MHEFA

BUILDING PLACES WHERE EDUCATION TAKES PLACE

MINNESOTA
HIGHER
EDUCATION
FACILITIES
AUTHORITY

MHEFA

BUILDING PLACES WHERE EDUCATION TAKES PLACE . . . .

MISSION OF THE AUTHORITY

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

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

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

Report on Audit of Financial Statements
For the Year Ended June 30, 2004

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

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

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

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Hazelden Foundation, Circle Pines
Term Expires January 2006

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Senior Vice President, St. Paul Travelers Companies, Inc., Edina
Term Expires January 2005

Raymond VinZant, Jr., *MHEFA Vice Chair*
Policy Representative, Office of US Senator Norm Coleman, St. Paul
Term Expires January 2008

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Executive Director

Elaine J. Yungerberg
Assistant Executive Director

Jane Cain
Administrative Assistant

Financial Advisors
Springsted Incorporated, St. Paul

Independent Auditors
Kern, DeWenter, Viere, Ltd., Minneapolis
Report on Audit of Financial Statements
For the Year Ended June 30, 2004

LETTER FROM THE CHAIR

Greetings:

We are pleased to present the Annual Report of the Minnesota Higher Education Facilities Authority for the year ended June 30, 2004, including the financial statements for the year, as audited by Kern, DeWenter, Viere, Ltd. This report includes information about the services provided by the Authority to nonprofit institutions of higher education in the State of Minnesota. The primary service is to provide financing for capital projects of those colleges and universities through tax-exempt debt issued by the Authority. A critical benefit associated with that service is the monetary savings that are realized by those institutions as a result of the lower interest rates available through the Authority's tax-exempt financing.

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

In fiscal year 2004, the Authority completed four financings for four institutions. The total principal amount of $58,855,000 reflects a decrease in activity from the previous year. Taking into account regularly scheduled repayments and the refunding of certain prior Authority bonds to take advantage of lower interest rates, the total principal outstanding for Authority-issued debt grew to $576,981,299 as of the end of the fiscal year. The Authority's limit on outstanding debt remains at $800 million.

During the fiscal year, Governor Pawlenty appointed Ms. Mary Ives and Mr. Raymond VinZant, Jr. to the Authority.

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

Respectfully Submitted,

Gary D. Benson

Chair

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

AUGSBURG COLLEGE is a private, four-year, liberal arts college located in Minneapolis, Minnesota at the center of the Twin Cities metropolitan area. The College was founded in 1869 in Marshall, Wisconsin and moved to Minneapolis in 1872. It is affiliated with the Evangelical Lutheran Church in America. The College offers undergraduate degrees in more than 50 major areas of study and offers five graduate degrees programs.

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

BETHEL UNIVERSITY is a Christian liberal arts institution offering majors, minors, and advanced degrees in nearly 100 fields. Bethel's campus is located just minutes from downtown St. Paul and Minneapolis in suburban Arden Hills, Minnesota. Bethel College & Seminary, founded 1871, changed its name to Bethel University in June, 2004.

- Series Four-S issued June 1998 in the amount of $22,865,000. The proceeds of these adjustable demand revenue bonds were used for the following: construction of a new residence hall; addition to the Fine Arts Center, composed of classrooms, offices and the expansion of chemistry laboratories; remodeling of spaces in various campus buildings; upgrade of campus wiring network and electronics infrastructure; construction of a baseball field; and parking expansion and improvements.
- Series Five-V issued May 2004 in the amount of $8,500,000. The proceeds of this bond issue were used together with additional funds of the University to finance the construction of a 48-suite student housing facility on the main campus.

CARLETON COLLEGE, founded in 1866, is a coeducational, residential, liberal arts college located about 40 miles south of the Twin Cities in Northfield, Minnesota. Carleton offers a Bachelor of Arts degree in over 30 major fields of study, as well as numerous special programs, area studies or concentrations.

