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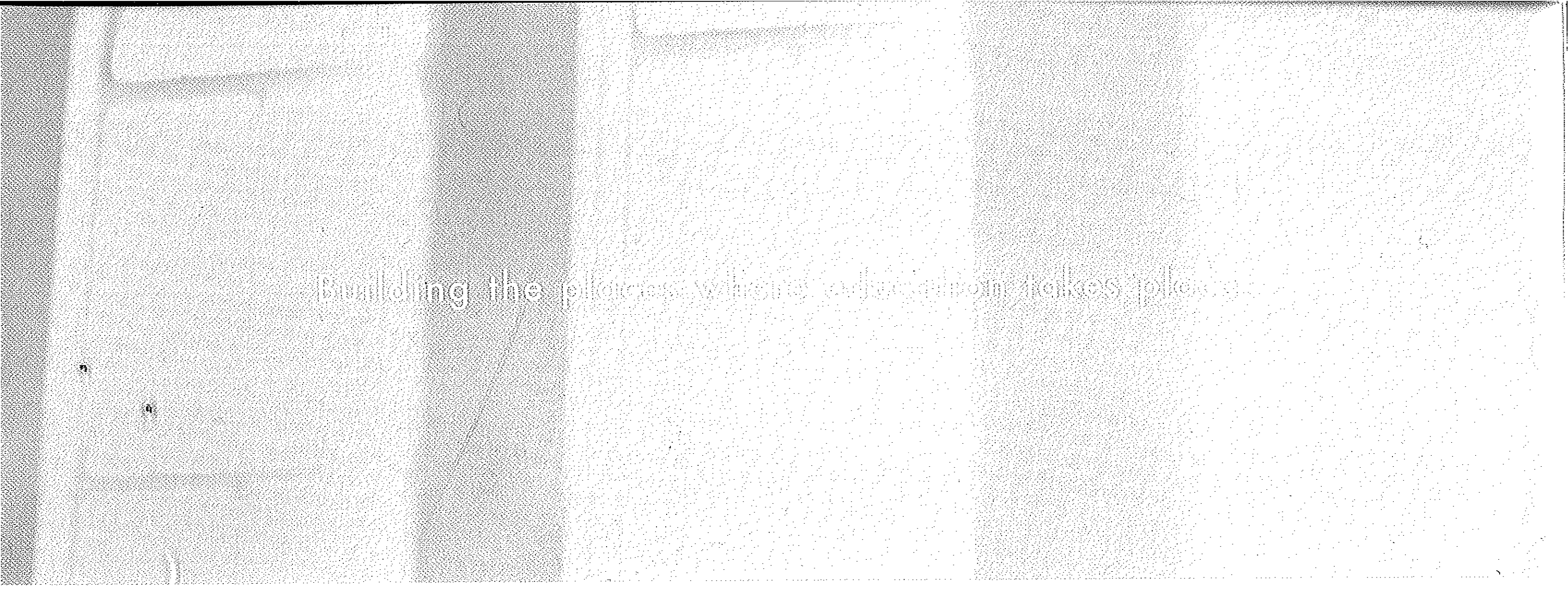
MINNESOTA

HIGHER EDUCATION

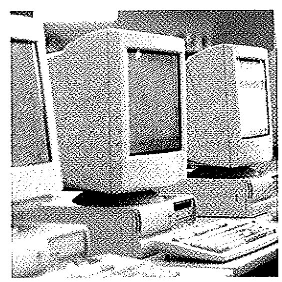
FACILITIES AUTHORITY

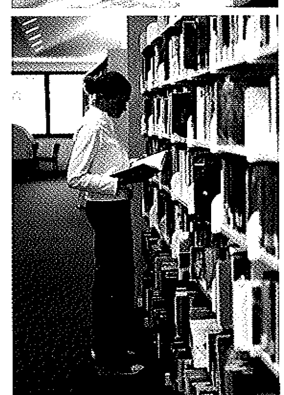
ANNUAL REPORT FOR

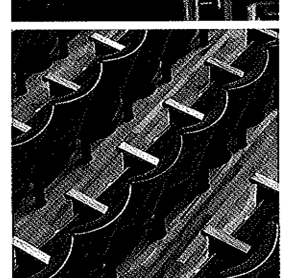
THE FISCAL YEAR 2006



Building the places where education takes place







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.

