such financing statements and other instruments of further assurance as the Authority or the 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 observe all applicable State laws and regulations, including those of the Authority and the Minnesota Office of Higher Education, 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(f) 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 and any income earned or imputed therefrom.

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 and Redemption Account on a Bond principal or interest payment date are insufficient to pay when due principal and interest on the Bonds, or (ii) such failure shall continue for three 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 as defined in Section 5.02 of the Indenture, 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 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 30 days after written notice, specifying such default and requesting that it be remedied, is given to the College by the Authority or the Trustee; 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 90 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 the property of the College, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control.

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 30 days after notice and if the College has taken all action reasonably possible to remedy such default within such 30-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 under 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 under the Loan Agreement.

(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 in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to action taken under the foregoing paragraphs shall be applied first to advances and expenses, second to payment of 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, contained herein.

Granting Clauses

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

(a) 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 rights of the Authority to fees, expenses, indemnity and advances;

(b) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be paid and maintained under the Indenture (but excluding all moneys and investments in the Escrow Fund) and (ii) 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

(c) 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.

Accounts

Bond proceeds, revenues and other funds 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).

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 arbitrage rebate requirements under Section 148(f) of the Internal Revenue 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 moneys in the Accounts established by the Indenture.

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 (60) 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, shall occur and be continuing.

Remedies

Upon the occurrence of an Event of Default, 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 the breach of any of the covenants or conditions of the Loan Agreement or the Indenture, 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 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 enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, 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 the Reference Rate of Wells Fargo Bank, National Association, Minneapolis, Minnesota, 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 $10,000,000 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.

Defeasance

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 outstanding Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal of, premium, if any, and interest 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 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 all 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(f) of the Internal Revenue Code and regulations thereunder, 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 Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all 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 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;

(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; and

(e) to modify the Indenture as authorized by the Bondholders.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds 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 Bonds directly or indirectly affected (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 the Loan Agreement as set forth in the Indenture.

Amendments to the Loan Agreement

The Authority and the College with the consent of 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 as may be required (a) by the provisions of the Loan Agreement or Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement, 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 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 principal corporate trust 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 for a new Bond or Bonds of the same series, aggregate principal amount, maturity and 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.

DEPOSITORY TRUST COMPANY

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Obligations. 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 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 post-sale settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as 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, trust companies and clearing corporations 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. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Book Entry Only System

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 the 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 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 DTC nominee do not effect any change in beneficial ownership. 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. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer or Registrar 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 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 Issuer or Agent on the 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 (nor its nominee), the Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registrar, Issuer, or Agent disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or redeemed, through its Direct Participant, to the nominee holding the Bonds, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Direct Participant's interest in the Bonds, on DTC's records, to the nominee holding the Bonds. The requirement for physical delivery of the Bonds in connection with a purchase or redemption will be deemed satisfied when the ownership rights in the Bonds are transferred by the Direct Participants on DTC's records and followed by a book-entry credit of purchased or redeemed Bonds to the nominee holding the Bonds.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2005 AND 2004

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, 2005 and 2004 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
September 20, 2005

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF FINANCIAL POSITION
May 31, 2005 and 2004

ASSETS

	2005	2004
Cash and cash equivalents	$ 2,267,110	$ 3,732,550
Student accounts receivable, less allowance for doubtful accounts of $9,200 and $22,200	518	2,467
Inventories	261,491	258,073
Prepaid expenses and deferred charges	8,763	72,670
Government grants receivable	4,590	1,890
Other receivables	130,446	146,735
Contributions receivable	98,250	
Mortgages receivable	24,900	24,900
Student notes receivable, less allowance for doubtful notes of $230,500 each year	766,201	735,874
Investments	36,105,291	31,670,812
Deferred debt acquisition costs	259,271	271,922
Deposits held by trustee	1,097,271	1,180,055
Property, plant and equipment, net	13,574,715	14,129,222
TOTAL ASSETS	$ 54,598,817	$ 52,227,170