- Series T issued December 1977 in the amount of $2,385,000. The proceeds were used to remodel the Sayles Hill Gymnasium and two academic buildings for the humanities and social sciences departments.
- Series Three-L1 and Series Three-L2 issued October 1992 in the amount of $20,300,000. The proceeds of these issues were used to finance a portion of new construction, remodeling and equipment acquisition projects, including appurtenant site improvements and a new telecommunications system.
- Series Four-N issued June 1997 in the amount of $24,440,000. The net proceeds of this bond issue and additional funds of the College were used to construct and furnish a recreation center and a student dining hall, install a chiller and related piping, and install an administrative and bookstore computer system. Also, portions of the proceeds were used to finance the renovation of Mudd Hall, Goodhue Dining Hall, and Evans Hall.
- Series Five-G issued June 2000 in the amount of $23,000,000. The proceeds of this bond issue together with additional funds of the College were used for three projects. The first project consisted of the construction and furnishing of a 63,000 square foot academic and dining facility. The second project was the construction of 24 apartment-style housing units, which have the capacity to house 100 students. The third project involved improvements of bridges, walkways, plantings and lighting on and near Lyman Lakes on the College campus.

COLLEGE OF ST. BENEDICT is a Catholic liberal arts college for women founded by Benedictine monastic women in 1887. Academic and social programs are carried out in cooperation with nearby St. John's University for men allowing student access to the faculties and facilities of both campuses. The College offers more than 60 areas of study and 40 majors. It is located in central Minnesota minutes away from the St. Cloud metropolitan area.

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

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

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

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

COLLEGE OF ST. SCHOLASTICA is a four-year residential institution. The College was founded in 1912, and offers undergraduate and graduate degree programs in the liberal arts and sciences and professional career fields. The campus is set on a hill overlooking Lake Superior in Duluth, Minnesota. In addition to the main campus, the College has extended sites in Brainerd, St. Cloud, and St. Paul, Minnesota.

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

COLLEGE OF VISUAL ARTS, founded in 1924, is a private, four-year college of art and design, located in the historic residential Summit Hill area of Saint Paul, Minnesota. The College offers Bachelor of Fine Arts degrees in Visual Communications (communication design, illustration, photography) and Fine Arts (painting, drawing, sculpture, printmaking, general fine arts).

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

CONCORDIA COLLEGE - MOORHEAD is a four-year, liberal arts college affiliated with the Evangelical Lutheran Church in America offering more than 100 degree and pre-professional programs. The College was founded in 1891 and is located within a residential section of Moorhead, Minnesota, on the North Dakota border.

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

CONCORDIA UNIVERSITY, SAINT PAUL, founded in 1893, is a liberal arts university affiliated with The Lutheran Church - Missouri Synod. The University offers several programs leading to an Associate of Arts, Bachelor of Arts, or Master of Arts Degree, as well as certificate and degree completion programs. The campus is located in an active St. Paul, Minnesota neighborhood, a short distance from both downtown St. Paul and Minneapolis, Minnesota.

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

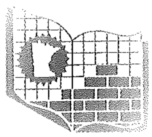
GUSTAVUS ADOLPHUS COLLEGE is a residential four-year, liberal arts college founded in 1862 by Swedish Lutheran immigrants. It is located in St. Peter, Minnesota about one hour southwest of the Twin Cities. The College offers a Bachelor of Arts degree in over 60 major areas of study.

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

HAMLINE UNIVERSITY, located in St. Paul, Minnesota, was founded in 1854 and is affiliated with the United Methodist Church. The University is composed of an undergraduate College of Liberal Arts, the Hamline School of Law, Graduate School of Education, Graduate School of Public Administration and Management, and Graduate Liberal Studies Program.

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

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:



MACALESTER COLLEGE is a four-year, undergraduate liberal arts college located in St Paul, Minnesota. The college was founded in 1874 as a Presbyterian-related but non-sectarian college. The College offers over 35 majors and over 30 minors in natural sciences, social sciences, humanities and fine arts.

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

MINNEAPOLIS COLLEGE OF ART AND DESIGN was established in 1886 and is a private four-year college located just south of downtown Minneapolis, Minnesota. The College offers degree programs in Design, Fine Arts, and Media Arts at both the undergraduate and graduate level.

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

NORTHWESTERN HEALTH SCIENCES UNIVERSITY was founded in 1941as Northwestern College of Chiropractic and offers degree programs in a variety of natural health care professions. The University is divided into the following programs: Northwestern College of Chiropractic, Minnesota College of Acupuncture and Oriental Medicine, and Northwestern's School of Massage. The University is located in Bloomington, Minnesota.