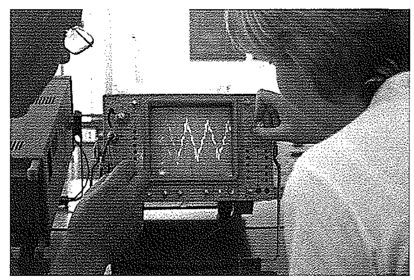
Within the framework of Minnesota Statutes 136A.25 – 136A.42, the Authority works to assist educational institutions primarily through the issuance of tax-exempt debt obligations on their behalf. The Authority also actively seeks to develop financing programs that may be of benefit to institutions and 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.

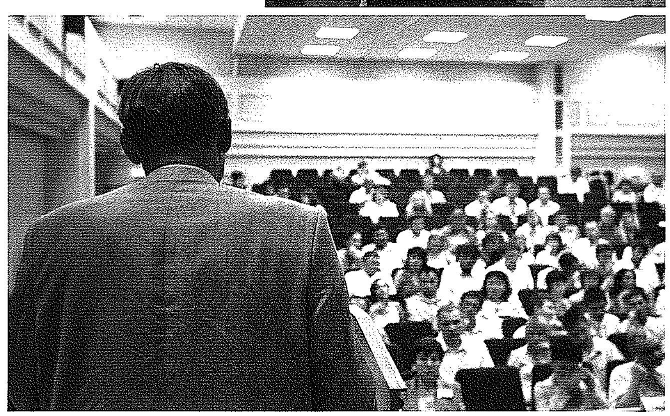
The Authority shall conduct its activities in strict accordance with all applicable laws and regulations. The Authority will not act as a regulatory body with respect to the internal policies and activities, financial or otherwise, of any educational institution, except as may be required by law and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

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

Report on Audit of Financial Statements

For the Year Ended June 30, 2006





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MINNESOTA
HIGHER EDUCATION
FACILITIES AUTHORITY
ANNUAL REPORT FOR THE
FISCAL YEAR 2006

MHEFA BOARD MEMBERS

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Vice President, Kraus-Anderson
Construction Company
Resident of New Brighton
Term Expires January 2007

Kathryn Balstad Brewer
Retired Banker and Educator
Resident of New Brighton
Term Expires January 2007

Mary F. Ives, *MHEFA Secretary*
Real Estate Business Owner
Resident of Grand Rapids
Term Expires January 2008

David B. Laird, Jr., *Ex-officio*
Non-voting Member
President, Minnesota Private
College Council

Mark Misukanis, *Ex-officio*
Director of Fiscal Policy and
Research
Minnesota Office of Higher
Education

Carla Nelson
Business Development &
Marketing Director
Olmsted Financial Group
Resident of Rochester
Term Expires January 2009

Christopher A. Nelson
Attorney,
The St. Paul Travelers Companies, Inc.
Resident of Eagan
Term Expires January 2006

Michael D. Ranum, *MHEFA Vice Chair*
Chief Financial and
Administrative Officer
Hazelden Foundation
Resident of Circle Pines
Term Expires January 2010

David D. Rowland, *MHEFA Chair*
Senior Vice President
The St. Paul Travelers Companies, Inc.
Resident of Eden Prairie
Term Expires January 2009

Raymond VinZant, Jr.
Policy Representative,
Office of US Senator Norm Coleman
Resident of St. Paul
Term Ends January 2008

MHEFA STAFF

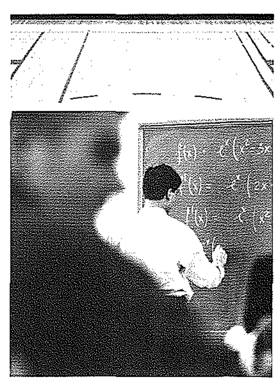
Marianne T. Remedios,
Executive Director

Elaine J. Yungerberg,
Assistant Executive Director

Jane M. Cain,
Administrative Assistant

Financial Advisors
Springsted Incorporated
St. Paul

Independent Auditors
Kern, DeWenter, Viere, Ltd.
Minneapolis



Greetings:

We are pleased to present the Annual Report of the Minnesota Higher Education Facilities Authority for the year ended June 30, 2006, 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 2006, the Authority completed four financings for three institutions. The total principal amount was $93,460,000 compared to the previous year's total of $157,910,000. Taking into account regularly scheduled repayments and the refunding of certain prior Authority bonds, the total principal outstanding for Authority-issued debt stands at approximately $643,984,000 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 reappointed Michael D. Ranum but did not act to fill the vacancy caused by a retiring member. Christopher A. Nelson did not seek reappointment beyond his four-year term ending January 2006.

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.