LIABILITIES AND NET ASSETS

	2005	2004
LIABILITIES		
Accounts payable	$ 416,398	$ 757,729
Accrued liabilities	1,249,863	1,158,850
Deferred revenue	299,388	239,825
Advance deposits	91,955	115,754
Actuarial liability on annuities payable	32,088	34,000
Long-term debt	11,778,014	12,190,694
Government grants refundable	950,224	923,257
Total Liabilities	14,817,930	15,420,109
NET ASSETS		
Unrestricted	24,711,824	22,139,221
Temporarily restricted	1,539,106	1,634,565
Permanently restricted	13,529,957	13,033,275
Total Net Assets	39,780,887	36,807,061
TOTAL LIABILITIES AND NET ASSETS	$ 54,598,817	$ 52,227,170

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 2005
With Comparative Totals for 2004

	2005				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2004 Total
REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 15,734,558			$ 15,734,558	$ 14,654,895
Less: Scholarships and grants	(3,311,214)			(3,311,214)	(3,076,223)
Net tuition and fees	12,423,344			12,423,344	11,578,672
Federal government grants	138,120			138,120	131,001
State government grants	26,224			26,224	30,349
Private gifts and grants	299,765	$ 457,521	$ 202,530	959,816	797,970
Endowment income - spending rate	952,471	303,529		1,256,000	1,369,000
Trust income	201,321	49,633		250,954	235,083
Investment income	86,048			86,048	74,686
Gains on investments, net of spending rate	1,236,245	299,873	295,640	1,831,758	1,657,166
Other sources	90,136			90,136	100,591
Sales and services of auxiliary enterprises	1,833,256			1,833,256	1,864,713
	17,286,930	1,110,556	498,170	18,895,656	17,839,231
Net assets released from restrictions	1,206,015	(1,206,015)			
Total Revenues, Gains and Other Support	18,492,945	(95,459)	498,170	18,895,656	17,839,231
EXPENSES					
Program expenses					
Instruction	8,085,683			8,085,683	7,367,476
Public service	203,160			203,160	206,879
Academic support	1,152,665			1,152,665	1,199,497
Student services	2,388,353			2,388,353	2,248,069
Auxiliary enterprises	2,130,710			2,130,710	2,230,958
Support expenses					
General administration	1,959,771			1,959,771	2,154,997
Allocable expenses					
Operation and maintenance	1,841,909			1,841,909	1,712,786
Depreciation	567,101			567,101	563,092
Interest and amortization	746,671			746,671	769,923
Less: Allocated expenses	(3,155,681)			(3,155,681)	(3,045,801)
Acturarial adjustment			1,488	1,488	
Total Expenses	15,920,342		1,488	15,921,830	15,407,876
Change in Net Assets	2,572,603	(95,459)	496,682	2,973,826	2,431,355
NET ASSETS - Beginning of Year	22,139,221	1,634,565	13,033,275	36,807,061	34,375,706
NET ASSETS - END OF YEAR	$ 24,711,824	$ 1,539,106	$ 13,529,957	$ 39,780,887	$ 36,807,061

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 14,654,895			$ 14,654,895
Less: Scholarships and grants	(3,076,223)			(3,076,223)
Net tuition and fees	11,578,672			11,578,672
Federal government grants	131,001			131,001
State government grants	30,349			30,349
Private gifts and grants	240,396	$ 389,602	$ 167,972	797,970
Endowment income - spending rate	1,050,023	318,977		1,369,000
Trust income	195,386	39,697		235,083
Investment income	74,686			74,686
Gains on investments, net of spending rate	1,255,181	274,284	127,701	1,657,166
Other sources	100,591			100,591
Sales and services of auxiliary enterprises	1,864,094	619		1,864,713
	16,520,379	1,023,179	295,673	17,839,231
Net assets released from restrictions	1,124,983	(1,124,983)		
Total Revenues, Gains and Other Support	17,645,362	(101,804)	295,673	17,839,231
EXPENSES				
Program expenses				
Instruction	7,367,476			7,367,476
Public service	206,879			206,879
Academic support	1,199,497			1,199,497
Student services	2,248,069			2,248,069
Auxiliary enterprises	2,230,958			2,230,958
Support expenses				
General administration	2,154,997			2,154,997
Allocable expenses				
Operation and maintenance	1,712,786			1,712,786
Depreciation	563,092			563,092
Interest and amortization	769,923			769,923
Less: Allocated expenses	(3,045,801)			(3,045,801)
Total Expenses	15,407,876			15,407,876
Change in Net Assets	2,237,486	(101,804)	295,673	2,431,355
NET ASSETS - Beginning of Year	19,901,735	1,736,369	12,737,602	34,375,706
NET ASSETS - END OF YEAR	$ 22,139,221	$ 1,634,565	$ 13,033,275	$ 36,807,061