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

ST. JOHN'S UNIVERSITY is a Catholic liberal arts college for men. The University offers its academic and extracurricular program in conjunction with nearby College of Saint Benedict. The character of both of these institutions continues to be shaped by the Benedictine communities that founded the colleges in the 19th century. St. John's is located in Collegeville, Minnesota, minutes away from the St. Cloud metropolitan area.

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

SAINT MARY'S UNIVERSITY OF MINNESOTA, is a four-year residential liberal arts institution. It was founded in 1912 and is administered by the De La Salle Christian Brothers. The University's main campus is in Winona, Minnesota but offers undergraduate, graduate and certificate programs at various locations in Minnesota, Wisconsin and in Nairobi, Kenya.

- Series Five-E issued June 2000 in the amount of $5,020,000. The proceeds of this issue were used in the construction and equipping of a 41,000 square foot apartment-style student residence building on the University's Winona campus. This residence facility will have the capacity to house 100 students in 50 units.
- Series Five-F issued March 2000 in the amount of $1,037,118. This equipment lease financing was completed for the acquisition and installation of a of a standby electric generation system.
- Series Five-U issued March 2004 in the amount of $10,980,000. The proceeds of this bond issue were used to refund Series Three-Q bonds.

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

ST. OLAF COLLEGE is a four-year residential liberal arts institution located in Northfield, Minnesota. It was founded in 1874 and is associated with the Evangelical Lutheran Church in America. St. Olaf offers over 40 academic majors, nearly 30 intercollegiate sports, a world-renowned music program and a commitment to international study.

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

UNIVERSITY OF ST. THOMAS was founded in 1885 and is a coeducational, liberal arts university. The University offers undergraduate degrees in over 85 majors and nearly 60 minors. It offers several master's degree programs, education specialist degree programs, a juris doctor, and a number of doctoral degree programs. The main campus is located in St. Paul, Minnesota and the center for graduate studies of the University is located in downtown Minneapolis, Minnesota. Other campuses include the Gainey Conference Center in Owatonna, Minnesota and the Bernardi Campus in Rome, Italy.

- Series Three-I issued April 1992 in the amount of $10,200,000. The net proceeds of the bond issue were used for the purchase and installation of a new telecommunication system; the purchase, replacement and upgrading of two of the three boilers at the St. Paul campus; and an expansion of the physical plant headquarters facility on the St. Paul campus.
- Series Four-A1 issued March 1996 in the amount of $11,645,000. The proceeds of this issue were used to partially finance the construction and equipping of an approximately 195,000 square foot science and engineering center on the St. Paul campus of the University. The project will be home to the undergraduate department of science, math, computing science and engineering, and the Graduate School of Applied Science and Engineering.
- Series Four-M issued July 1997 in the amount of $21,680,000. The proceeds of this bond issue were used together with proceeds of the Series Four-O bond issue and University funds to finance the construction and furnishing of a residence hall to accommodate approximately 345 students. This project included the construction of a parking ramp under the residence hall and surface parking adjacent to the hall for an additional parking capacity of 400 cars. Also financed by this bond issue was a commons building connecting Brady and Dowling Halls. This new building contains office space and recreational facilities.
- Series Four-O issued September 1997 in the amount of $10,800,000. The proceeds of this bond issue were used together with proceeds of the Series Four-M bond issue and University funds to finance the construction and furnishing of the residence hall and parking ramp as described in Series Four-M. A portion of the proceeds, together with University funds, was used to finance the current refunding of the Variable Rate Demand Revenue Bonds, Series Four-A2.

University of St. Thomas, con't. next page ▶

- Series Four-P issued December 1997 in the amount of $15,435,000. The proceeds were used to finance the acquisition, construction and equipping of Opus Hall, an approximately 98,200 square foot facility to be used for a library, offices, and classrooms. Included in the project was a skyway connection to the University's existing facility on its Minneapolis campus.
- Series Five-C issued October 1999 in the amount of $10,000,000. Proceeds of this bond issue were used for the renovation of Albertus Magnus Hall on the St. Paul campus. This former science building was converted to an office and classroom facility for the liberal arts and humanities departments.
- Series Five-L issued April 2002 in the amount of $25,845,000. The proceeds of the bonds along with University funds were used to finance the construction and furnishing of a building for the University's Law School on the University's Minneapolis campus. A portion of the proceeds also went to refund the outstanding portion of the Series Three-C bonds.
- Series Five-T issued December 2003 in the amount of $23,575,000. The proceeds of this bond issue were used to refund Series Three-R1 and Series Three-R2 bonds.