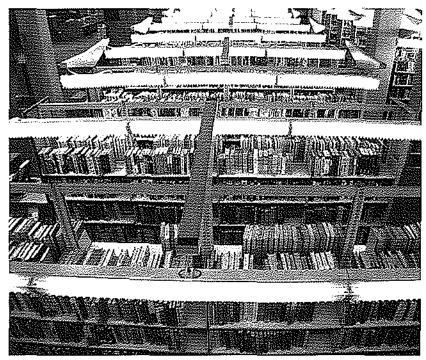
Respectfully Submitted,

David D. Rowland
Chair

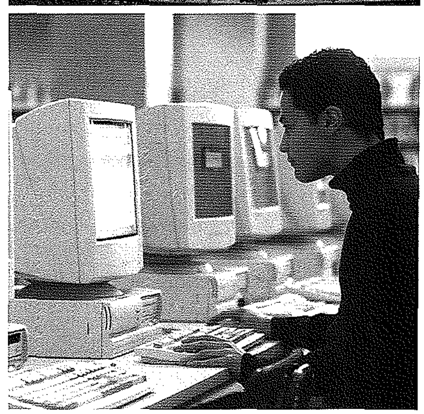
COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

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 degree 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.
- 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 an apartment-style student residence hall of approximately 66,000 square feet that includes underground parking.
- Series Six-C issued April 2005 in the amount of $6,780,000. The proceeds of this bond issue were used to refund Series Four-F1 Bonds and Series Four-W notes.



BETHEL UNIVERSITY is a Christian liberal arts institution offering majors, minors, and advanced degrees in nearly 100 fields. Bethel's campus is located a short distance from either downtown St. Paul or Minneapolis in suburban Arden Hills, Minnesota. Bethel College & Seminary, founded in 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 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-L2 issued October 1992 in the amount of \$10,300,000. The proceeds 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 proceeds of this bond issue 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 were used for the construction and furnishing of a 63,000 square foot academic and dining facility, for the construction of 24 apartment-style housing units, which have the capacity to house 100 students, and for improvements of bridges, walkways, plantings and lighting on and near Lyman Lakes on the College campus.
- Series Six-D issued April 2005 in the amount of \$31,460,000.00. The proceeds of this bond issue were used to construct and furnish a townhouse for student occupancy, to acquire real estate near Campus, to refinance Series Three-L1 Bonds and to partially refinance the Series Four-N Bonds.

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 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 other infrastructure improvements. In addition, some of the bond proceeds were used to refund a portion of the Series Three-W Bonds.
- Series Five-W issued in July 2004 in the amount of \$7,965,000.00. The proceeds of this issue were used to refinance the outstanding portion of the Series Three-W Bonds and to finance a wide variety of improvements to several residence halls and academic buildings.

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

COLLEGE OF ST. CATHERINE is a Catholic liberal arts college 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 issued August 2002 in the amount of $28,265,000 and Series Five-N2 issued August 2002 in the amount of 24,625,000. The proceeds of these bond issues were used for the construction of a Student Center and Learning Commons, renovation of St. Joseph hall and St. Catherine Library, renovation of Whitby Hall and Mendel Hall, an upgrade of the Food Consumer and Nutritional Sciences space in Fontbonne Hall, and upgrade of the Health and Wellness Center space in Butler Center, and for the conversion of a steam plant. In addition, a portion of the bonds was used to refinance the Series Three-M1 Bonds.

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 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 14, 2003 in the amount of $11,705,000. The proceeds were used for the construction of the Wellness Center and to make improvements to the Reif Athletic Center. The proceeds were also used to build a 96-unit apartment-style residence facility and to refinance the Series Three-N bonds.
- Series Six-A issued December 2004 in the amount of $12,000,000. The proceeds of this issue were used to construct and furnish a two-building, 290-bed apartment-style residence facility.

COLLEGE OF VISUAL ARTS founded in 1924, is a four-year college of art and design, located in the historic residential Summit Hill area of St. 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 UNIVERSITY, ST. PAUL is a liberal arts university. The University was founded in 1893 and is 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 issued March 2003 in the amount of $4,250,000 and Five-P2 issued March 2003 in the amount of $7,230,000. The proceeds 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.
- Series Five-X issued October 2004 in the amount of $16,550,000. The proceeds of this issue were used to construct and furnish a 200-bed apartment-style residence hall, the renovation of the College's Old Main building, and the installation of fire sprinkler systems in its existing residence halls.

