OFFICIAL STATEMENT DATED APRIL 17, 2012

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.")

$3,215,000
Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-N (Minneapolis College of Art and Design)
(DTC Book Entry Only)

Dated Date: Date of Delivery **Interest Due: May 1 and November 1, commencing November 1, 2012**

Year	Amount	Interest Rate	Yield	CUSIP 60416H:	Year	Amount	Interest Rate	Yield	CUSIP 60416H:
2014	$285,000	1.50%	1.50%	XG 4	2018	$315,000	3.00%	2.80%	XL 3
2015	$290,000	2.00%	1.75%	XH 2	2019	$325,000	3.00%	3.05%	XM 1
2016	$295,000	2.25%	2.15%	XJ 8	2020	$330,000	3.25%	3.30%	XN 9
2017	$305,000	3.00%	2.45%	XK 5	2021	$345,000	3.50%	3.55%	XP 4

$725,000 3.75% Term Bonds due May 1, 2023 Yield 3.80% CUSIP 60416H XR 0

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, 2020 or thereafter at par, in whole or in part prior to maturity, as described herein. 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 April 1, 2012 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 Baker Daniels LLP, Minneapolis, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about April 26, 2012.

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 with respect to the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, MCAD or the Underwriter. The information contained herein, except as it relates to the Authority, DTC, and the Trustee, has been obtained from MCAD and is not guaranteed as to accuracy or completeness. Information relating to the Authority, DTC, and the Trustee has been obtained from such persons and is not guaranteed as to accuracy or completeness. Information regarding the tax-exempt status of the Bonds has been provided by Bond Counsel. Except for information concerning the Authority, the information contained herein is not to be construed as a representation by the Authority. 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.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers provided in this Official Statement are included for convenience of the holders and potential holders of the Bonds. 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. Neither the Authority, the Underwriter, nor MCAD takes any responsibility for the accuracy of such CUSIP numbers.

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

MEMBERS

Janet Withoff, Chair	Consultant – Planning and Grant-Writing, Resident of Orono, Minnesota
Tammy L. H. McGee, Vice Chair	Vice President for Finance and Administration and Chief Financial Officer, Augsburg College, Resident of Maple Grove, Minnesota
Michael D. Ranum, Secretary	Chief Financial Officer, BWBR Architects, Inc., Resident of Circle Pines, Minnesota
Gary D. Benson	Project Director, ICS Consulting, Resident of New Brighton, Minnesota
Kathryn Balstad Brewer	Retired Banker and Educator, Resident of New Brighton, Minnesota
Mary F. Ives	Real Estate Business Owner, Resident of Grand Rapids, Minnesota
David D. Rowland	Executive Vice President, The Travelers Companies, Inc., Resident of Edina, Minnesota
Raymond VinZant, Jr.	Plumbing Expert and Instructor at Anoka Technical College, Resident of Wyoming, Minnesota
Paul Cerkvenik (Ex Officio)	President, Minnesota Private College Council
Tim Geraghty (Ex Officio)	Chief Financial Officer, Minnesota Office of Higher Education

Marianne T. Remedios, Executive Director

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

Financial Advisor
Springsted Incorporated

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OFFICIAL STATEMENT

$3,215,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
REVENUE BONDS, SERIES SEVEN-N
(MINNEAPOLIS COLLEGE OF ART AND DESIGN)
(DTC 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 $3,215,000 Revenue Bonds, Series Seven-N (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 April 1, 2012 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 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-K (Minneapolis College of Art and Design) (the "Series Five-K Bonds" or the "Prior Bonds") to: (i) refund on a current refunding basis the outstanding principal of and interest on the Prior Bonds, (ii) fund a debt service reserve, and (iii) pay the issuance costs related to the Bonds. The principal amount of the Series Five-K Bonds to be refunded is $3,160,000. 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. See Appendix IV – "DEFINITION OF CERTAIN TERMS – Reserve Requirement." The Bonds are not secured by a mortgage on or security interest in any real property or personal property.

Adequacy of Revenues; Future Liens; Other Indebtedness

Payment of principal of and interest on the Bonds is intended to be made from MCAD's Loan Repayments. 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.

Except for the Negative Pledge Property, 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.

In connection with other of MCAD's indebtedness, MCAD has agreed to financial covenants that are more restrictive than the financial covenants in the Loan Agreement. If MCAD were to default on those more restrictive covenants, such indebtedness may become immediately due and payable by MCAD which may adversely impact MCAD's ability to make Loan Repayments.

Reliance on Tuition and Fees; Decline in Enrollment

The adequacy of MCAD's revenues will be substantially 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.

MCAD experienced a 7% reduction in applications and a one-third reduction in enrollment in the 2011-2012 academic year, as compared to the previous year. The decline is attributed to a number of factors, including increased competition from other schools and adverse general economic conditions. MCAD has taken steps to adjust its budget to reflect decreased actual enrollment and has engaged an enrollment consultant to review and advise on future award packages. See Appendix I – "New Student Applications, Acceptances and Enrollment."

Competition for Students

MCAD competes nationally with a number of schools that specialize in the arts. See Appendix I – "2011/2012 Comparison of Art Colleges, Schools or Institutes Selected by MCAD" for a sample of schools MCAD believes compete with it as specialty providers of art instruction. In addition, certain private and public colleges and universities have strong arts curricula and compete with MCAD for students.

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.

(3) International events, including any acts of war and terrorism, which may have adverse effects on enrollment and investments.

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 the Municipal Securities Rulemaking Board, and to provide notices of the occurrence of any of the fourteen events enumerated in the Rule not later than ten business days after the occurrence of the event. 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 at the time the Bonds are delivered, a copy of which is available from MCAD or the Trustee. Appendix III, “Information to be Provided as Continuing Disclosure,” 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 or permitted by the Rule.

MCAD has never failed to comply in any material respect with any previous undertakings under the Rule to provide annual reports or notices of material events. MCAD’s failure to comply with the Undertaking will not constitute an event of default on the Bonds (although holders will have other remedies at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must 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, may adversely affect the Bonds’ transferability, liquidity, and market price.

THE BONDS

General

The Bonds will be dated as of their date of delivery. The Bonds will mature each May 1, commencing May 1, 2014, 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, 2012.

Prior Redemption

Mandatory Redemption

The Bonds maturing on May 1, 2023 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, 2023	
Year	Amount
2022	$355,000
2023*	$370,000

* *Final maturity*

The Term Bonds to be retired pursuant to the mandatory redemption obligations set forth above, may, at MCAD's option, 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

At MCAD's request, the Authority may elect to prepay on May 1, 2020 and on any day thereafter Bonds maturing on or after May 1, 2021, at a price of par plus accrued interest. Redemption may be in whole or in part in such order of maturity as MCAD directs 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, 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 20 days, and if more than 60 days, then again not less than 20 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, in whole 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) and without a premium.

Book Entry Only 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 Appendix VI, “The Depository Trust Company.”

USE OF PROCEEDS

The Plan of Finance

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

1. refund on a current basis the outstanding Series Five-K Bonds (the “Prior Bonds”) and interest thereon;
2. fund a debt service reserve; and
3. pay the issuance costs.

The Prior Bonds are outstanding in the amount of $3,160,000.

The Prior Bonds have a final maturity date of May 1, 2021 and are callable in full on any date beginning May 1, 2011 at a price of 100% plus interest accrued to the redemption date. The Prior Bonds are expected to be refunded in their entirety. See "USE OF PROCEEDS – Prior Bonds Accounts" immediately following.

The Prior Bonds were issued to repay a portion of the outstanding balance of a conventional bank loan which provided temporary financing for a project that consisted of (i) the acquisition and refurbishing of two apartment buildings for student housing, (ii) the renovation and equipping of the Julia Morrison Memorial Building and the Library on the MCAD campus, and (iii) the demolition of an existing residence and the construction of a parking lot. Proceeds from the Prior Bonds also funded a reserve fund and paid certain costs of issuance.

Prior Bonds Accounts

At the Issue Date, a portion of the Bond proceeds and funds from the Prior Bonds accounts will be deposited with the Prior Bonds Trustee into (a) the Bond and Interest Sinking Fund Account for the Prior Bonds in an amount sufficient to pay principal maturing on and interest accrued to May 1, 2012, and (b) into the Redemption Account for the Prior Bonds an amount sufficient to pay on June 1, 2012 the outstanding principal balance of the Prior Bonds plus interest accrued on the Prior Bonds to June 1, 2012. The Prior Bonds Trustee will make the scheduled principal and interest payment on May 1, 2012 from the Bond and Interest Sinking Fund Account for the Prior Bonds and will, per instruction from MCAD and the Authority, redeem the outstanding Prior Bonds at par plus accrued interest from the Prior Bonds Redemption Account and the Prior Bonds Reserve Account on June 1, 2012.

SOURCES AND USES OF FUNDS

Sources	
Par Amount of Bonds	$3,215,000.00
Net reoffering premium	7,823.40
Prior Bonds Reserve Account	420,943.76
MCAD Funds	53,623.22
Total Sources	$3,697,390.38
Uses	
Deposit to Prior Bonds Debt Service and Redemption Accounts	$3,257,004.69
Debt Service Reserve	321,500.00
Costs of Issuance, Including Underwriters Discount	118,079.69
Rounding Amount	806.00
Total Uses	$3,697,390.38

Insofar as Bond Issuance costs, including the Underwriter's discount, exceed 2% of the proceeds (par plus net original issue premium) of the Bonds, such excess will be paid by MCAD from sources other than Bond proceeds.