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

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

WILLIAM MITCHELL COLLEGE OF LAW is an independent, nonprofit law school. William Mitchell was created in 1958 through successive mergers of several Twin Cities law schools. In 1976, the College moved to its present campus on Summit Avenue in St. Paul, Minnesota. It is accredited by the American Bar Association and is a member of the American Association of Law Schools. The College offers a flexible schedule of day and night classes and part- and full-time enrollment options.

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

August 12, 2004

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

INDEPENDENT AUDITORS' REPORT We have audited the accompanying basic financial statements of the Minnesota Higher Education Facilities Authority, as of and for the year ended June 30, 2004. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, as of June 30, 2004, and the changes in financial position and cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS:

This discussion and analysis of the financial performance of the Minnesota Higher Education Facilities Authority (the Authority) is supplementary information required by the Governmental Accounting Standards Board. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the year ended June 30, 2004.

INTRODUCTION

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

The Authority is authorized to issue revenue bonds whose aggregate outstanding principal amount at any time cannot exceed $ 800 million. The Authority has had 140 issues (including refunded and retired issues) totaling $ 1,025,318,307 of which $ 576,981,299 is outstanding as of June 30, 2004. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota. The operations of the Authority are financed solely from fees paid by the participating institutions. It has no taxing power. Bond issuance costs, including the fees of legal counsel, the financial advisor and the trustee, are paid by the participating institution.

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

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

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

The annual debt financing conference was held in April 2004. The conference was again coordinated with a similar conference for business officers sponsored by the Minnesota Private College Council. The annual conference provides a chance for Authority clients, members and finance professionals to share information on higher education capital financings. This year, the conference focused on campus and facility planning, best management practices and a market outlook.

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

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

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

The following summarizes the financial position and results of operations of the Authority for the years ended June 30, 2003 and 2004.

ASSETS:	2004	2003
Current Assets	$ 2,261,263	$ 2,317,534
Noncurrent Assets	5,713	7,444
Total Assets	$ 2,266,976	$ 2,324,978

LIABILITIES AND NET ASSETS:		
Liabilities:		
Current Liabilities	$ 41,779	$ 42,634
Net Assets	2,225,197	2,282,344
Total Liabilities and Net Assets	$ 2,266,976	$ 2,324,978

Operating Revenues	$ 307,850	$ 291,838
Operating Expenses	370,381	375,990
Operating Loss	(62,531)	(84,152)
Nonoperating Revenues:		
Interest income	99,060	98,658
Net Increase (Decrease) in Fair Value of Investments	(93,676)	61,080
Total Nonoperating Revenues	5,384	159,738
Change in Net Assets	(57,147)	75,586
Total Net Assets - Beginning of Year	2,282,344	2,206,758
Total Net Assets - End of Year	$ 2,225,197	$ 2,282,344

MANAGEMENT'S DISCUSSION AND ANALYSIS: FINANCIAL HIGHLIGHTS

The demand for capital among Minnesota private colleges and universities remains strong. The total principal amount issued in fiscal year 2004 was $ 58,855,000 compared to $ 105,795,000 in fiscal year 2003. Following is a listing of the bond issues for fiscal year 2004.

WILLIAM MITCHELL COLLEGE OF LAW

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

UNIVERSITY OF ST. THOMAS

- Series Five-T issued December 2003 in the amount of $ 23,575,000. The proceeds of this bond issue were used to refund Series Three-R1 and Series Three-R2 Bonds.

SAINT MARY'S UNIVERSITY OF MINNESOTA

- Series Five-U issued March 2004 in the amount of $ 10,980,000. The proceeds of this bond issue were used to refund Series Three-Q Bonds.

BETHEL UNIVERSITY

- Series Five-V issued May 2004 in the amount of $ 8,500,000. The proceeds of this bond issue were used together with additional funds of the University to finance the construction of an approximately 288 bed, suite-style student housing facility on the main campus.