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 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 containing 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.
- Series Six-E1 issued June 2005 in the amount of $9,580,000. The proceeds of Series Six-E1 were used to refinance a portion of the Series Four-I Bonds.
- Series Six-E2 issued June 2005 in the amount of $8,580,000. The proceeds were used to finance improvements to various buildings on the University campus, refinance an outstanding commercial note, and acquire and renovate a building in St. Paul, Minnesota for use as an events center and President's residence.

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-U1 issued July 1998 in the amount of $7,145,000. The proceeds of this bond issue, together with additional funds of the College, were used to finance the construction of an approximately 68,000 square foot Campus Center to replace the Student Union Building.
- Series Four-U2 issued July 1998 in the amount of $15,200,000. Proceeds 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.
- Series Six-B issued December 2004 in the amount of $14,995,000. The proceeds of this issue were used to refinance the Series Four-C Bonds, and the Series Four-J Bonds.
- Series Six-F issued July 22, 2005 in the amount of $3,000,000. The proceeds of this issue were used to finance the acquisition and installation of a replacement administrative computing system, including hardware, software licenses, and costs of converting data, training, and testing.

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 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 1941 as 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 College's main campus.

ST. JOHN'S UNIVERSITY is a Catholic, liberal arts college for men. The University offers 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 Six-G issued August 18, 2005 in the amount of $39,300,000. The bonds will advance refund the Series Four-L Bonds and the Series Five-I Bonds.

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 will be 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 to be installed.
- 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.

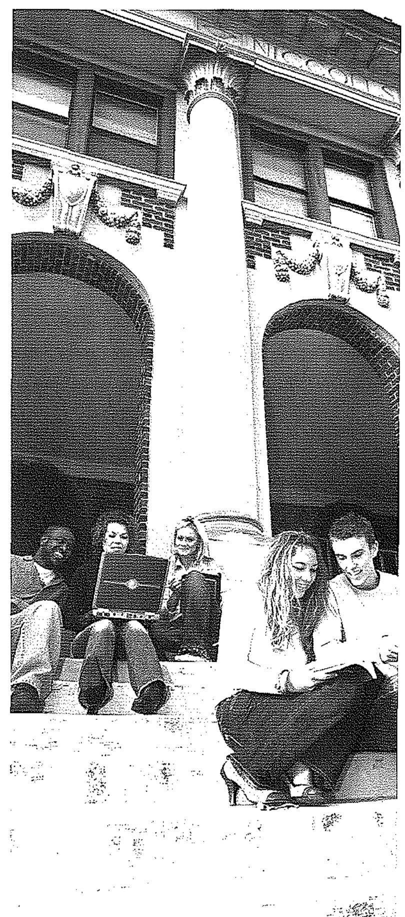
ST. OLAF COLLEGE is a four-year residential liberal arts institution located in Northfield, Minnesota. It was founded in 1874 and is associated with the Evangelical Lutheran Church in America. St. Olaf offers over 40 academic majors, nearly 30 intercollegiate sports, a world-renowned music program and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

COLLEGES & UNIVERSITIES WITH BOND ISSUES OUTSTANDING:

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 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.
- 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 will be used to finance the construction and furnishing of the building that will house 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.
- Series Five-Y issued July 2004 in the amount of $30,000,000. The proceeds of this bond issue were used to construct, furnish and equip a 285,000 square foot apartment-style residence hall and a related parking facility on the University's St. Paul campus.
- Series Five-Z issued August 2004 in the amount of $20,000,000. The proceeds of this bond issue were used to construct, furnish and equip Schulz Hall on the University's Minneapolis campus.
- Series Six-H issued February 2006 in the amount of $12,300,000. The proceeds of this bond issue, together with University funds, will finance the construction of a three-story building for the undergraduate business program on the St. Paul campus.
- Series Six-I issued February 16, 2006 in the amount of $ 38,860,000. The proceeds were used to refund the outstanding amount of Series Four-A1 issued in 1996, Series Four-M issued in 1997 and Series Four-P issued in 1997 that financed several capital projects in Minneapolis and St. Paul.



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 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.

INDEPENDENT AUDITORS' REPORT

August 16, 2006

To the Executive Director and Members of the
Minnesota Higher Education Facilities Authority
St. Paul, Minnesota

We have audited the accompanying basic financial statements of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota Higher Education Facilities Authority, St. Paul, Minnesota, as of June 30, 2006, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota

This discussion and analysis of the financial performance of the Minnesota Higher Education Facilities Authority (the Authority) is supplementary information required by U.S. generally accepted accounting principles. It introduces the basic financial statements and provides an analytical overview of the Authority's financial activities for the year ended June 30, 2006.