Accrued interest, if any, and the rounding amount 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 Reserve Account will be fully funded to the Reserve Requirement from proceeds of the Bonds on the date of issuance of the Bonds.

The Bonds are secured by the Authority's pledge of the Loan Repayments to the Trustee, 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.

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 MCAD's Main Building.

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. MCAD shall maintain cash and cash equivalents and investments available to pay debt service on Funded Debt and to pay MCAD's operating expenses 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, 2012, MCAD shall provide the Trustee, within 150 days after each Fiscal Year end, its financial statements for the preceding year accompanied by the report thereon of MCAD's Independent auditor. Such financial statements shall be prepared according to generally accepted accounting principles. Unless and until the Trustee requests MCAD's Independent auditor to provide a certificate as hereinafter described, MCAD shall provide the Trustee with a Certificate of an Authorized Institution Representative setting forth the cash and cash equivalents and investments available to pay debt service on Funded Debt and to pay MCAD's operating expenses, based on the information within MCAD's audited financial statements. MCAD agrees to cause cash and cash equivalents and investments available to pay debt service on Funded Debt and to pay MCAD's operating expenses to increase to at least $4,000,000 on or prior to the next valuation date to the extent the fair value of the cash and cash equivalents and investments available to pay debt service on Funded Debt and to pay operating expenses is less than $4,000,000. MCAD agrees not to pledge or otherwise encumber a portion of the cash and cash equivalents and investments available to pay debt service on Funded Debt and to pay operating expenses having a fair value of at least $4,000,000.

The Trustee, in its sole discretion, may require a certificate from MCAD's Independent auditor (or a note in the audited financial statements) setting forth the cash and cash equivalent and investments available to pay debt service on Funded Debt and to pay MCAD's operating expenses, based on the information within MCAD's audited financial statements in lieu of MCAD's certificate required above.

b. 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, (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), or (iii) if Funded Debt for capital projects if the total Funded Debt, outstanding and to be incurred, is less than 50% of the sum total of (a) cash and cash equivalents, and (b) investments, each as reported on the Statement of Financial Position of MCAD's audited financial statements for the most recent fiscal year), unless the average Debt Service Coverage Ratio for the most recent two 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; (b) exclude net assets released from restriction representing acquisition of land, buildings and equipment; (c) exclude extraordinary gains or losses; (d) exclude write-offs for debt extinguishment; and (e) exclude investment income in excess of the amount generated by spending rate and realized and unrealized net gains or losses in excess of the amount generated by the spending rate approved by the Board of Trustees or an authorized committee thereof and include the amount generated by the approved spending rate which is in excess of investment income and realized and unrealized net gains or losses.

"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 subject to the following: (i) If any part of the Funded Debt is outstanding variable rate indebtedness, the rate of interest on the variable rate indebtedness for future Fiscal Years shall be computed at the average rate of interest for the then most recent Fiscal Year or, at MCAD's election, for the then current interest period; if variable rate indebtedness is proposed to be issued, the rate of interest shall be the initial variable rate as estimated by an Independent Management Consultant, or an investment banking firm selected by the Corporation to underwrite the sale of such variable rate indebtedness. (ii) If any part of the Funded Debt outstanding or to be issued is a guarantee by MCAD of indebtedness of a third person or so called "pass through" or "covered" indebtedness (MCAD having borrowed money to relend to a third person), such Funded Debt shall be excluded to the following extent: if the third person (whose debt is guaranteed or whose payments are expected to service MCAD's obligations with respect to such Funded Debt) had a Debt Service Coverage Ratio (including the amount of debt proposed to be incurred in the computation of debt service) of at least 200% then 100% of such Funded Debt shall be excluded; if such Debt Service Coverage Ratio is at least 150%, then 50% of such Funded Debt shall be excluded; if such Debt Service Coverage Ratio is at least 125%, then 25% of such Funded Debt shall be excluded; and if such Debt Service Coverage Ratio is below 125%, then none of such Funded Debt shall be excluded. (iii) The amount of debt service with respect to "balloon" indebtedness may, at the option of MCAD, be calculated on a level debt service basis over the period ending the Fiscal Year when the balloon is payable; as used herein, "balloon" indebtedness means Funded Debt 25% or more of the principal of which is due in any 12 month period. (iv) The amount of debt service with respect to "put" indebtedness shall be calculated at the maximum amount of principal of or interest on such indebtedness which MCAD may be required to purchase or redeem in any Fiscal Year; provided that if there is a written commitment from a bank or other financial institution to refinance the amount of any indebtedness which MCAD may be required to redeem or purchase, the debt service with respect to such put indebtedness may, at the option of MCAD, be calculated on the basis of the repayment schedule contemplated by such written commitment, commencing the date such commitment will (unless renewed) expire; "put" indebtedness means Funded Debt (A) which MCAD may be required, at the option of the holder thereof, to prepay or purchase prior to the stated maturity date thereof, in whole or in part, but if in part, in an amount 25% or more of the original principal amount thereof and (B), if subject to variable rates, is then in an interest rate reset period of more than two years. (v) There shall not be taken into account any part of the Funded Debt of MCAD which has been refunded, refinanced or otherwise defeased under an arrangement whereby all future payments of such indebtedness will be met from moneys and investments held by an indenture trustee or escrow agent, provided that any such investments shall be direct obligations of or obligations fully guaranteed by the United States of America. (vi) If any part of such Funded Debt consists of crossover refunding debt, no part of the debt service with respect to such crossover refunding debt shall be taken into account prior to the crossover date, and after the crossover date, no part of the debt service of the refunded debt shall be taken into account. (vii) If any part of such Funded Debt is "nonrecourse" indebtedness or "subordinated" indebtedness, no part of the debt service with respect thereto shall be taken into account; "nonrecourse" indebtedness means indebtedness payable only from a limited fund and secured only by property purchased or acquired from the proceeds of such indebtedness; "subordinated" indebtedness means indebtedness the principal and interest on which are subordinated to payment of the Bonds by a written instrument of the holder, a copy of which is filed with the Trustee. (viii) The amount of any reserve fund for any Funded Debt issued or proposed to be issued may be deducted from debt service for the Fiscal Year or Years in which such Funded Debt finally matures and for payment of which the reserve fund moneys may be used without creating a default.

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

For purposes of (a) and (b) 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 Baker Tilly Virchow Krause LLP in the report of MCAD's financial statements for the Fiscal Year ended May 31, 2011.

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, if any, and the rounding amount 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 available moneys from the Prior Bonds Trustee, to pay the principal and interest as it comes due on the Prior Bonds on May 1, 2012 and the redemption price of the Prior Bonds on the redemption date, as described herein. The monies deposited to this account shall immediately be transferred to the Prior Bonds Trustee for deposit into the applicable Bond and Interest Sinking Fund Account and Redemption Account for the Prior Bonds. See "USE OF PROCEEDS – Prior Bonds Accounts."

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, if any, and the rounding amount, 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, 2012 and as of the first day of the calendar month next preceding each Interest Payment Date 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. Section 5.04 of the Indenture sets forth the specific parameters to the type, credit quality, and maturity of investments. See Appendix V – “Summary of Documents – The Indenture” herein.

Monies deposited in the Refunding Account will not be invested in that account, but will be transferred to the Prior Bond Trustee for deposit into the appropriate Bond and Interest Sinking Fund Account and Redemption Account. See “USE OF PROCEEDS – Prior Bonds Accounts.”

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 $1.3 billion. The Authority has had 187 issues (including refunded and retired issues) totaling over $1.9 billion, of which approximately $974 million is outstanding as of March 1, 2012. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State.

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 $3,191,748.40 (representing the aggregate principal amount of the Bonds plus a net reoffering premium of $7,823.40 less an underwriter’s discount of $31,075.00). There is no 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. Any explanation of the significance of the rating may be obtained only from Moody's.

There is no assurance that the rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

The Authority and MCAD are not aware of any pending or threatened litigation which would affect the validity of the Bonds, the tax-exempt nature of the Bonds, the authority of either party to enter into the Bond-related documents or the ability of either to perform as described herein, or materially affect MCAD’s ability 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 Saint Paul and Minneapolis, Minnesota; and for the Underwriter by Faegre Baker Daniels LLP, of Minneapolis, Minnesota.

TAX EXEMPTION

Federal Tax Considerations

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 Bond Counsel, under present laws and rulings: interest on the Bonds is not includable in gross income for federal 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. However, the interest is includable in "adjusted current earnings" for purposes of computing the federal alternative minimum taxable income of corporations.

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

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

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

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal or state tax legislation.

Minnesota Tax Considerations

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Bond Counsel, under present laws and rulings, interest on the Bonds is not includable 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 the Minnesota alternative minimum tax applicable to individuals, estates and trusts. However, the interest is subject to the Minnesota franchise tax imposed on corporations, including financial institutions, measured by taxable income and the alternative minimum tax base.

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.

Original Issue Discount

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

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.

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.

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 24 elected trustees, two ex officio trustees, and three 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 March 1, 2012.

Trustees:	Business Affiliation
Bruce Bean (Life Trustee), Chair	President, Delta Waseca
Kevin Bennett	Principal, Fair School
Leslie Berkshire	Vice President, Regional Marketing & Sponsorship Manager, U.S. Bank
Uir Camarena	Principal, Somos, Inc.
Anne Cashill	Brand Strategies, J.C. Penney

Administration

The principal officers of MCAD are as follows:

President

Jay Coogan became President of MCAD on July 1, 2009. He has an MFA from Hunter College and a BFA from Brown University. He has taught at Rhode Island School of Design and was the Provost at that institution prior to accepting the position of President of MCAD.