FACTORS EXPECTED TO AFFECT FUTURE FINANCIAL POSITION AND OPERATION

The Authority is primarily dependent on administrative fee revenue with supplemental revenue provided by earnings from its accumulated operating reserve. The fees are based upon the actual outstanding principal amount of each series of bonds when billed. Starting in fiscal year 1997, the Authority's annual administrative fees have been reduced across the board, while maintaining essentially a break-even operating budget. The Authority was able to reduce its annual administrative fees to all borrowers in fiscal year 2004 by 60%. The growing size of recent bond issues and a tight rein on expenses have made it possible to reduce the fees for fiscal year 2005 by 70%. Although future reductions cannot be guaranteed, the Authority is committed to providing financing services at affordable fees to colleges and universities in Minnesota.

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

Minnesota Higher Education Facilities Authority
Attention: Executive Director
380 Jackson Street, Suite 450
Saint Paul, MN 55101

Phone: 651-296-4690
Fax: 651-297-5751
Email: mhefa@isd.net

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF NET ASSETS

As of June 30, 2004

(With Comparative Amounts As of June 30, 2003)

ASSETS:	2004	2003
Current Assets:		
Cash and Cash Equivalents	$ 250,238	$ 288,505
Investments	1,966,501	1,985,746
Interest Receivable	31,611	32,122
Accounts Receivable	11,718	10,605
Prepaid Expenses	1,195	556
Total Current Assets	2,261,263	2,317,534
Noncurrent Assets:		
Equipment	65,127	70,543
Less Accumulated Depreciation	(59,414)	(63,099)
Total Noncurrent Assets	5,713	7,444
Total Assets	$ 2,266,976	$ 2,324,978

LIABILITIES AND NET ASSETS:	2004	2003
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 6,523	$ 8,798
Compensated Absences Payable	35,256	33,836
Total Liabilities	41,779	42,634
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,713	7,444
Unrestricted	2,219,484	2,274,900
Total Net Assets	2,225,197	2,282,344
Total Liabilities and Net Assets	$ 2,266,976	$ 2,324,978

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

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2004

(With Comparative Amounts for the Year Ended June 30, 2003)

	2004	2003
Operating Revenues:		
Annual Administrative Fees	$ 301,844	$ 287,838
Other Income	6,006	4,000
Total Operating Revenues	307,850	291,838
Operating Expenses:		
Payroll, Payroll Taxes and Employee Benefits	238,557	252,899
Legal, Audit and Consulting Expense	30,100	29,195
Rent	44,809	42,471
Depreciation	3,457	4,595
Other General and Administrative Expenses	53,458	46,830
Total Operating Expenses	370,381	375,990
Operating Loss	(62,531)	(84,152)
Nonoperating Revenues:		
Interest Income	99,060	98,658
Net Increase (Decrease) in Fair Value of Investments	(93,676)	61,080
Total Nonoperating Revenue	5,384	159,738
Change in Net Assets	(57,147)	75,586
Total Net Assets - Beginning of Year	2,282,344	2,206,758
Total Net Assets - End of Year	$2,225,197	$2,282,344

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

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2004

(With Comparative Amounts for the Year Ended June 30, 2003)

	2004	2003
Cash Flows from Operating Activities:		
Cash Received from Annual Administrative Fees	$ 300,731	$ 302,848
Cash Received from Application Fees	6,006	4,000
Cash Payments to Employees	(237,137)	(250,627)
Cash Payments to Suppliers for Goods and Services	(131,281)	(118,440)
Net Cash Flows from Operating Activities	(61,681)	(62,219)
Cash Flows from Capital and Related Financing Activities:		
Purchases of Capital Assets	(1,725)	(1,091)
Cash Flows from Investing Activities:		
Investment Income	99,570	98,658
Net (Purchases) of Investments	(74,431)	
Net Cash Provided by Investing Activities	25,139	98,658
Net Increase (Decrease) in Cash and Cash Equivalents	(38,267)	35,348
Cash and Cash Equivalents, July 1, 2003	288,505	253,157
Cash and Cash Equivalents, June 30, 2004	$250,238	$288,505