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,973,826	$ 2,431,355
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	567,101	563,092
Amortization	12,651	12,652
Gains on investments	(2,727,641)	(2,479,085)
Increase (decrease) in allowance for student receivables	(13,000)	16,000
Loan cancellations	1,566	
Change in actuarial liability	1,488	634
Changes in assets and liabilities		
Student accounts receivable	14,949	(17,772)
Inventories	(3,418)	22,234
Prepaid expenses and deferred charges	63,907	(53,207)
Government grants receivable	(2,700)	1,422
Other receivables	16,289	48,293
Accounts payable	(147,133)	84,757
Accrued liabilities	91,013	154,072
Deferred revenue	59,563	(42,659)
Advance deposits	(23,799)	20,718
Contributions of split-interest agreement		(13,198)
Contributions restricted for long-term investment	(202,530)	(154,774)
Net Cash Flows from Operating Activities	682,132	594,534
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net	(1,753,821)	597,668
Repayment of contract for deed	46,983	44,040
Withdrawals from deposits held by trustee	82,784	87,788
Purchases of property, plant and equipment	(206,792)	(158,402)
Disbursements of loans to students	(192,725)	(170,015)
Repayments of loans from students	160,832	280,298
Net Cash Flows from Investing Activities	(1,862,739)	681,377
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on indebtedness	(412,680)	(299,651)
Receipts of contributions restricted for long-term investment	104,280	154,774
Proceeds from split-interest agreement		50,000
Payments to annuitant	(3,400)	(3,436)
Increase in refundable government grants	26,967	38,176
Net Cash Flows from Financing Activities	(284,833)	(60,137)
Change in Cash and Cash Equivalents	(1,465,440)	1,215,774
CASH AND CASH EQUIVALENTS - Beginning of Year	3,732,550	2,516,776
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,267,110	$ 3,732,550
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 735,502	$ 741,400
Noncash investing activities		
Property, plant and equipment acquired through accounts payable	-	194,198

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 accounting principles generally accepted in the United States of America. 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 at the date of gift.

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.

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi-endowment funds.

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 exhaustible long-lived assets, or of cash and other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets 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.

Receivables - An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured.

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

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.

Deferred Debt Acquisition Costs - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness.

Deposits Held by Trustee - Deposits held by trustee include amounts restricted for debt service as required by the related trust indenture, and in 2004 also included bond proceeds which were available for construction purposes.

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.

Deferred Revenue - Certain revenue related to summer education programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses prior to the start of the course.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Actuarial Liability on Annuities Payable - In 2004, the College began administering a charitable gift annuity. A charitable gift annuity provides for payment of a fixed amount over a specified period of time to the designated annuity beneficiary. Assets held under the charitable gift annuity are recorded at fair value in the College's statement of financial position. On an annual basis, the College will revalue the actuarial liability on annuities payable to make distributions to the annuitant based on actuarial assumptions. The present value of the estimated future payments was calculated using a discount rate of 3.8% and applicable mortality rates. No new gifts were received during the year ended May 31, 2005. During the year ended May 31, 2004, the College received gift income relating to the deferred gift agreement of $13,198. Total assets held by the College under the deferred gift agreement were $43,798 and $47,198 at May 31, 2005 and 2004, respectively.

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 each of the years ended May 31, 2005 and 2004, the College contributed 8.5% 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, 2005 and 2004 was approximately $511,200 and $449,000, 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.

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. The College is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. 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 $463,534 and $507,787, respectively, during the year ended May 31, 2005. The amounts of such grants were $507,561 and $483,345, respectively, during the year ended May 31, 2004.