Vice President of Finance and Chief Financial Officer

Daniel Sjoquist became MCAD's Vice President of Finance and Chief Financial Officer on April 1, 2007. He was previously a Partner at Froehling, Anderson, Plowman & Wasmuth where he practiced Public Accounting for twenty years. He received his BBA at the University of Minnesota and his MPA at Minnesota State University. He has been licensed to practice as a CPA since 1980.

Vice President of Administration

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

Vice President of Academic Affairs

Karen Wirth is currently acting as the interim Vice President of Academic Affairs. She holds an MFA in Sculpture from the University of Minnesota and a BFA in Art Education from the University of Wisconsin-Milwaukee.

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 Institute of 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 eight residential buildings with a current capacity of 266 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; Branding, Marketing and Public Relations; Comic Art; Drawing; Entrepreneurship and Project Management; Filmmaking; Fine Arts Studio; Furniture Design; Graphic Design; Illustration; Painting; Photography; Print Paper Book; Sculpture; and Web and Multimedia Environments.

The Bachelor of Science degree is awarded in Visualization.

MCAD offers two graduate degrees, a Master of Fine Arts and a Master of Arts in Sustainable Design.

MCAD has Post Baccalaureate Certificate Programs in Graphic Design and in Marketing Online.

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 2011, MCAD employed 33 permanent benefit eligible faculty, 8 visiting faculty, and 74 part-time faculty. Permanent staff members employed totaled 112 full-time and 18 part-time employees. Total faculty and staff numbered 245. Payroll for the Fiscal Year ended May 31, 2011, was $9,641,511 for permanent staff, temporary semester faculty, and temporary casual labor.

The following table lists the average salary of the members of the full-time MCAD faculty for the 2011/2012 academic year:

Position Title	Average Salary
Professor 5 years +	$73,727
Professor, 2-4 years	$71,862
Professor, 1st year at rank	$65,916
Associate Professor	$60,657
Associate Professor, 1st year at rank	$55,979
Assistant Professor	$52,263
Assistant Professor, 1st year at rank	$47,119

The following table lists the degrees and professional designations held by the full-time faculty members for the 2011/2012 academic year:

Degree	Number
Doctorate	5
Master of Fine Arts	19
Masters (Non-MFA)	7
Bachelor	9
Non-degree	1
TOTAL	41

The Master of Fine Arts degree is the terminal degree for studio faculty.

New Student Applications, Acceptances and Enrollments

	2007/08	2008/09	2009/10	2010/11	2011/12
Applications	862	885	614	611	571
Accepted	485	445	410	417	353
% Accepted	56.3%	50.3%	66.8%	68.3%	61.8%
Fall Enrollment (FTE)	245	186	172	185	123
% Enrolled of Accepted	50.5%	41.8%	42.0%	44.4%	34.8%
Mean ACT Scores	24	24	23	24	23

MCAD experienced an all time high enrollment in the 2007-08 academic year. The following two years included a planned reduction in enrollment to better match MCAD's facility capacity and enrollment to optimize the student-faculty ratio. The reduction in fall 2011 enrollment is attributable to a number of factors, including increasing competition from other schools and adverse general economic conditions. In addition, MCAD's enrollment from fall to spring in the 2011-12 academic year fell more than predicted due to more students than expected graduating after the fall semester and fewer mid-year admissions than anticipated.

MCAD has taken steps to adjust its budget for the 2011-2012 year to reflect the actual enrollment level, including reducing College discretionary pension contributions for staff and faculty and decreasing MCAD's non-personnel budget. These efforts will continue into the 2012-2013 year.

MCAD has also engaged an enrollment consultant to review and advise on future award packages. These measures will allow MCAD to adjust institutional discounts offered to students beginning with the 2012-13 academic year. This adjustment in institutional discounts will increase the College's unfunded discount rate from approximately 27% to approximately 38% over the next four years. MCAD's goal is to have the number of first year students enrolling over the next four years to return to the 2008/2009 number of approximately 180 per year. This goal would restore the student body to capacity levels by the 2015/2016 academic year. There is no assurance that this goal will be achieved.

Student Body

The fall term enrollment at MCAD for the academic year 2011/2012 was 678, with a full-time equivalent ("FTE") enrollment of 645 students. Approximately 65% of the 2011/2012 freshman class were from the State of Minnesota.

For the fiscal year ending May 31, 2012, MCAD budgeted a decrease of $780,000 in Net Unrestricted Assets from operations. Due to a larger that expected decrease in spring enrollment described above, management expects the projected Fiscal Year 2012 decrease in Unrestricted Net Assets will exceed its earlier estimate. MCAD has taken actions to improve enrollment, including engaging a consultant and increasing the unfunded discount rate. As a result, applications for Fall 2012 are 649 as of March 29, 2012 compared to 538 as of March 29, 2011.

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	2007/08	2008/09	2009/10	2010/11	2011/12
BFA	698	651	609	631	572
BS	56	57	60	55	33
Total Undergraduate	754	708	669	686	605
MFA	41	33	30	32	44
POSTBAC	13	30	26	27	29
Total Graduate	54	63	56	59	73
Total Enrollment	808	771	725	745	678
FTE Enrollment	772	727	692	693	645

Housing

Students may live either off campus or in one of MCAD's student apartments. As of fall 2011 MCAD had 8 student residences with a capacity of 266 beds, which were 97% occupied. Approximately 35% of the student population for fall 2011 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.

	2007/08	2008/09	2009/10	2010/11	2011/12
Undergraduate (full-time) per academic year	$27,000	$28,200	$29,500	$29,500	$30,386
Fees	200	200	200	200	200
Total	$27,200	$28,400	$29,700	$29,700	$30,586

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 meeting enrollment goals.

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. Effective March 15, 2012, MCAD contributes 5.0% 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 allocations to which their funds are contributed. Employees may withdraw their retirement funds upon the termination of employment at age 55 or older. The cost of these benefits to MCAD was $661,000 for 2010 and $657,961 for 2011.

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2011/2012 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 2011/2012 academic year at certain independent art colleges, art schools and art institutes selected by MCAD, including institutions with which MCAD competes for student enrollment. 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	$39,777 *
Pratt Institute (New York)	39,310
California Institute of the Arts	38,260
School of the Art Institute of Chicago	37,560 *
Maryland Institute, College of Art	37,470
California College of the Arts	37,310
Ringling College of Art and Design (FL)	34,960
San Francisco Art Institute	34,916
Art Center College of Design (Pasadena)	33,944
Cleveland Institute of Art	33,882
University of the Arts (Philadelphia)	33,500
College for Creative Studies (Detroit)	32,785
Kansas City Art Institute	30,762
Minneapolis College of Art and Design	**30,586**
Corcoran College of Art and Design (DC)	29,140
Milwaukee Institute of Art & Design	28,654 *
Memphis College of Art	25,050

Source: http://aicad.org retrieved April 12, 2012.

** As of the date of data retrieval, the displayed tuition and fees were shown as for the 2010/2011 academic year.*

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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)]	2007	2008	2009	2010	2011
Number of MCAD Students Receiving Aid [(b)]	730	649	619	625	631
MCAD Funds [(c)]	$ 4,824,167	$ 4,657,351	$ 4,725,579	$ 5,279,717	$ 5,947,814
Federal Aid Programs [(d)]	663,669	635,802	715,466	1,016,717	1,037,721
Minnesota State Grant Program	524,855	442,112	444,662	606,023	484,062
Federal Stafford Loan Program [(e)]	3,736,265	4,218,051	4,333,858	5,023,328	6,589,893
Federal Perkins Loan [(f)]	289,750	304,500	291,415	93,250	116,500
Work Study [(g)]	332,193	325,400	105,477	81,430	77,829
Total Financial Aid	$10,370,899	$10,583,216	$10,616,457	$12,100,465	$14,253,819

(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 (includes 25% MCAD share) plus Academic Competitiveness 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 has not conducted a capital campaign since 1988 when it became an independent nonprofit corporation with no affiliation with the Minneapolis Institute of Arts. MCAD has engaged a consultant to perform a feasibility study in preparation for a future capital campaign.

Endowment Funds

The following table states MCAD's net endowment assets as of May 31, for each of the Fiscal Years 2007 through 2011. See note 10 to the financial statements in Appendix VII.

	Net Assets as of May 31:				
	2007	2008	2009	2010	2011
Unrestricted	$27,436,542	$24,450,547	$ 7,190,244	$ 9,000,426	$11,266,084
Temporarily Restricted			5,849,711	8,092,988	11,498,350
Permanently Restricted	14,559,031	14,280,280	13,272,207	13,958,847	14,911,467
Total	$41,995,573	$38,730,827	$26,312,151	$31,052,261	$37,675,901

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 $37,796,142 as of May 31, 2011. In addition, MCAD is a beneficiary of trusts in which assets held for the benefit of MCAD had a fair value of $5,962,650 as of May 31, 2011.

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 distribution of the pooled assets investments is determined annually by the Board of Trustees. For Fiscal Years 2011 and 2010 the percentage was approximately 4.86% and 4.86% respectively, resulting in distributions to MCAD in Fiscal Years 2011 and 2010 of $1,490,000 and $1,594,050, respectively.