	2004	2003
Reconciliation of Operating Income to Net Cash Used:		
Operating Activities:		
Operating Loss	$ (62,531)	$ (84,152)
Adjustments to Reconcile Operating		
Income to Net Cash Flows:		
Depreciation	3,457	4,595
Accounts Receivable	(1,113)	15,010
Prepaids	(639)	1,443
Accounts Payable	(2,275)	(1,387)
Compensated Absences Payable	1,420	2,272
Total Adjustments to Reconcile Operating Income to Net Cash Used	850	21,933
Net Cash Flow from Operating Activities	$ (61,681)	$ (62,219)
Noncash Transactions:		
Net Increase/(Decrease) in Fair Value of Investments	$(93,676)	$ 61,080

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Minnesota Higher Education Facilities Authority (the Authority) is a state agency created to assist nonprofit institutions of higher education in financing the construction of educational facilities. The Authority finances projects through the issuance of bonds; the principal and interest of which are paid by the annual lease/loan payments collected from the higher education institutions. In fiscal year 2004, the Authority was authorized to have a maximum of $ 800 million of revenue bonds outstanding. Bonds issued by the Authority are payable only from specified revenues and collateral and do not constitute a debt of the State of Minnesota.

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

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

The operating revenues of the Authority consist principally of annual administrative fees paid by the participating institutions. While the annual administrative fee rate for new bond issues has changed periodically, the fee rate remains constant for the life of the bonds, with the exception of fee reductions for operating reserve stabilization purposes. The annual fee structure is as follows: Bonds issued from December 1971 to September 1975 are charged .125% of the original balance of the bonds; bonds issued from October 1975 to December 1989 are charged .2% of the original balance of the bonds; bonds issued from January 1990 to present are charged .125% of the outstanding balance of the bonds. In an effort to stabilize its unrestricted net asset balance, the Authority periodically evaluates the administrative fees charged to participating institutions. For the years ended June 30, 2002 and 2001, the Authority required participating institutions to pay 50% of the contractual administrative fees. In May 2002, the Authority determined that participating institutions would be required to pay 40% of the contractual administrative fees during the year ending June 30, 2003 and 2004.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

C. ASSETS, LIABILITIES AND NET ASSETS

Cash and Investments

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

Capital Assets

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

Conduit Debt

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

These obligations are itemized in Note 6. Assets held by trustees related to these obligations totaled $ 51,872,225 as of June 30, 2004.

Compensated Absences

The Authority compensates all employees upon termination of employment for unused vacation up to a set maximum of 275 hours. At June 30, 2004, the Authority has recorded a liability for all unused vacation.

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

Income Taxes

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

2 DEPOSITS AND INVESTMENTS

Deposits

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

At year end, the carrying amount of the Authority's deposit balances was $ 12,006, and the bank balance was $ 12,709, which was insured under FDIC insurance.

Investments

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

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

Investments are categorized into these three categories of credit risk:

Category 1 – Investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2 – Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name.

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

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

	Category 1	Category 2	Category 3	Reported Amount/ Fair Value
Government Securities	$ 1,966,501	$ -	$ -	$ 1,966,501
Not Subject to Categorization:				
Money Market				238,192
Deposit				12,006
Petty Cash				40
Total Cash and Investments				$ 2,216,739

Deposits and Investments, con't. next page ▶

2 DEPOSITS AND INVESTMENTS, *continued*

Investments, *continued*

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

Cash and Cash Equivalents	$ 250,238
Investments	1,966,501
Total	$ 2,216,739

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated: Office Furniture and Equipment	$ 70,543	$ 1,726	$ (7,142)	$ 65,127
Less: Accumulated Depreciation	(63,099)	(3,457)	7,142	(59,414)
Capital Assets, Net	$ $7,444	$ (1,731)	$ -	$ 5,713

4 LEASES

The Authority has a lease commitment for office space through November 2007, with monthly base rent from $ 3,352 to $ 3,771. Total costs were $ 44,809 for the year ended June 30, 2004. The future minimum lease payments for this lease are as follows:

Fiscal Year Ended	
2005	$ 42,214
2006	43,472
2007	44,728
2008	18,855
Total	$ 149,269

5 CHANGES IN COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 33,836	$ 21,765	$(20,345)	$ 35,256	$ 35,256

6 CONDUIT DEBT

At June 30, 2004, there were 60 bond issues and leases outstanding with an aggregate principal balance outstanding of $ 576,981,299 as follows:

