

**NEW ISSUE
(Book-Entry Only)**

**Rating:
Moody's: Aa3/VMIG-1**

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

\$22,865,000
Minnesota Higher Education Facilities Authority
Adjustable Demand Revenue Bonds, Series Four-S
(Bethel College & Seminary)

Dated Date: Date of Issue

Principal Due: April 1, 2028

This Official Statement contains information relating to the Bonds prior to any Conversion Date to a Fixed Interest Rate. Holders or purchasers of the Bonds are not to rely on the information herein with respect to the terms or conditions of the Bonds after the Conversion Date for any Bonds.

The Bonds will be issued as fully registered bonds without coupons and initially in minimum denominations of \$100,000 for any Short Period or \$5,000 for any Adjustable Long Period and any larger amount which is an integral multiple of \$5,000, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only and purchasers will not receive certificates representing their interest in the Bonds purchased. (See "THE BONDS — Book-Entry System" herein.)

Principal of and interest on the Bonds and the Tender Price of tendered Bonds will be paid by Norwest Bank Minnesota, National Association, Minneapolis, Minnesota, as trustee (the "Trustee"), to DTC, which in turn will remit such principal, interest and Tender Price payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

The interest rates to be borne by the Bonds will be determined and reset by William Blair & Company, L.L.C., as Remarketing Agent. The interest rate mode for the Bonds may be changed from time to time to a Weekly Mode Period, a Monthly Mode Period or an Adjustable Long Period, and under certain circumstances, the Bonds may be converted to bear interest at a Fixed Interest Rate until maturity. The Bonds will be subject to optional and mandatory redemption and optional and mandatory tender for purchase prior to maturity as more fully described herein. Bonds in an Adjustable Long Period or bearing interest at a Fixed Interest Rate are not subject to optional tender for purchase. Owners may not elect to retain their Bonds upon a mandatory tender.

The Bonds initially will bear interest in the following Modes:

\$10,495,000	Weekly Mode Period
\$12,370,000	Adjustable Long Period

The initial Modes and interest rates are described on the inside cover page of this Official Statement.

The Bonds will be initially secured by an irrevocable direct pay letter of credit (the "Letter of Credit") issued by

ALLIED IRISH BANKS, p.l.c., NEW YORK BRANCH

The Letter of Credit will permit the Trustee to draw thereunder up to an amount sufficient to pay (i) principal of the related Bonds when due upon maturity, optional or mandatory redemption, or acceleration, (ii) the Tender Price upon optional or mandatory tender for purchase, including any premium payable in connection with the Mandatory Tender of such Bonds, (iii) any premium due upon optional redemption thereof, and (iv) up to 51 days' interest on the Bonds when due, all as described herein. The expiration date of the Letter of Credit will be June 11, 2005.

The Bonds issued by the Authority are payable solely from amounts drawn under the Letter of Credit or an Alternate Letter of Credit, and from Loan Repayments made by or on behalf of Bethel College & Seminary, Arden Hills, Minnesota (the "College").