For Fiscal Year 2011, the total return on the above investments was 20.34%, or a gain of $8,261,166, net of trustee fees for the administration of investments totaling $102,313. 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 2007 through 2011, as reported in MCAD's annual financial statements, are as follows:

Year Ended May 31	Unrestricted	Temporarily Restricted	Permanently Restricted
2011	$336,385	$1,111,146	$148,191
2010	$249,466	$ 363,279	$116,180
2009	$215,694	$ 878,270	$175,624
2008	$408,266	$1,787,120	$ 74,551
2007	$291,820	$ 529,104	$ 85,904

Financial Statements

MCAD's Fiscal Year ends May 31 of each year. Appendix VII sets forth MCAD's financial statements for the Fiscal Year ended May 31, 2011, audited by Baker Tilly Virchow Krause, LLP, Minneapolis, Minnesota, with comparable statements for Fiscal Year ended 2010. 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, 2007 through 2011. This table should be read in conjunction with the financial statements found in Appendix VII.

MINNEAPOLIS COLLEGE OF ART AND DESIGN
Statement of Unrestricted Activities

For the years ended May 31,

	2007	2008	2009	2010	2011
REVENUES, GAINS AND OTHER SUPPORT					
Tuition & Fees	$18,853,311	$20,440,756	$20,138,255	$20,329,655	$20,504,159
Less: Scholarships and grants	(4,487,840)	(4,805,445)	(4,745,274)	(5,387,380)	(6,006,419)
Net tuition and fees	14,365,471	15,635,311	15,392,981	14,942,275	14,497,740
Federal government grants	159,755	112,642	109,556	137,682	106,883
State government grants	11,669	22,017	29,116	42,678	29,551
Private gifts and grants	291,820	408,266	215,694	249,466	336,385
Endowment income -- spending rate	1,012,465	1,107,292	476,061	573,636	532,228
Trust income	203,719	215,207	223,263	215,907	205,388
Investment income	266,500	260,498	180,594	99,266	99,339
Gains on investments (losses)	3,740,158	(3,063,593)	(4,639,305)	1,968,233	1,381,780
Other sources	95,840	536,183	515,057	481,352	528,116
Sales and services of auxiliary enterprises	2,592,900	2,188,311	2,052,989	2,187,653	2,230,836
	22,740,297	17,422,134	14,556,006	20,898,148	19,948,246
Net assets released from restrictions	2,394,514	1,097,164	1,716,947	1,796,938	2,595,245
Total Revenues, Gains and Other Support	25,134,811	18,519,298	16,272,953	22,695,086	22,543,491
EXPENSES AND LOSSES					
Program expenses					
Instruction	9,081,531	10,010,267	10,162,216	9,724,997	9,981,876
Public service	233,822	275,500	256,614	258,241	249,315
Academic support	1,383,490	1,831,374	2,081,573	2,012,240	2,151,816
Student services	2,784,647	2,814,853	2,879,402	2,938,456	2,877,728
Auxiliary enterprises	2,836,317	2,394,027	2,617,372	2,255,516	2,353,409
Support expenses					
General administration	2,680,305	3,105,772	2,917,715	3,309,917	2,963,035
Allocable expenses					
Operation and maintenance	2,641,258	2,224,173	3,098,462	2,337,981	2,545,699
Depreciation	549,810	561,535	587,210	594,378	747,206
Interest and amortization	532,971	581,091	593,802	576,236	577,018
Less: Allocated expenses	(3,724,039)	(3,366,799)	(4,279,474)	(3,508,595)	(3,869,923)
Debt extinguishment cost	623,316				
Total Expenses and Losses	19,623,428	20,431,793	20,914,892	20,499,367	20,577,179
Change in net assets before cumulative effect of change in accounting principle	5,511,383	(1,912,495)	(4,641,939)	2,195,719	1,966,312
Cumulative effect of change in accounting principle			(12,883,903)		
Change in Unrestricted Net Assets	5,511,383	(1,912,495)	(17,525,842)	2,195,719	1,966,312
NET ASSETS -- Beginning of Year	28,992,620	34,504,003	32,591,508	15,065,666	17,261,385
NET ASSETS -- END OF YEAR	**$34,504,003**	**$32,591,508**	**$15,065,666**	**$17,261,385**	**$19,227,697**

Source: MCAD's audited financial statements

Long-Term Debt

MCAD has the following long-term debt outstanding as of March 1, 2012:

1. $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 $3,160,000 with a final maturity of May 1, 2021. These bonds will be refunded with the proceeds of the Series Seven-N Bonds.

2. $7,670,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-K, dated July 1, 2006 at various rates of interest; principal outstanding is $6,330,000 with a final maturity of May 1, 2026. The proceeds were used to refund MCAD's then outstanding Series Five-D Bonds. The bonds are a general obligation of MCAD and secured by a debt service reserve fund.

3. $2,660,000 Minnesota Higher Education Facilities Authority Revenue Notes, Series Six-Z, dated as of November 24, 2009 at a variable rate of interest, principal outstanding is $2,660,000 with a maturity of November 1, 2024. The Note proceeds were used to construct and improve a surface parking lot and perform landscaping improvements on MCAD's campus. The Notes are a general obligation of MCAD.

MCAD's total debt outstanding as of March 1, 2012 is $12,150,000. On May 1, 2012 MCAD's long-term outstanding debt will be reduced by the amount of the refunded Series Five-K Bonds and by payment of the maturing principal amount of the Six-K Bonds of $295,000, bringing MCAD's outstanding debt to $8,695,000, plus the principal amount of the Bonds, for a total of $11,910,000.

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 equal to the prime rate. As of the date hereof, MCAD has no borrowing under this line of credit. The line of credit expires on October 31, 2012. MCAD expects to renew the line of credit annually.

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Fiscal Year 2011 Net Income Available for Debt Service and Pro Forma Coverage Calculation

The following table shows MCAD's Net Income Available for Debt Service for Fiscal Year ended May 31, 2011, projected 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 2011 Net Income Available for Debt Service to projected Maximum Annual Debt Service. The table is intended merely to show the relationship of MCAD's Fiscal Year 2011 Net Income Available for Debt Service to MCAD's projected Maximum Annual Debt Service upon issuance of the Bonds. It is not intended and should not be considered a projection of MCAD's future revenues, expenses, debt service or debt service coverage. 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.

Change in Unrestricted Net Assets	$1,966,312
Plus:	
Depreciation & Amortization	761,519
Interest Expense on Funded Debt	544,000
Less:	
Equipment acquired with unrestricted funds	0
Net Assets released from restrictions	(122,732)
Investment return in excess of spending rate Unrestricted Investments	(1,381,780)
Fiscal Year 2011 Amount Available for Debt Service	$1,738,458
Projected Maximum Annual Debt Service	$1,219,104
Ratio of Fiscal Year 2011 Amount Available for Debt Service to projected Maximum Annual Debt Service	1.43 times

Maximum annual debt service includes debt service on the Bonds and on MCAD's existing outstanding long term debt, excluding the Prior Bonds. MCAD's Series Six-Z variable rate Notes are assumed to amortize annually to their maturity date of May 1, 2024 with generally level annual debt service at their rate as of May 31, 2011 of 1.22%. MCAD has no obligation to prepay the Series Six-Z Notes prior to maturity.

APPENDIX II

PROPOSED FORM OF LEGAL OPINION

FRYBERGER, BUCHANAN, SMITH & FREDERICK, P.A.
www.fryberger.com

302 W SUPERIOR STREET, SUITE 700
DULUTH, MINNESOTA 55802

PHONE (218) 722-0861
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$3,215,000
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
REVENUE BONDS, SERIES SEVEN-N
(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 Seven-N (Minneapolis College of Art and Design), in the aggregate principal amount of $3,215,000 (the "Bonds"), dated April 26, 2012. The Bonds mature on May 1 in the years 2014 through 2021, and on May 1, 2023, 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 refund the Authority's $4,355,000 Revenue Bonds, Series Five-K (Minneapolis College of Art and Design), dated August 15, 2001, 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 April 1, 2012, 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, all without examining the records of the College. We have also relied on a title commitment dated March 2, 2012 as to the title of the Project Site (as defined in the Loan Agreement), without examining the 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 valid and binding limited obligations of the Authority, payable from and 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: ___________, 2012

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) sixty days after the Board of Trustees of the College approves and accepts the audited financial statements or (b) 180 days after the fiscal year-end, commencing with the fiscal year ended May 31, 2012. The Annual Report will contain:

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

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

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

      - Faculty and Staff
      - New Student Applications, Acceptances and Enrollments
      - Student Body
      - Enrollments
      - Housing
      - Tuition
      - Pension
      - Financial Aid
      - Future Fundraising
      - Endowment Funds
      - Investments
      - Gifts and Grants

   b. An update of the amount available for debt service as set forth in the table entitled Fiscal Year 2011 Net Income Available for Debt Service and Pro Forma Coverage Calculation.

   c. Information as to any publicly announced capital campaign including stated goals

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, are as follows:

(i) Principal and interest payment delinquencies;
(ii) Non-payment related defaults, if material;
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties (this is not applicable to the Bonds);
(v) Substitution of credit or liquidity providers, or their failure to perform (this is not applicable to the Bonds);
(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
(vii) Modifications to rights of security holders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the securities, if material (this is not applicable to the Bonds);

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the Reporting Party (when such event is considered to have occurred under the Rule);

(xiii) The consummation of a merger, consolidation, or acquisition involving the Reporting Party or the sale of all or substantially all of the assets of the Reporting Party, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

DEFINITION OF CERTAIN TERMS

Following are definitions of certain words and terms as used in the Indenture and Loan Agreement related to the Bonds. Definitions of some of the words and terms below may also appear elsewhere in this Official Statement.