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series A, Augsburg College, Revenue Bonds, December 1972	2012	$2,200,000	$1,140,000
Series T, Carleton College, Revenue Bonds, December 1977	2007	2,385,000	1,425,000
Series Two-P, Vermilion Community College, Revenue Bonds,November 1987	2007	1,300,000	445,000
Series Three-L1, Carleton College, Variable Rate Demand Revenue Bonds, October 1992	2012	10,000,000	10,000,000
Series Three-L2, Carleton College, Variable Rate Demand Revenue Bonds, October 1992	2012	10,300,000	10,300,000
Series Three-S, Minneapolis College of Art & Design, Revenue Notes, July 1993	2005	225,000	37,879
Series Three-T, Vermilion Community College, Revenue Bonds, July 1993	2013	950,000	575,000
Series Three-W, College of St. Benedict, Revenue Bonds, April 1994	2020	17,475,000	3,915,000
Series Three-X, College of Visual Arts, Revenue Notes, March 1994	2009	350,000	148,072
Series Three-Y, Minneapolis College of Art & Design, Revenue Notes, June 1994	2006	1,612,000	407,315
Series Three-Z, Macalester College, Variable Rate Demand Revenue Bonds, September 1994	2024	6,660,000	6,660,000
Series Four-A1, University of St. Thomas, Revenue Bonds, March 1996	2021	11,645,000	10,500,000
Series Four-B, Concordia College, Revenue Bonds, October 1995	2010	3,300,000	2,235,000
Series Four-C, Macalester College, Revenue Bonds, November 1995	2016	11,245,000	8,025,000
Series Four-E, College of St. Scholastica, Multi-Annual Revenue Bonds, May 1996	2006	2,000,000	500,000
Series Four-F1, Augsburg College, Revenue Bonds, May 1996	2023	7,700,000	7,395,000
Series Four-G, College of St. Benedict, Revenue Bonds, July 1996	2016	3,000,000	2,130,000
Series Four-H, Gustavus Adolphus College, Revenue Bonds, August 1996	2010	6,135,000	2,115,000
Series Four-I, Hamline University, Revenue Bonds, September 1996	2016	17,500,000	13,755,000
Series Four-J, Macalester College, Revenue Bonds, May 1997	2017	11,000,000	8,365,000
Series Four-L, St. John's University, Revenue Bonds, July 1997	2022	29,850,000	25,565,000

Conduit Debt, con't. next page ▶

6 CONDUIT DEBT, *continued*

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series Four-M, University of St. Thomas, Revenue Bonds, July 1997	2022	$21,680,000	$18,370,000
Series Four-N, Carleton College, Revenue Bonds, June 1997	2018	24,440,000	20,570,000
Series Four-O, University of St. Thomas, Variable Rate Demand Revenue Bonds, September 1997	2021	10,800,000	10,800,000
Series Four-P, University of St. Thomas, Revenue Bonds, December 1997	2023	15,435,000	13,495,000
Series Four-R, St. Olaf College, Revenue Bonds, May 1998	2029	15,000,000	13,820,000
Series Four-S, Bethel College, Adjustable Demand Revenue Bonds, June 1998	2028	22,865,000	20,750,000
Series Four-T, College of St. Benedict, Revenue Bonds, July 1998	2020	25,430,000	22,390,000
Series Four-U1, Macalester College, Revenue Bonds, July 1998	2022	7,145,000	6,155,000
Series Four-U2, Macalester College, Revenue Bonds, July 1998	2022	15,200,000	13,005,000
Series Four-V, Gustavus Adolphus College, Lease and Purchase Agreement, July 1998	2009	4,602,000	2,578,124
Series Four-W, Augsburg College, Revenue Notes, September 1998	2015	450,000	350,030
Series Four-X, Gustavus Adolphus College, Revenue Bonds, November 1998	2024	11,695,000	10,645,000
Series Four-Y, Augsburg College, Mortgage Revenue Bonds, January 1999	2027	15,840,000	13,490,000
Series Four-Z, Northwestern College of Chiropractic, Mortgage Revenue Bonds, January 1999	2013	5,875,000	4,375,000
Series Five-A, Concordia University, Lease and Purchase Agreement, April 1999	2014	1,440,000	1,092,936
Series Five-B, Hamline University, Revenue Bonds, September 1999	2029	7,750,000	7,400,000
Series Five-C, University of St. Thomas, Variable Rate Demand Revenue Bonds, October 1999	2025	10,000,000	10,000,000
Series Five-D, Minneapolis College of Art & Design, Revenue Bonds, June 2000	2026	7,920,000	7,465,000
Series Five-E, Saint Mary's University, Revenue Bonds, June 2000	2026	5,020,000	4,735,000
Series Five-F, Saint Mary's University, Master Financing Agreement, March 2000	2012	1,037,118	847,932
Series Five-G, Carleton College, Variable Rate Demand Revenue Bonds, June 2000	2029	23,000,000	23,000,000
Series Five-H, St. Olaf College, Variable Rate Demand Revenue Bonds, October 2000	2030	14,475,000	14,475,000
Series Five-I, St. John's University, Revenue Bonds, February 2001	2026	14,270,000	13,640,000