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

Fund-Raising and Advertising Costs - Fund-raising expenses totaled $317,700 and $304,000 for the years ended May 31, 2005 and 2004, respectively. Advertising costs are expensed when incurred and totaled $143,500 and $109,650 for the years ended May 31, 2005 and 2004, respectively.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets consisted of the following at May 31, 2005 and 2004:

	2005	2004
Endowment funds	$ 13,518,247	$ 13,020,077
Annuity funds	11,710	13,198
	$ 13,529,957	$ 13,033,275

Temporarily restricted net assets consisted of the following at May 31, 2005 and 2004:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 446,380	$ 419,107
Net investment in plant	1,092,726	1,215,458
	$ 1,539,106	$ 1,634,565

At May 31, 2005 and 2004, the College's unrestricted net assets were allocated as follows:

Operations	$ 955,949	$ 776,596
Long-term investment (quasi-endowment funds)	19,661,759	18,071,921
Loans to students	219,075	207,039
Designated for plant fund - general	444,000	439,000
Designated for plant fund - reserves	1,232,000	433,000
Net investment in plant	2,199,041	2,211,665
	$ 24,711,824	$ 22,139,221

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, 2005 and 2004:

	2005	2004
Scholarships, instruction and other departmental support	$ 1,083,283	$ 1,002,251
Amortization of contributions expended for long-lived assets	122,732	122,732
	$ 1,206,015	$ 1,124,983

NOTE 4 - CONTRIBUTIONS RECEIVABLE

At May 31, 2005, contributions receivable include an unconditional promise to give totaling $98,250. The College expects to collect $50,000 in both fiscal 2006 and 2007. The amount due in two years was discounted at an interest rate of 1.8%. The amount due in less than one year was not discounted. The total discount at May 31, 2005 was $1,750.

NOTE 5 - INVESTMENTS

Investments consisted of the following at May 31, 2005 and 2004:

	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Pooled Assets				
Money market funds	$ 148,367	$ 148,367	$ 177,262	$ 177,262
Bonds, notes and certificates	3,159,615	3,141,001	3,531,640	3,466,635
Stocks			4,863,117	3,744,786
Mutual funds	22,114,387	19,306,816	14,851,264	13,816,833
Limited partnership	2,458,974	2,458,974	1,779,426	1,779,426
Contract for deed	1,308,051	1,308,051	1,355,034	1,355,034
Common fund - intermediate term fund	1,520,846	1,500,000		
	30,710,240	27,863,209	26,557,743	24,339,976
Separately Invested Assets Held in Trust				
Money market funds	143,186	143,186	92,565	92,565
Bonds, notes and certificates	1,024,087	982,375	1,401,973	1,372,055
Stocks	3,013,008	2,476,682	2,790,124	2,431,408
Mutual funds	1,163,598	1,094,881	827,806	797,070
Other	51,172	63,680	601	23,801
	5,395,051	4,760,804	5,113,069	4,716,899
TOTAL	$ 36,105,291	$ 32,624,013	$ 31,670,812	$ 29,056,875

These investments were classified at May 31, 2005 and 2004 as follows:

	2005	2004
Operating investments	$ 3,025,129	$ 576,668
Long-term investments	33,080,162	31,094,144
	$ 36,105,291	$ 31,670,812

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 was 4.86% for fiscal years 2005 and 2004. Based on this formula and spending rate, the total distributable income for the years ended May 31, 2005 and 2004 amounted to $1,256,000 and $1,369,000, respectively. Earnings in excess of the spending rate, if any, are reinvested in the quasi-endowment funds.

NOTE 5 - INVESTMENTS (CONTINUED)

For fiscal 2005, the total return on the above investments was 10.04%, or a net gain of $3,402,455. This was net of trustee fees paid for the administration of endowment investments totaling $86,097. The total return for 2005 includes net gains of $2,727,641. For fiscal 2004, the total return on the above investments was 10.60%, or a net gain of $3,261,249. This was net of trustee fees paid for the administration of endowment investments totaling $124,439. The total return for 2004 includes net gains of $2,479,085.