Account or *Accounts:* One or more of the Accounts created under the Indenture.

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

Arbitrage Regulations: All Regulations and Proposed Regulations from time to time issued and in effect under Section 148 of the Internal Revenue Code (and former Section 103(c) of the Internal Revenue Code of 1954), including without limitation Treasury Regulations Sections 1.148-1 to 1.150-1.

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 of Finance and Chief Financial Officer/Treasurer or the Vice President of Administration of the Corporation or any other person at the time designated to act on behalf of the Corporation 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, any Vice Chair or the Secretary of its Board of Trustees or the President, the Vice President of Finance and Chief Financial Officer/Treasurer or the Vice President of Administration of the College. Such certificate may designate an alternate or alternates.

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

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 Bonds.

Bond Resolution: The Series Resolution of the Authority adopted on March 21, 2012, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

Bond Year: With respect to the Bonds, (a) the period from the Issue Date to the close of business on May 1, 2012, and (b) each succeeding 12-month period ending at the close of business on May 1 of each year in which the outstanding Bonds, if paid at their stated maturity dates, will be outstanding.

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

Book-Entry Form: All the 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 Participants (or Indirect 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 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 in Minneapolis, Minnesota, as further defined in the Loan Agreement.

College, Corporation or *MCAD*: 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 April 1, 2012.

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 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.

Default: A default on the part of the College in performance of any covenant or condition of the Loan Agreement which, with notice or passage of time or both, would or has become an Event of Default.

Depository: DTC, or any other person who shall be a Holder of all Bonds 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.

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*, *The Wall Street Journal* 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.

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 the Bonds, 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 April 1, 2012, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

Indirect Participant: Any person who is not a Participant, who clears securities through or maintains a custodial relationship with a Participant, either directly or indirectly, and who has access to the Book-Entry System.

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, 2012, and any other date on which the principal of and interest on the Bonds shall be due and 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 April 1, 2012, 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.

Negative Pledge Property: The College's Main Building described as the Negative Pledge Property on Exhibit A of the 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 and the Trustee as secured party pursuant to the Indenture, less the cost of recovery (including attorneys' fees) of such moneys from the insuring company or the condemning authority, plus investment earnings thereon.

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.

Participant: *A*ny securities broker or dealer, bank, trust company, clearing corporation or other organization entitled to directly record, clear and settle the transfers of beneficial ownership interest of the Bonds directly through the Depository and the Book-Entry System.

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 or *Series Five-K Bonds*: The Authority's Revenue Bonds, Series Five-K (Minneapolis College of Art and Design), dated August 15, 2001, which were issued in the original principal amount of $4,355,000, and of which $3,160,000 are currently Outstanding.

Prior Bonds Project or *Series Five-K Bonds Project*: The use of the proceeds of the Prior Bonds to provide funds loaned to the College to repay a portion of the outstanding balance of a conventional bank loan which provided temporary financing for a project that consisted of (i) the acquisition and refurbishing of two apartment buildings for student housing, (ii) the renovation and equipping of the Julia Morrison Memorial Building and the Library on the MCAD campus, and (iii) the demolition of an existing residence and the construction of a parking lot. Proceeds from the Prior Bonds also funded a reserve fund and paid certain costs of issuance.

Prior Bonds Trustee or *Series Five-K Bonds Trustee*: Wells Fargo Bank, National Association, successor by consolidation to Wells Fargo Bank Minnesota, National Association, in its capacity as the Trustee under the Prior Indenture.

Prior Indenture or *Series Five-K Indenture*: The Trust Indenture, dated as of August 1, 2001, by and between the Authority and the Prior Bonds Trustee, relating to the Prior Bonds.

Prior Loan Agreement: The Loan Agreement, dated as of August 1, 2001, by and between the College and the Authority relating to the Prior Bonds and the Project Facilities.

Project: The Project consists of the refunding, on a current refunding basis, of the outstanding principal of the Series Five-K Bonds, paying the accrued interest on the Series Five-K Bonds through the Redemption Date, funding a debt service reserve and paying a portion of the issuance costs of the Bonds.

Project Buildings: (i) the College's Julia Morrison Memorial Building and the Library, (ii) the two apartment buildings and related real estate, landscaping and parking located at 2540 Third Avenue South and 2550 Third Avenue South, respectively, in Minneapolis, Minnesota, and (iii) the parking lot constructed in 2001 with the proceeds of the Series Five-K Bonds.

Project Equipment: All fixtures, equipment and other personal property of a capital nature acquired with proceeds of the Series Five-K 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: Those portions of land or interests in land described on Exhibit A to the Loan Agreement as the Project Site, which are owned or leased by the College and on which any Project Buildings are located or otherwise improved as part of the Series Five-K Bonds Project.

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.

Redemption Date: June 1, 2012.

Refunded Bonds: The Series Five-K Bonds maturing, or subject to mandatory redemption, on May 1, 2012 through 2021, inclusive, and outstanding in the principal amount of $3,160,000 as of the date hereof.

Refunding Account: The Refunding Account established under the Indenture into which the Authority and Trustee shall deposit a portion of the proceeds of the Bonds. Amounts on deposit in the Refunding Account shall not be invested but shall be immediately transferred to the Prior Bonds Trustee to be deposited in the applicable Series Five-K Bonds Bond Account and Series Five-K Redemption Account established under the Prior Indenture for the Prior Bonds.

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 Bonds that accrues and is payable in any remaining Bond Year or (ii) 10% of the proceeds received from the issuance and sale of the Bonds, subject to Arbitrage Regulation limitations or (iii) 125% of the average annual debt service of the Bonds.

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

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

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

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

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

Underwriter: Dougherty & Company LLC as original purchaser of the 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 Bonds held in the Refunding Account, shall immediately transfer to the Series Five-K Bonds Trustee (i) for deposit in the Series Five-K Bonds Bond Account for payment of the principal of and interest due on the Prior Bonds on May 1, 2012, and (ii) for deposit in the Series Five-K Redemption Account to be used and to effectuate the redemption and prepayment of the outstanding principal of and interest on the Prior Bonds maturing on and after May 1, 2013, on the Redemption Date. The proceeds of the Bonds deposited in the Series Five-K Redemption Account, together with other amounts held by the Series Five-K Bonds Trustee in the Series Five-K Reserve Account and the Series Five-K Redemption Account, and other available funds of the College, if needed, shall be used for the prepayment and redemption of the outstanding principal of the Prior Bonds maturing on and after May 1, 2013, on the Redemption Date. 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, 2012, 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, 2014, 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 Internal Revenue Code.

Maintenance of Project Facilities

The College agrees that, so long as there are Bonds outstanding, and subject to certain exceptions, the College will keep the Project Facilities in good repair and good operating condition at its own cost. The College will make such repairs, modifications and replacements as are necessary so that the Project Facilities will remain a "project" under the Act and interest on the Bonds will be exempt from federal income taxation, and may make such repairs, modifications and replacements as in the College's judgment are desirable, subject to the same conditions. The College may sell, transfer, lease or sublease or enter into agreements in the ordinary course of business for the use of the Project Facilities (i) so long as the tax-exempt status of the Bonds will not be affected thereby, (ii) no such transaction or 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 agreement had not been made, and (iv) in the case of such sale or transfer or 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. The College may demolish any Project Facilities which in the College's judgment are worn out, obsolete or require replacement, are no longer used, or the College, by resolution of the Board of Trustees, has determined in its judgment are no longer useful.

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 under a policy or policies covering such risks as are ordinarily insured against by similar institutions, including (without limiting the generality of the foregoing) fire and extended coverage in an amount not less than the lesser of (i) the full insurable replacement value of the Campus Buildings; or (ii) the principal amount of the Outstanding Bonds or (if greater) 80% of the full insurable replacement value of the Campus Buildings, but any such policy may have a deductible amount of not more than $250,000. No policy of insurance shall be so written that the proceeds thereof will produce less than the minimum coverage required by the preceding sentence, by reason of co-insurance provisions or otherwise, without the prior consent thereto in writing by the Trustee. The term "full insurable replacement value" shall mean the actual replacement cost of the Campus Buildings (excluding foundation, excavation costs and costs of underground flues, pipes, drains and other uninsurable items) and contents. All policies evidencing insurance required by this subparagraph (a) with respect to the Campus Buildings shall be carried in the names of the College and the Trustee as their respective interests may appear.

(b) Comprehensive general public liability insurance, including blanket contractual liability and personal injury liability and automobile insurance, including owned, non-owned and hired automobiles, against liability for injuries to persons in the minimum amount for each occurrence of $5,000,000 and aggregate for each year of $5,000,000, with a deductible amount of not more than $250,000 per occurrence, and against liability for injury to property in the minimum amount for each occurrence of $250,000.

(c) Workers' compensation insurance respecting all employees of the College in such amount as is customarily carried by like organizations engaged in like activities of comparable size and liability exposure; provided that the College may be self-insured with respect to all or any 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 any part of the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than $1,000,000, the College will promptly repair, rebuild or restore the property with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss exceeds $1,000,000, the College shall either repair, rebuild or restore the damaged facilities, or deposit the Net Proceeds in the Redemption Account and redeem and prepay the Bonds under the optional redemption provisions, or retain the Net Proceeds for eligible purposes that do not cause the interest on the Bonds to become taxable as more fully provided for in the Loan Agreement.

Condemnation

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

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.