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 Office of Higher Education 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 154 issues (including refunded and retired issues) totaling $ 1,225,258,307, of which $ 643,983,891 is outstanding as of June 30, 2006. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State 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 childcare and parking facilities. In addition, pursuant to special legislation, the Authority has twice issued bonds on behalf of a public community college for housing purposes.

The Authority may issue bonds for a broad range of projects, including buildings or facilities for use as student housing, academic buildings, parking facilities, daycare 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 2006. 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 included topics relating to sale methods of tax exempt bonds, issues related to naming rights and certain limitations on the use of facilities financed through tax exempt debt. It also provided a forum for representatives from a national rating agency to give their views on national trends in education and compare them to the trends in Minnesota.

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 – This Statement 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, 2006 and 2005.

ASSETS:	2006	2005
Current Assets	$ $2,076,569	$ 2,224,222
Noncurrent Assets	5,986	7,639
Total Assets	$ 2,082,555	$ 2,231,861
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current Liabilities	$ 61,938	$ 61,862
Net Assets	2,020,617	2,169,999
Total Liabilities and Net Assets	$ 2,082,555	$ 2,231,861
Operating Revenues	$ 170,439	$ 254,864
Operating Expenses	359,996	369,012
Operating Loss	(189,557)	(114,148)
Nonoperating Revenues:		
Interest Income	96,481	96,114
Net Increase (Decrease) in Fair Value of Investments	(56,306)	(37,164)
Total Nonoperating Revenues	40,175	58,950
Change in Net Assets	(149,382)	(55,198)
Total Net Assets - Beginning of Year	2,169,999	2,225,197
Total Net Assets - End of Year	$ 2,020,617	$ 2,169,999

The demand for capital among Minnesota private colleges and universities remains strong. The total principal amount issued in fiscal year 2006 was $ 93,460,000 compared to $ 157,910,000 in fiscal year 2005. Following is a listing of the bond issues for fiscal year 2006.

MACALESTER COLLEGE

- Series Six-F issued July 2005 in the amount of $ 3,000,000. The proceeds of these notes financed the acquisition and installation of a replacement administrative computing system, including hardware, software licenses and costs of converting data, training and testing.

ST. JOHN'S UNIVERSITY

- Series Six-G issued August 2005 in the amount of $ 39,300,000. The proceeds of this bond issue were used to advance refund the Series Four-L and the Series Five-I bonds.

UNIVERSITY OF ST. THOMAS

- Series Six-H issued February 2006 in the amount of $ 12,300,000. The proceeds of this bond issue, together with University funds, were used to finance the construction of a three-story building for the undergraduate business program on the Saint Paul campus.

UNIVERSITY OF ST. THOMAS

- Series Six-I issued February 2006 in the amount of $ 38,860,000. The proceeds of this bond issue were used to refund the bond issues Series Four-A1, Series Four-M and Series Four-P.

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. Utilizing the operating reserve to subsidize the operating expenses, the Authority was able to reduce its annual administrative fees to all borrowers in fiscal year 2006 by 80%. The fees for fiscal year 2007 will be reduced by 75%. Although future reductions are not guaranteed, the Authority is committed to providing financing services at affordable fees to colleges and universities in Minnesota.

REQUESTS FOR INFORMATION

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

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

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

STATEMENT OF NET ASSETS

As of June 30, 2006
(With Comparative Amounts as of June 30, 2005)

ASSETS:	2006	2005
Current Assets:		
Cash and Cash Equivalents	$ 230,030	$ 266,160
Investments	1,823,530	1,929,336
Interest Receivable	22,429	27,462
Accounts Receivable	-	377
Prepaid Expenses	580	887
Total Current Assets	2,076,569	2,224,222
Noncurrent Assets:		
Equipment	68,176	68,063
Less Accumulated Depreciation	(62,190)	(60,424)
Total Noncurrent Assets	5,986	7,639
Total Assets	$ 2,082,555	$ 2,231,861

LIABILITIES AND NET ASSETS:	2006	2005
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 15,279	$ 16,761
Unearned Fees	5,207	6,285
Compensated Absences Payable	41,452	38,816
Total Liabilities	61,938	61,862
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,986	7,639
Unrestricted	2,014,631	2,162,360
Total Net Assets	2,020,617	2,169,999
Total Liabilities and Net Assets	$ 2,082,555	$ 2,231,861

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2006
(With Comparative Amounts for the Year Ended June 30, 2005)