Conduit Debt, con't. next page ▶

6 CONDUIT DEBT, *continued*

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series Five-J, College of St. Scholastica, Revenue Refunding Bonds, May 2001	2014	$ 5,960,000	$ 4,875,000
Series Five-K, Minneapolis College of Art & Design, Revenue Bonds, August 2001	2021	4,355,000	4,280,000
Series Five-L, University of St. Thomas, Variable Rate Demand Revenue Bonds, April 2002	2027	25,845,000	24,255,000
Series Five-M1, St. Olaf College, Variable Rate Demand Revenue Bonds, April 2002	2032	12,205,000	12,205,000
Series Five-M2, St. Olaf College, Variable Rate Demand Revenue Bonds, July 2002	2020	13,420,000	13,420,000
Series Five-N1, College of St. Catherine, Revenue Bonds, August 2002	2032	28,265,000	27,805,000
Series Five-N2, College of St. Catherine, Variable Rate Demand Revenue Bonds, August 2002	2032	24,625,000	24,625,000
Series Five-O, Hamline University, Revenue Notes, July 2002	2009	1,000,000	744,011
Series Five-P1, Concordia University, Variable Rate Demand Revenue Bonds, March 2003	2027	4,250,000	3,000,000
Series Five-P2, Concordia University, Variable Rate Demand Taxable Revenue Bonds, March 2003	2021	7,230,000	7,000,000
Series Five-Q, Macalester College, Variable Rate Demand Revenue Bonds, February 2003	2033	15,300,000	15,300,000
Series Five-R, College of St. Scholastica, Revenue Bonds, May 2003	2032	11,705,000	11,530,000
Series Five-S, William Mitchell College of Law, Variable Rate Demand Revenue Bonds, October 2003	2033	15,800,000	15,800,000
Series Five-T, University of St. Thomas, Revenue Bonds, December 2003	2014	23,575,000	23,575,000
Series Five-U, Saint Mary's University, Revenue Bonds, March 2004	2019	10,980,000	10,980,000
Series Five-V, Bethel College, Adjustable Demand Revenue Bonds, May 2004	2034	8,500,000	8,500,000
		$651,216,118	$576,981,299

A summary of changes in conduit debt outstanding for the year ended June 30, 2004 is presented below:

Conduit debt, July 1, 2003	$ 572,534,959
Additions:	
Revenue bonds issued	58,855,000
Reductions:	
Principal retirements	(17,928,660)
Refunding of principal	(36,480,000)
Conduit debt, June 30, 2003	$ 576,981,299

7 RISK MANAGEMENT

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

During the year ended June 30, 2004, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

8 STATE EMPLOYEES RETIREMENT FUND (SERF) AND STATE UNCLASSIFIED EMPLOYEES RETIREMENT PROGRAM (SUERP)

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

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

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

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

Fiscal Year		Amount
2004	$	9,065
2003		9,572
2002		8,110

9 SUBSEQUENT EVENT

Series Five-W revenue bonds in the amount of $ 7,965,000 were issued for the benefit of the College of Saint Benedict on July 8, 2004. The College of Saint Benedict will use the proceeds to refund the Series Three-W bonds and to fund various campus improvements.

MHEFA

Minnesota Higher Education Facilities Authority
380 Jackson Street, Suite 450
Saint Paul, Minnesota 55101
651-296-4690

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