College to Maintain its Existence and Accreditation

The College agrees that during the term of the Loan Agreement it will maintain its existence as a nonprofit corporation and 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 nonhospital 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, excluding nonhospital bonds issued on or after August 5, 1997, to finance capital expenditures incurred after August 5, 1997. Under the Loan Agreement, in no event will the College affiliate or consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets 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, 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 as prohibited by Minnesota Statutes, Section 363A.13; to provide and file such financing statements and other instruments of further assurance as the Authority or Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds and to comply with the applicable rebate requirements under Section 148 of the Internal Revenue Code and regulations thereunder; and to observe all applicable State laws and regulations, including those of the Authority, the Department of Education 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 of the Internal Revenue Code with respect (but only with respect) to amounts paid by the College to the Authority as the Authority's annual fee under the Loan Agreement.

Events of Default

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

(a) If the College shall fail to make any Loan Repayment when due and either (i) the moneys on deposit in the Bond and Interest Sinking Fund Account, Reserve Account 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 relating 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 in the Refunding Account) 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.

Authorized Investments

Moneys on deposit to the credit of the Bond and Interest Sinking Fund Account, the Reserve Account and the Redemption Account shall 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 rated at least in the rating category of "AA" or "Aa" or political subdivisions of states rated at least in the rating category of "AAA" or "Aaa"; revenue bond obligations of states and their political subdivisions insured by municipal bond insurance and rated "AAA" or "Aaa"; mutual funds or unit trusts which invest solely in the foregoing obligations of the United States government, its agencies, states and state political subdivisions or in certain repurchase agreements; constant dollar value money market funds that invest solely in the types of obligations or repurchase agreements in which the foregoing mutual funds may invest and which are rated in the highest rating category by a national credit rating agency; time deposits of insured state or national banks and other accounts fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least 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.

Trustee's Right to Payment

The Trustee shall have a first lien, with right of payment prior to payment on account of interest 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

If an Event of Default shall exist, 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 the Loan Agreement and any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Concerning the Trustee

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to the Reference Rate, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment on account 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 under the Indenture 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 combined 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 suit, action or 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 of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all Bonds outstanding, or

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

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

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

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

Supplemental Indentures

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

(a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the

Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;

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

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

(d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and could have been contained in 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 pursuant to Section 11.04 of the Indenture.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds 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 Outstanding (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, or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or to amendments to the Loan Agreement as set forth in the Indenture.

Amendments to the Loan Agreement

The Authority and the Trustee shall, 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, or (b) for the purpose of curing any ambiguity or formal defect or omission, or (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement, or (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 shall consent to or execute 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") 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 and provides asset servicing for securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade 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. This eliminates the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. 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"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its 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.

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. Beneficial Owners are, however, 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.

Redemption notices shall be sent to DTC. If fewer 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 MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer or Bond 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).

Payment of principal, interest, and redemption premium, if any, on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or its 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 Bond Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar, Issuer, or the Issuer's 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.

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

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

The information in this section concerning DTC and DTC's book entry system has been obtained from DTC, which is solely responsible for such information. The Authority, MCAD and the Underwriter take no responsibility for the accuracy thereof.

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.

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED MAY 31, 2011 AND 2010

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BAKER TILLY
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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 ("the College") as of May 31, 2011 and 2010 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 18, 2011

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF FINANCIAL POSITION
May 31, 2011 and 2010

ASSETS

	2011	2010
Cash and cash equivalents	$ 2,668,835	$ 3,365,364
Student accounts receivable, less allowance for doubtful accounts of $35,000 in 2011 and 2010	20,988	4,864
Inventories	298,144	281,850
Prepaid expenses and deferred charges	66,580	71,441
Other receivables	100,077	98,943
Contributions receivable	727,088	272,400
Mortgages receivable	24,900	24,900
Student notes receivable, less allowance for doubtful notes of $450,000 in 2011 and 2010	781,093	965,451
Investments	43,758,792	37,469,774
Deferred debt acquisition costs, net	207,834	222,147
Deposits held by trustee	1,261,583	1,997,615
Property, plant and equipment, net	14,276,196	13,949,531
TOTAL ASSETS	$ 64,192,110	$ 58,724,280

LIABILITIES AND NET ASSETS

	2011	2010
LIABILITIES		
Accounts payable	$ 522,599	$ 1,330,419
Accrued liabilities	1,809,671	1,882,713
Deferred revenue	454,255	387,205
Advance deposits	88,032	118,698
Actuarial liability on annuities payable	15,224	17,543
Long-term debt	12,150,000	12,665,000
Government grants refundable	772,367	705,833
Total Liabilities	15,812,148	17,107,411
NET ASSETS		
Unrestricted	19,227,697	17,261,385
Temporarily restricted	14,240,798	10,396,637
Permanently restricted	14,911,467	13,958,847
Total Net Assets	48,379,962	41,616,869
TOTAL LIABILITIES AND NET ASSETS	$ 64,192,110	$ 58,724,280

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 2011
With Comparative Totals for 2010

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010 Total
REVENUES, GAINS AND OTHER SUPPORT					
Tuition and fees	$ 20,504,159	-		$ 20,504,159	$ 20,329,655
Less: Scholarships and grants	(6,006,419)	-	-	(6,006,419)	(5,387,380)
Net tuition and fees	14,497,740	-	-	14,497,740	14,942,275
Federal government grants	106,883	-		106,883	137,682
State government grants	29,551	-	-	29,551	42,678
Private gifts and grants	336,385	$ 1,111,146	$ 148,191	1,595,722	728,925
Endowment income - spending rate	532,228	957,772	-	1,490,000	1,594,050
Trust income	205,388	52,085	-	257,473	280,287
Investment income	99,339	-	-	99,339	99,266
Gains on investments, net of spending rate	1,381,780	4,313,070	805,511	6,500,361	4,783,063
Other sources	528,116	5,333	-	533,449	481,814
Sales and services of auxiliary enterprises	2,230,836	-	-	2,230,836	2,187,653
	19,948,246	6,439,406	953,702	27,341,354	25,277,693
Net assets released from restrictions	2,595,245	(2,595,245)	-	-	-
Total Revenues, Gains and Other Support	22,543,491	3,844,161	953,702	27,341,354	25,277,693
EXPENSES					
Program expenses					
Instruction	9,981,876	-	-	9,981,876	9,724,997
Public service	249,315	-	-	249,315	258,241
Academic support	2,151,816	-	-	2,151,816	2,012,240
Student services	2,877,728	-	-	2,877,728	2,938,456
Auxiliary enterprises	2,353,409	-	-	2,353,409	2,255,516
Support expenses					
General administration	2,963,035	-	-	2,963,035	3,309,917
Allocable expenses					
Operation and maintenance	2,545,699	-	-	2,545,699	2,337,981
Depreciation	747,206	-	-	747,206	594,378
Interest and amortization	577,018	-	-	577,018	576,236
Less: Allocated expenses	(3,869,923)	-	-	(3,869,923)	(3,508,595)
Acturarial adjustment	-	-	1,082	1,082	1,082
Total Expenses	20,577,179		1,082	20,578,261	20,500,449
Change in Net Assets	1,966,312	3,844,161	952,620	6,763,093	4,777,244
NET ASSETS - Beginning of Year	17,261,385	10,396,637	13,958,847	41,616,869	36,839,625
NET ASSETS - END OF YEAR	$ 19,227,697	$ 14,240,798	$ 14,911,467	$ 48,379,962	$ 41,616,869

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENT OF ACTIVITIES
Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	$ 20,329,655	-		$ 20,329,655
Less: Scholarships and grants	(5,387,380)	-	-	(5,387,380)
Net tuition and fees	14,942,275	-	-	14,942,275
Federal government grants	137,682	-	-	137,682
State government grants	42,678	-	-	42,678
Private gifts and grants	249,466	$ 363,279	$ 116,180	728,925
Endowment income - spending rate	573,636	1,020,414	-	1,594,050
Trust income	215,907	64,380	-	280,287
Investment income	99,266	-	-	99,266
Gains on investments, net of spending rate	1,968,233	2,243,288	571,542	4,783,063
Other sources	481,352	462	-	481,814
Sales and services of auxiliary enterprises	2,187,653	-	-	2,187,653
	20,898,148	3,691,823	687,722	25,277,693
Net assets released from restrictions	1,796,938	(1,796,938)	-	-
Total Revenues, Gains and Other Support	22,695,086	1,894,885	687,722	25,277,693
EXPENSES				
Program expenses				
Instruction	9,724,997	-	-	9,724,997
Public service	258,241	-	-	258,241
Academic support	2,012,240	-	-	2,012,240
Student services	2,938,456	-	-	2,938,456
Auxiliary enterprises	2,255,516	-	-	2,255,516
Support expenses				
General administration	3,309,917	-	-	3,309,917
Allocable expenses				
Operation and maintenance	2,337,981	-	-	2,337,981
Depreciation	594,378	-	-	594,378
Interest and amortization	576,236	-	-	576,236
Less: Allocated expenses	(3,508,595)	-	-	(3,508,595)
Acturarial adjustment	-	-	1,082	1,082
Total Expenses	20,499,367		1,082	20,500,449
Change in Net Assets	2,195,719	1,894,885	686,640	4,777,244
NET ASSETS - Beginning of Year	15,065,666	8,501,752	13,272,207	36,839,625
NET ASSETS - END OF YEAR	$ 17,261,385	$ 10,396,637	$ 13,958,847	$ 41,616,869

See accompanying notes to financial statements.