	2006	2005
Operating Revenues:		
Annual Administrative Fees	$ 166,439	$ 247,864
Other Income	4,000	7,000
Total Operating Revenues	170,439	254,864
Operating Expenses:		
Payroll, Payroll Taxes and Employee Benefits	242,813	236,408
Legal, Audit and Consulting Expense	30,032	27,880
Rent	47,420	46,066
Depreciation	2,063	2,578
Other General and Administrative Expenses	37,668	56,080
Total Operating Expenses	359,996	369,012
Operating Loss	(189,557)	(114,148)
Nonoperating Revenues:		
Interest Income	96,481	96,114
Decrease in Fair Value of Investments	(56,306)	(37,164)
Total Nonoperating Revenues	40,175	58,950
Change in Net Assets	(149,382)	(55,198)
Net Assets:		
Beginning of Year	2,169,999	2,225,197
End of Year	$ 2,020,617	$ 2,169,999

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006
(With Comparative Amounts for the Year Ended June 30, 2005)

	2006	2005
Cash Flows - Operating Activities:		
Cash Received from Annual Administrative and Other Fees	$ 169,738	$ 272,490
Cash Payments to Employees	(238,987)	(226,708)
Cash Payments to Suppliers for Goods and Services	(117,485)	(125,620)
Net Cash Flows - Operating Activities	(186,734)	(79,838)
Cash Flows - Capital and Related Financing Activities:		
Purchases of Capital Assets	(411)	(4,504)
Cash Flows - Investing Activities:		
Interest Received	101,514	100,264
Proceeds of Investment Sales	49,501	-
Net Cash - Investing Activities	151,015	100,264
Net Change in Cash and Cash Equivalents	(36,130)	15,922
Cash and Cash Equivalents, July 1	266,160	250,238
Cash and Cash Equivalents, June 30	$ 230,030	$ 266,160
Reconciliation of Operating Loss to Net Cash Flows - Operating Activities:		
Operating Loss	$(189,557)	$ (114,148)
Adjustments to Reconcile Operating Loss to Net Cash Flows:		
Depreciation	2,063	2,578
Accounts Receivable	377	11,341
Prepaids	307	308
Accounts Payable	(1,482)	10,238
Unearned Fees	(1,078)	6,285
Compensated Absences Payable	2,636	3,560
Total Adjustments to Reconcile Operating Income to Net Cash Flows	2,823	34,310
Net Cash Flows - Operating Activities	$(186,734)	$ (79,838)
Noncash Transactions:		
Net Decrease in Fair Value of Investments	$ (56,306)	$ (37,164)

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Minnesota Higher Education Facilities Authority (the "Authority") is a state agency created to assist non-profit institutions of higher education in financing the construction of educational facilities. The Authority finances projects through the issuance of bonds; the principal and interest of which are paid by the lease/loan payments collected from the higher education institutions. In fiscal year 2006, 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 year ended June 30, 2006, the Authority required participating institutions to pay 20% of the contractual administrative fees

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

C. ASSETS, LIABILITIES AND NET ASSETS

1. Cash and Investments

Minnesota Statutes require all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

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

The Authority has a formal investment policy in place as of June 30, 2006 to address custodial credit risk for deposits. The Authority also has a formal investment policy in place to address custodial credit risk, concentration credit risk and interest rate risk for investments. The Authority's investment policy does not address custodial credit risk other than to follow Minnesota Statutes.

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 U.S., 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 FDIC. In some cases, investment agreements with corporations rated AA by Standard & Poor's (S & P) or AA by Moody's are allowed as well as repurchase agreements fully collateralized by U.S. government securities. Also allowed is commercial paper maturing in 270 days or less and rated within the top two categories without gradation by either S & P's or Moody's.

The Authority's investment policy states investments in a particular issuer over 5% of the Authority's investments should have their credit quality considered. The Authority manages their interest rate risk by laddering their fixed income investments over five-year periods.

2. 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.

3. 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 $ 32,357,825 as of June 30, 2006.

4. Compensated Absences

The Authority compensates all employees upon termination of employment for unused vacation up to a maximum of 275 hours. At June 30, 2006, 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 disbersed at termination at the rate of 40% for the first 900 hours and at 12.5% for any time in excess of 900 hours.

2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

As of June 30, 2006, the Authority's bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC.

B. INVESTMENTS

As of June 30, 2006, the Authority had the following investments:

	Fair Value	Weighted Average Maturity (Years)	Moody's Rating
FHLB	$1,487,573	2.95	Aaa
FFCB	145,905	4.27	Aaa
FHLM	190,052	3.71	Aaa
	$1,823,530		

As of June 30, 2006, investments in FHLB, FFCB and FHLM exceeded 5% of the Authority's total investments.