The fair value of all permanent endowment assets is currently in excess of all donors cumulative original gift values. However, as a result of market conditions in recent years, the fair value of assets allocated to certain individual endowment funds is currently less than the gift value of those individual funds. Deficit balances in various individual funds total approximately $73,400 and $135,000 at May 31, 2005 and 2004, respectively. Valuation losses in excess of historical gift value reduce temporarily restricted net assets to the extent of prior accumulated gains with the balance of such losses recorded in the unrestricted net asset class. The market volatility of equity-based investments is expected to continue impacting available distributions.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at May 31, 2005 and 2004:

	2005	2004
Land	$ 968,378	$ 968,378
Furniture, fixtures and equipment	899,807	1,470,172
Buildings and building improvements	19,079,588	19,079,588
	20,947,773	21,518,138
Accumulated depreciation	(7,373,058)	(7,388,916)
	$ 13,574,715	$ 14,129,222

NOTE 7- LONG-TERM DEBT

Long-term debt consisted of the following at May 31, 2005 and 2004:

	2005	2004
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-S (original amount of $225,000)	$ 13,013	$ 37,880
Minnesota Higher Education Facilities Authority Revenue Notes, Series Three-Y (original amount of $1,612,000)	210,001	407,814
Minnesota Higher Education Facilities Authority Revenue Notes, Series Five-D (original amount of $7,920,000)	7,300,000	7,465,000
Minnesota Higher Education Facilities Authority Revenue Notes, Series Five-K (original amount of $4,355,000)	4,255,000	4,280,000
	$ 11,778,014	$ 12,190,694

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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. The bonds require semiannual principal and interest payments of $13,415 through July 1, 2005 at an interest rate of 6.18%.

The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-Y were issued in June 1994 to finance the main building addition. The bond agreement requires the College to comply with certain financial and other covenants. This includes the requirement that the College 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 bonds require semi-annual principal and interest payments of $110,011 through June 1, 2006 at an interest rate of 6.33%.

Minnesota Higher Education Facilities Authority Revenue Bonds, Services Five-D were issued in June 2000 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 bond agreement requires the College to comply with certain financial and other covenants. This includes the requirement that the College agrees not to pledge or otherwise encumber a portion of unrestricted net assets and temporarily restricted net assets having a fair value of not less than $4,000,000. The bonds mature in annual installments of $175,000 to $220,000 through May 1, 2010 with payments of $3,160,000 and $3,155,000 due May 1, 2020 and 2026, respectively. The term bonds maturing in 2020 and 2026 are subject to annual sinking fund payments in the years 2011 through 2026 in the amounts ranging from $235,000 to $615,000. Interest rates vary from 5.60% to 6.75%.

Minnesota Higher Education Facilities Authority Revenue Bonds, Services Five-K were issued in August 2001 to finance improvements to the College's Julia Morrison Memorial building and the College's library and acquisition of two apartment buildings and the renovation, refurbishing and equipping of these apartment buildings. The bond agreement requires the College to comply with certain financial and other covenants. This includes the requirement that the College agrees not to pledge or otherwise encumber a portion of unrestricted net assets and temporarily restricted net assets having a fair value of not less than $4,000,000. The bonds mature in annual installments of $25,000 through May 1, 2006 with payments of $400,000, $670,000, $1,375,000 and $1,785,000 due May 1, 2008, 2011, 2016 and 2021, respectively. The term bonds maturing in 2008, 2011, 2016 and 2021 are subject to annual sinking fund payments in the years 2007 through 2021 in the amounts ranging from $195,000 to $390,000. Interest rates vary from 4.250% to 5.375%.

The College has a line of credit agreement with Wells Fargo Bank under which it may borrow up to $1,000,000 with interest equal to the prime rate. At May 31, 2005 and 2004, the College did not have any outstanding borrowings against its line. The line of credit expires on December 31, 2005.

Total scheduled maturities of all debt for each of the five years subsequent to May 31, 2005 are: $423,000; $380,000; $400,000; $420,000 and $445,000, respectively. Interest expense totaled $734,020 and $757,271 for the years ended May 31, 2005 and 2004, respectively.

NOTE 8 - 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 boiler services during the year under the terms of its service contract with the Society. This contract is subject to renewal on an annual basis. The cost of these services totaled $192,107 and $182,975 for the years ended May 31, 2005 and 2004, respectively.

The College must also pay its pro rata share of the costs associated with the parking ramp lot. These costs totaled $160,425 and $119,011 for the years ended May 31, 2005 and 2004, respectively.

NOTE 9 - 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.