MINNEAPOLIS COLLEGE OF ART AND DESIGN

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,763,093	$ 4,777,244
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	747,206	594,378
Amortization	14,313	12,025
Gains on investments	(7,990,361)	(7,199,825)
Loan cancellations and write-offs	-	600
Change in actuarial liability	1,081	1,082
Changes in assets and liabilities		
Student accounts receivable	(16,124)	36,470
Inventories	(16,294)	32,141
Prepaid expenses and deferred charges	4,861	(30,187)
Other receivables	(1,134)	(11,780)
Contributions receivable	(454,688)	191,600
Accounts payable	(339,638)	78,656
Accrued liabilities	(73,042)	177,673
Deferred revenue	67,050	36,259
Advance deposits	(30,666)	(19,765)
Contributions restricted for long-term investment	(145,191)	(116,180)
Net Cash Flows from Operating Activities	(1,469,534)	(1,439,609)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net	1,701,343	233,445
Decrease (increase) in deposits held by trustee	736,032	(938,017)
Purchases of property, plant and equipment	(1,542,053)	(1,704,724)
Disbursements of loans to students	(116,500)	(358,100)
Repayments of loans from students	300,858	412,806
Net Cash Flows from Investing Activities	1,079,680	(2,354,590)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt	-	2,660,000
Repayments of principal on indebtedness	(515,000)	(495,000)
Payments of bond financing costs	-	(68,635)
Receipts of contributions restricted for long-term investment	145,191	116,180
Payments to annuitant	(3,400)	(3,400)
Increase (decrease) in refundable government grants	66,534	(39,172)
Net Cash Flows from Financing Activities	(306,675)	2,169,973
Net Change in Cash and Cash Equivalents	(696,529)	(1,624,226)
CASH AND CASH EQUIVALENTS - Beginning of Year	3,365,364	4,989,590
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,668,835	$ 3,365,364
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 577,018	$ 576,236
Noncash Investing Activity		
Property, plant and equipment acquired through accounts payable	$ -	$ 468,182

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:

Net Asset Classifications: For the purposes of financial reporting, the College classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the College are classified in the accompanying financial statements in the categories that follow:

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 from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. 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. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released over the estimated useful lives of the assets using the College's depreciation policies.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets.
Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured.

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

Deferred Debt Acquisition Costs - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of $14,313 and $12,025 was recorded for the years ended May 31, 2011 and 2010, respectively.

Deposits Held by Trustee - Cash, short-term investments and government securities held by trustee include amounts restricted for debt service as required by the trust indentures.

Property, 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.

Impairment of Long-Lived Assets - The College reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Revenue - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided.

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 revalues 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 years ended May 31, 2011 and 2010. Total assets held by the College under the deferred gift agreement were $23,000 and $26,000 at May 31, 2011 and 2010, respectively.

Tuition and Fees and Auxiliary Revenue - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Scholarships and Grants - Scholarships and grants are offered by the College to attract and retain students. The College offers institutional grants to students in the form of merit-based scholarships and need-based grants at the College's discretion.

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 $484,000 and $978,000, respectively, during the year ended May 31, 2011. The amounts of such grants were $610,000 and $938,000, respectively, during the year ended May 31, 2010.

Retirement Plans - Eligible full-time employees of the College participate in contributory defined contribution retirement plans. Under this arrangement, the College and plan participants make contributions to the plans. For each of the years ended May 31, 2011 and 2010, the College contributed 8.5% of eligible employees' salaries into individual retirement accounts. Benefits are based on amounts accumulated for the account of each individual employee at date of retirement or termination. Total college retirement expense for the years ended May 31, 2011 and 2010 was approximately $658,000 and $661,000, 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 and changes in net assets. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Income Tax Status - The Internal Revenue Service has determined that the College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation.

The College follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the College for uncertain tax positions as of May 31, 2011. The College's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2008 through 2010 are open to examination by federal and state authorities.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued liabilities and advance deposits approximate fair value because of the short maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. Government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amount of the actuarial liability for annuities payable is based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the College. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Investments in private equity funds are carried at cost.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

Fund-Raising and Advertising Costs - Fund-raising expenses approximated $701,000 and $481,000 for the years ended May 31, 2011 and 2010, respectively. Advertising costs are expensed when incurred and approximated $127,000 and $140,000 for the years ended May 31, 2011 and 2010, respectively.

Asset Retirement Obligations - The College recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The College reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the College's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the accrual for asset retirement obligations, which is included in accrued liabilities on the statement of financial position, during the years ended May 31, 2011 and 2010 are as follows:

	2011	2010
Balance, Beginning of the year	$ 357,359	$ 340,342
Accretion expense	17,868	17,017
Balance, End of the year	$ 375,227	$ 357,359

NOTE 2 - FAIR VALUE MEASUREMENTS

The College follows the accounting guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2011:

ASSETS	Total	Level 1	Level 2	Level 3
Short term investments	$ 500,175	$ -	$ 500,175	$ -
Corporate bonds	3,246,088	3,246,088	-	-
Government obligations	3,022,025	3,022,025	-	-
Mutual funds - equities	28,981,240	28,981,240	-	-
Mutual funds - bonds	2,021,486	139,106	1,882,380	-
Beneficial interest in perpetual trusts	5,962,650	-	5,951,418	11,232
Total Assets Fair Value	$ 43,733,664	$ 35,388,459	$ 8,333,973	$ 11,232
Limited Partnership Investments, at cost	25,128			
Total Investments	$ 43,758,792			

The following table presents financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2010:

ASSETS	Total	Level 1	Level 2	Level 3
Short term investments	$ 161,224	$ -	$ 161,224	$ -
Corporate bonds	3,091,758	3,091,758	-	-
Government obligations	2,732,053	2,732,053	-	-
Mutual funds - equities	22,330,184	22,330,184	-	-
Mutual funds - bonds	3,806,837	567,234	3,239,603	-
Beneficial interest in perpetual trusts	5,157,216	-	5,145,984	11,232
Total Fair Value	37,279,272	$ 28,721,229	$ 8,546,811	$ 11,232
Limited Partnership Investments, at cost	190,502			
Total Investments	$ 37,469,774			

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short term investments - The fair value of short-term investments, consisting primarily of money market funds and short-term government securities funds, is classified as Level 2 as these funds are not traded on a regular basis.

Fixed income securities - Investments in fixed income securities are comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds and corporate bonds and notes. U.S. Treasury notes are classified as Level 1 if they trade with sufficient frequency and volume to enable the College to obtain pricing information on an ongoing basis.

NOTE 2 - Fair Value Measurements (Continued)

Mutual funds - Mutual funds are classified as Level 1 if they are traded in an active market for which closing prices are readily available. Certain mutual funds may be classified as Level 2 as the fair value is based on multiple sources of information, which may include market data and/or quoted market prices from markets that are either not active or are for the same or similar assets in active markets.

Beneficial interest in perpetual trusts - The College's beneficial interest in perpetual trusts as administered by an independent trustee on behalf of the College and Minneapolis Institute of Arts are classified as Level 2 except for land, mineral interests and water rights assets which are not corroborated by market data and are classified as Level 3. Since the College has an irrevocable right to receive the income earned from the trust's assets, the fair value of the College's beneficial interest is estimated to approximate the fair value of the trusts' assets.

While the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The change in level 3 investments during 2011 and 2010 was not significant.

NOTE 3 - Restrictions and Limitations on Net Asset Balances

Permanently restricted net assets consisted of the following at May 31:

	2011	2010
Endowment funds	$ 14,896,496	$ 13,942,794
Annuity funds	14,971	16,053
	$ 14,911,467	$ 13,958,847

Temporarily restricted net assets consisted of the following at May 31:

	2011	2010
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other operations	$ 12,884,464	$ 8,917,571
Capital	1,000,000	1,000,000
Net investment in plant	356,334	479,066
	$ 14,240,798	$ 10,396,637

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

The College's unrestricted net assets were allocated as follows at May 31:

	2011	2010
Operations	$ 2,247,182	$ 2,094,055
Long-term investment (quasi-endowment funds)	11,266,084	9,000,426
Loans to students	183,575	181,034
Designated for plant fund - reserves	4,588,490	4,977,370
Net investment in plant	942,366	1,008,500
	$ 19,227,697	$ 17,261,385

NOTE 4 - 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:

	2011	2010
Scholarships, instruction and other departmental support	$ 2,472,513	$ 1,674,206
Amortization of contributions expended for long-lived assets	122,732	122,732
	$ 2,595,245	$ 1,796,938

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following unconditional promises to give at May 31:

	2011	2010
Unrestricted - operations	$ 14,613	$ -
Temporarily restricted - operations	709,475	272,400
Permanently restricted - endowment	3,000	-
	$ 727,088	$ 272,400
Amounts due in:		
One year	$ 361,088	
Two years	183,000	
Three years	183,000	
	$ 727,088	

NOTE 6 - CREDIT QUALITY OF RECEIVABLES

The College issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2011 and 2010, student loans represented 1.2% and 1.6% of total assets, respectively.