The investments of the Authority were not exposed to custodial credit risk as the investments are insured, registered and held by the counterparty's trust department in the name of the Authority.

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being Depreciated:				
Office Furniture and Equipment	$ 68,063	$ 410	$ (297)	$ 68,176
Less Accumulated Depreciation	(60,424)	(2,063)	297	(62,190)
Capital Assets, Net	$ 7,639	$ (1,653)	$	$ 5,986

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 $ 47,420 for the year ended June 30, 2006. The future minimum lease payments for this lease are as follows:

Fiscal Year Ended	
2007	$ 44,728
2008	18,855
Total	$ 63,583

5 CHANGES IN COMPENSATED ABSENCES PAYABLE

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 38,816	$ 20,992	$ (18,356)	$ 41,452	$ 41,452

6 CONDUIT DEBT

At June 30, 2006, there were 59 bond issues and leases outstanding with an aggregate principal balance outstanding of $ 643,983,891 as follows:

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series A, Augsburg College, Revenue Bonds, December 1972	2012	$2,200,000	$ 945,000
Series T, Carleton College, Revenue Bonds, December 1977	2007	2,385,000	1,185,000
Series Two-P, Vermilion Community College, Revenue Bonds, November 1987	2007	1,300,000	240,000
Series Three-L2, Carleton College, Variable Rate Demand Revenue Bonds, October 1992	2012	10,300,000	10,300,000
Series Three-T, Vermilion Community College, Revenue Bonds, July 1993	2013	950,000	470,000
Series Three-X, College of Visual Arts, Revenue Notes, March 1994	2009	350,000	91,074
Series Three-Z, Macalester College, Variable Rate Demand Revenue Bonds, September 1994	2024	6,660,000	6,660,000
Series Four-G, College of St. Benedict, Revenue Bonds, July 1996	2016	3,000,000	1,870,000

CCONDUIT DEBT, *continued*

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series Four-H, Gustavus Adolphus College, Revenue Bonds, August 1996	2010	$ 6,135,000	$ 1,620,000
Series Four-I, Hamline University, Revenue Bonds, September 1996	2016	17,500,000	2,670,000
Series Four-N, Carleton College, Revenue Bonds, June 1997	2018	24,440,000	2,055,000
Series Four-O, University of St. Thomas, Variable Rate Demand Revenue Bonds, September 1997	2021	10,800,000	10,800,000
Series Four-R, St. Olaf College, Revenue Bonds, May 1998	2029	15,000,000	13,225,000
Series Four-S, Bethel College, Adjustable Demand Revenue Bonds, June 1998	2028	22,865,000	19,770,000
Series Four-T, College of St. Benedict, Revenue Bonds, July 1998	2020	25,430,000	20,125,000
Series Four-U1, Macalester College, Revenue Bonds, July 1998	2022	7,145,000	5,695,000
Series Four-U2, Macalester College, Revenue Bonds, July 1998	2022	15,200,000	12,045,000
Series Four-V, Gustavus Adolphus College, Lease and Purchase Agreement, July 1998	2009	4,602,000	1,621,067
Series Four-X, Gustavus Adolphus College, Revenue Bonds, November 1998	2024	11,695,000	10,050,000
Series Four-Y, Augsburg College, Mortgage Revenue Bonds, January 1999	2027	15,840,000	12,355,000
Series Four-Z, Northwestern College of Chiropractic, Mortgage Revenue Bonds, January 1999	2013	5,875,000	3,660,000
Series Five-A, Concordia University, Lease and Purchase Agreement, April 1999	2014	1,440,000	916,000
Series Five-B, Hamline University, Revenue Bonds, September 1999	2029	7,750,000	7,135,000
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	7,125,000
Series Five-E, Saint Mary's University, Revenue Bonds, June 2000	2026	5,020,000	4,520,000
Series Five-F, Saint Mary's University, Master Financing Agreement, March 2000	2012	1,037,118	702,074
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-J, College of St. Scholastica, Revenue Refunding Bonds, May 2001	2014	5,960,000	4,055,000
Series Five-K, Minneapolis College of Art & Design, Revenue Bonds, August 2001	2021	4,355,000	4,230,000