Student loans consisted of the following at May 31:

	2011	2010
Federal government programs	$ 1,222,093	$ 1,279,851
Institutional programs	9,000	135,600
	1,231,093	1,415,451
Less allowance for doubtful accounts		
Beginning of year	450,000	450,000
Increases	-	-
Write-offs	-	-
End of year	450,000	450,000
Student loans receivable, net	$ 781,093	$ 965,451

Funds advanced by the Federal government of $712,681 and $698,286 at May 31, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, 2011 and 2010, the following amounts were past due under student loan programs:

	2011	2010
Past due loan receivables:		
0 - 240 days past due	$ 84,915	$ 111,589
240 days - 2 years past due	91,038	96,069
2 - 5 years past due	61,536	58,127
5+ years past due	193,797	177,210
	$ 431,286	$ 442,995

NOTE 7 - INVESTMENTS

Investments consisted of the following at May 31:

	2011	2010
Pooled Assets		
Money market funds	$ 441,612	$ 161,226
Bonds, notes and certificates	6,326,676	5,823,811
Mutual funds	29,120,345	22,897,418
Limited partnerships, at cost	25,128	190,499
Common fund - intermediate term fund	1,882,381	3,239,604
	37,796,142	32,312,558
Proportional interest in separately invested assets managed and held in trusts by an independent trustee		
Money market funds	111,505	96,498
Bonds, notes and certificates	1,755,111	1,776,840
Stocks	4,084,802	3,272,646
Other	11,232	11,232
	5,962,650	5,157,216
TOTAL	$ 43,758,792	$ 37,469,774

These investments were classified as follows at May 31:

Operating investments	$ 1,884,141	$ 3,239,604
Long-term investments	41,874,651	34,230,170
	$ 43,758,792	$ 37,469,774

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

The investments in limited partnership, which are carried at lower of cost or market, were entered into to diversify the College's portfolio and to provide market neutral holdings. The College's management, the finance and investment committee of the Board of Trustees and the College's external investment consultants review reports provided by the general partners and the College's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the College monitors its portfolio mix to ensure that is in accordance with Board policy.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

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

	2011	2010
Land	$ 943,378	$ 943,378
Furniture and equipment	1,161,168	1,132,308
Construction in progress	11,798	2,117,764
Buildings and building improvements	23,097,759	19,946,782
	25,214,103	24,140,232
Accumulated depreciation	(10,937,907)	(10,190,701)
	$ 14,276,196	$ 13,949,531

NOTE 9 - LONG-TERM DEBT

Long-term debt consisted of the following at May 31:

	2011	2010
Minnesota Higher Education Facilities Authority Revenue Notes, Series Five-K (original amount of $4,355,000)	$ 3,160,000	$ 3,395,000
Minnesota Higher Education Facilities Authority Revenue Notes, Series Six-K (original amount of $7,670,000)	6,330,000	6,610,000
Minnesota Higher Education Facilities Authority Revenue Notes, Series Six-Z (original amount of $2,660,000)	2,660,000	2,660,000
	$ 12,150,000	$ 12,665,000

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, the College's library, 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 with payments of $1,375,000 and $1,785,000 due May 1, 2016 and 2021, respectively. The term bonds are subject to annual sinking fund payments in the years 2012 through 2021 in the amounts ranging from $245,000 to $390,000. Interest rates vary from 5.000% to 5.375%.

Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-K were issued in July 2006 to refinance the Minnesota Higher Education Facilities Authority Revenue Bonds, Series Five-D. 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 term bonds are subject to annual sinking fund payments in the years 2012 through 2026 in the amounts ranging from $295,000 to $580,000. Interest rates vary from 4.50% to 5.00%.

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-Z were issued in November 2009 to install a surface parking lot. The principal amount of the bonds is due in full on November 1, 2024. The College has the option to prepay the bonds in whole or in part on any semi-annual payment date without a premium or penalty, provided that any prepayment is in an amount not less than $200,000. The interest rate on the bonds is variable and was 1.22% at May 31, 2011 and 2010, respectively.

The College has an unsecured 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, 2011 and 2010, the College did not have any outstanding borrowings against this credit facility. The line of credit expires on January 31, 2012.

Total scheduled principal payments on all debt for each of the five years subsequent to May 31, 2011 and thereafter are: $540,000; $570,000; $595,000; $630,000; $660,000, and thereafter, $9,155,000, respectively. Interest expense approximated $544,000 and $547,000 for the years ended May 31, 2011 and 2010, respectively.

NOTE 10 - ENDOWMENT

The College's endowment consists of approximately 130 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The College's governing board has interpreted the Minnesota enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the College to appropriate for expenditure or accumulate so much of an endowment fund as the College determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the College and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the College
7. The investment policies of the College

NOTE 10 - ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund consists of the following as of May 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (9,691)	$ 11,498,350	$ 14,911,467	$ 26,400,126
Board-designated endowment funds	11,275,775	-	-	11,275,775
Total endowment net assets	$ 11,266,084	$ 11,498,350	$ 14,911,467	$ 37,675,901

Endowment net asset composition by type of fund consists of the following as of May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (245,192)	$ 8,092,988	$ 13,958,847	$ 21,806,643
Board-designated endowment funds	9,245,618	-	-	9,245,618
Total endowment net assets	$ 9,000,426	$ 8,092,988	$ 13,958,847	$ 31,052,261

Changes in endowment net assets for the year ended May 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2010	$ 9,000,426	$ 8,092,988	$ 13,958,847	$ 31,052,261
Investment return:				
Investment income	611,489	-	141,366	752,855
Net appreciation – realized and unrealized	2,172,152	4,363,134	936,139	7,471,425
Total investment return	2,783,641	4,363,134	1,077,505	8,224,280
Contributions	14,245	-	148,191	162,436
Appropriation of endowment assets for expenditure - spending rate	(532,228)	(957,772)	-	(1,490,000)
Trust distributions			(257,473)	(257,473)
Actuarial adjustment	-	-	(1,082)	(1,082)
Other changes			(14,521)	(14,521)
Endowment net assets, May 31, 2011	$ 11,266,084	$ 11,498,350	$ 14,911,467	$ 37,675,901

NOTE 10 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	$ 7,190,244	$ 5,849,700	$ 13,272,207	$ 26,312,151
Investment return:				
Investment income	536,344	-	140,621	676,965
Net appreciation - realized and unrealized	1,847,474	3,263,702	711,208	5,822,384
Total investment return	2,383,818	3,263,702	851,829	6,499,349
Contributions	-	-	116,180	116,180
Appropriation of endowment assets for expenditure - spending rate	(573,636)	(1,020,414)	-	(1,594,050)
Trust distributions:			(280,287)	(280,287)
Actuarial adjustment	-	-	(1,082)	(1,082)
Endowment net assets, May 31, 2010	$ 9,000,426	$ 8,092,988	$ 13,958,847	$ 31,052,261

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $9,700 and $245,000 as of May 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the College must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed market indices while assuming a moderate level of investment risk. The College expects its endowment funds, over time, to provide an average annual rate of approximately 5.0% annually. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 10 - ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy - The College has a policy of appropriating for distribution each year 4.86% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the College considered the long-term expected return on its endowment. Accordingly, over the long term, the College expects the current spending policy to allow its endowment to grow at an average of 2.0% annually. This is consistent with the College's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 11 - 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 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 approximated $180,000 and $135,000 for the years ended May 31, 2011 and 2010, respectively.

The College must also pay its pro rata share of costs associated with public safety. These costs approximated $21,000 and $18,000 for the years ended May 31, 2011 and 2010, respectively.

NOTE 12 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, 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 reduce 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 students 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.

NOTE 13 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 18, 2011, which is the date the financial statements were issued.

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of the Minneapolis College of Art and Design for 2011 and 2010 appears on page one. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 18, 2011

MINNEAPOLIS COLLEGE OF ART AND DESIGN

Schedule 1

CHANGES IN UNRESTRICTED NET ASSETS
Year Ended May 31, 2011

	Operating	Long-Term Investment	Plant	Total
UNRESTRICTED NET ASSETS				
Revenues, Gains and Other Support				
Tuition and fees	$ 20,504,159	-	-	$ 20,504,159
Less: Scholarships and grants	(6,006,419)	-	-	(6,006,419)
Net tuition and fees	14,497,740	-	-	14,497,740
Federal government grants	106,883	-	-	106,883
State government grants	29,551	-	-	29,551
Private gifts and grants	322,139	$ 14,246	-	336,385
Endowment income - spending rate	532,228	-	-	532,228
Trust income	205,388	-	-	205,388
Investment income	90,640	-	$ 8,699	99,339
Gains on investments, net of spending rate	646,108	761,411	(25,739)	1,381,780
Other sources	528,116	-	-	528,116
Sales and services of auxiliary enterprises	2,230,836	-	-	2,230,836
	19,189,629	775,657	(17,040)	19,948,246
Net assets released from restrictions	982,513	1,490,000	122,732	2,595,245
Total Revenues, Gains and Other Support	20,172,142	2,265,657	105,692	22,543,491
Expenses				
Program expenses				
Instruction	8,990,196	-	991,680	9,981,876
Public service	249,315	-	-	249,315
Academic support	2,012,244	-	139,572	2,151,816
Student services	2,827,551	-	50,177	2,877,728
Auxiliary enterprises	1,644,595	-	708,814	2,353,409
Support expenses				
General administration	2,922,012	-	41,023	2,963,035
Allocable expenses				
Operation and maintenance	1,938,657	-	607,042	2,545,699
Depreciation	-	-	747,206	747,206
Interest and amortization	-	-	577,018	577,018
Less: Allocated expenses	(1,938,657)	-	(1,931,266)	(3,869,923)
Total Expenses	18,645,913	-	1,931,266	20,577,179
Transfers				
Retirement of indebtedness - principal and interest	1,041,699	-	(1,041,699)	-
Transfer from operating fund to plant fund	300,000	-	(300,000)	-
Expended for plant facilities	28,861	-	(28,861)	-
Total Transfers	1,370,560	-	(1,370,560)	-
CHANGE IN UNRESTRICTED NET ASSETS	$ 155,669	$ 2,265,657	$ (455,014)	$ 1,966,312

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