CONDUIT DEBT, *continued*

College/University	Final Maturity	Indebtedness Issued	Outstanding
Series Five-L, University of St. Thomas, Variable Rate Demand Revenue Bonds, April 2002	2027	$ 25,845,000	$ 22,615,000
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	26,850,000
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	468,287
Series Five-P1, Concordia University, Variable Rate Demand Revenue Bonds, March 2003	2027	4,250,000	2,480,000
Series Five-P2, Concordia University, Variable Rate Demand Taxable Revenue Bonds, March 2003	2021	7,230,000	6,390,000
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	11,260,000
Series Five-S, William Mitchell College of Law, Variable Rate Demand Revenue Bonds, October 2003	2033	15,800,000	12,600,000
Series Five-T, University of St. Thomas, Revenue Bonds, December 2003	2014	23,575,000	18,510,000
Series Five-U, Saint Mary's University, Revenue Bonds, March 2004	2019	10,980,000	10,125,000
Series Five-V, Bethel College, Adjustable Demand Revenue Bonds, May 2004	2034	8,500,000	8,500,000
Series Five-W, College of St. Benedict, Revenue Bonds, July 2004	2024	7,965,000	7,520,000
Series Five-X, Gustavus Adolphus College, Variable Rate Demand Revenue Bonds, October 2004	2034	16,550,000	15,550,000
Series Five-Y, University of St. Thomas, Revenue Bonds, August 2004	2034	30,000,000	29,660,000
Series Five-Z, University of St. Thomas, Variable Rate Demand Revenue Bonds, August 2004	2029	20,000,000	18,800,000
Series Six-A, College of St. Scholastica, Variable Rate Demand Revenue Bonds, December 2004	2034	12,000,000	12,000,000
Series Six-B, Macalester College, Revenue Bonds, December 2004	2017	14,995,000	14,085,000
Series Six-C, Augsburg College, Revenue Bonds, April 2005	2023	6,780,000	6,780,000
Series Six-D, Carleton College, Variable Rate Demand Revenue Bonds, April 2005	2035	31,460,000	31,310,000
Series Six-E1, Hamline University, Variable Rate Demand Revenue Bonds, June 2005	2016	9,580,000	9,230,000

6 CONDUIT DEBT, *continued*

College/University	Final Maturity	Indebtedness Issued	Indebtedness Outstanding
Series Six-E2, Hamline University, Variable Rate Demand Revenue Bonds, June 2005	2025	$ 8,580,000	$ 8,580,000
Series Six-F, Macalester College, Revenue Notes, July 2005	2014	3,000,000	2,860,389
Series Six-G, St. John's University, Revenue Bonds, August 2005	2026	39,300,000	37,490,000
Series Six-H, University of St. Thomas, Variable Rate Demand Revenue Bonds, February 2006	2032	12,300,000	12,300,000
Series Six-I, University of St. Thomas, Revenue Bonds, February, 2006	2023	38,860,000	38,860,000
Total Conduit Debt		$744,699,118	$643,983,891

A summary of changes in conduit debt outstanding for the year ended June 30, 2006 is presented below:

Conduit Debt, July 1, 2005	$652,472,849
Additions:	
Revenue Bonds Issued	93,460,000
Reductions:	
Principal Retirements	(20,998,958)
Refunding of Principal	(80,950,000)
Conduit Debt, June 30, 2006	$643,983,891

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, 2006, 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.

STATE EMPLOYEES RETIREMENT FUND AND STATE UNCLASSIFIED EMPLOYEES RETIREMENT PROGRAM

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

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

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

The funding requirements for 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
2006	$ 9,798
2005	$ 9,907
2004	$ 9,065

SUBSEQUENT EVENT

Series Six-E3 variable rate demand revenue bonds in the amount of $ 2,195,000 were issued for the benefit of Hamline University on August 9, 2006. Hamline University will use the proceeds to refinance on a current refunding basis the Series Four-I Bonds.

Series Six-J1 revenue bonds in the amount of $ 15,655,000 were issued for the benefit of Augsburg College on July 1, 2006. Augsburg College will use the proceeds for the construction of a new multi-purpose facility on campus.

Series Six-J2 variable rate demand revenue bonds in the amount of $ 5,000,000 were issued for the benefit of Augsburg College on August 1, 2006. Augsburg College will use the proceeds to finance various campus improvements.

Series Six-K revenue bonds in the amount of $ 7,670,000 were issued for the benefit of Minneapolis College of Art and Design on July 1, 2006. Minneapolis College of Art and Design will use the proceeds to advance refund the outstanding Series Five-D Bonds.

Series Six-L revenue notes in the amount of $ 8,000,000 were issued for the benefit of The College of St. Catherine on August 28, 2006. The College of St. Catherine will use the proceeds for the construction, equipping and furnishing of a student residence hall.

MINNESOTA HIGHER EDUCATION

FACILITIES AUTHORITY

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