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

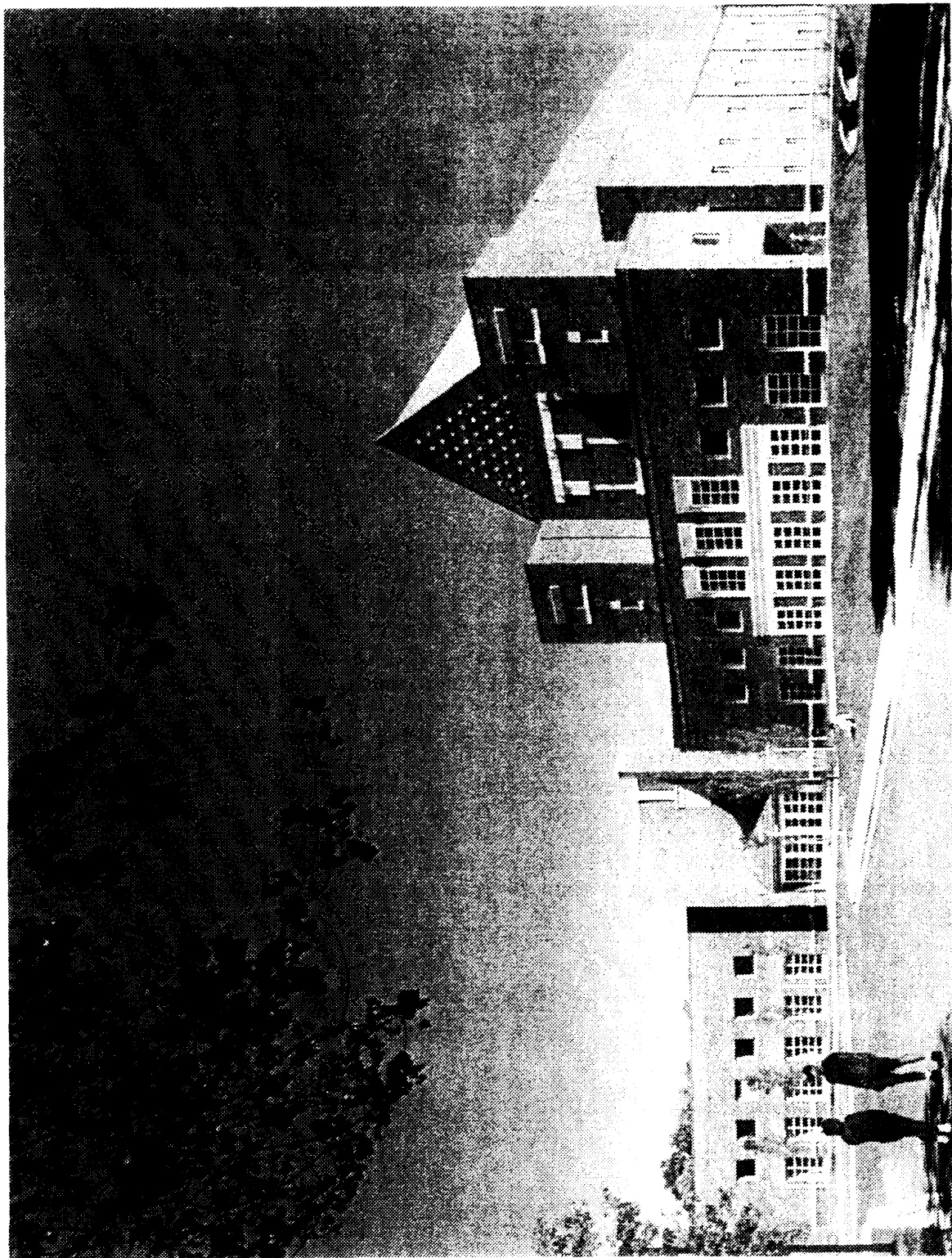
The Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the opinion as to validity and tax exemption of the Bonds by Faegre & Benson LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Eastlund, Solstad & Hutchinson, Ltd. of Minneapolis, Minnesota; for the Underwriter by Gardner, Carton & Douglas, Chicago, Illinois; and for the Bank by its internal Irish counsel and by its Special U.S. counsel, Chapman and Cutler, Chicago, Illinois. It is expected that the Bonds in definitive form will be available for delivery to the Underwriter at DTC, on or about June 11, 1998.

William Blair & Company

SUMMARY OF INITIAL MODES

Initial Mode	Total Principal	Interest Payable	Initial Interest Rates	Price	Optional Redemption	Optional Tender	Schedule of Mandatory Redemption (April 1)	
Adjustable Long Period Ending 4/1/2001 (3 years)	\$ 795,000	Semi-annual on each April 1 and October 1, commencing 10/1/98	4.20%	100.000	None	None	2000 2001 (Adj. Date)	\$ 390,000 405,000 \$ 795,000
Adjustable Long Period Ending 4/1/2003 (5 years)	\$ 860,000	Same	4.35%	100.000	None	None	2002 2003 (Adj. Date)	\$ 420,000 440,000 \$ 860,000
Adjustable Long Period Ending 4/1/2005 (7 years)	\$ 940,000	Same	4.45%	99.703	None	None	2004 2005 (Adj. Date)	\$ 460,000 480,000 \$ 940,000
Adjustable Long Period Ending 4/1/2008 (10 years)	\$ 1,575,000	Same	4.60%	99.603	None	None	2006 2007 2008 (Adj. Date)	\$ 500,000 525,000 550,000 \$ 1,575,000
Adjustable Long Period Ending 4/1/2019 (21 Years)	\$ 8,200,000	Same	5.10%	98.107	At Par beginning 4/1/08	None	2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 (Adj. Date)	\$ 575,000 605,000 635,000 665,000 700,000 735,000 775,000 810,000 855,000 900,000 945,000 \$ 8,200,000
Weekly	\$10,495,000	Monthly commencing 7/1/98	—	100.000	Anytime at Par upon 30 days notice	On 7 days notice	2028(Mat)	\$10,495,000
							Grand Total	\$22,865,000

See "THE BONDS — Adjustment Periods (Modes of Operation)", "Interest", "Purchase of Bonds on Demand of a Bondholder" and "Redemption".



**Lundquist Community Life Center
Bethel College & Seminary**

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

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

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

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

The Bonds and the Letter of Credit have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Act. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. Neither these jurisdictions nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

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Dr. John S. Hoyt, Jr., Secretary	CEO, Effective Golf Course Systems, Inc., Edina, Minnesota
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Kenneth Johnson	Principal/Corporate President, the STANIUS JOHNSON architects, inc., Duluth, Minnesota
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Tom Martinson	Principal, City Planning & Economic Development, Minneapolis, Minnesota
Christopher A. Nelson	Attorney in Private Practice, St. Louis Park, Minnesota

J. Luther Anderson, Executive Director

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Faegre & Benson LLP

Financial Advisor
Springsted Incorporated

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OFFICIAL STATEMENT

\$22,865,000

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
ADJUSTABLE DEMAND REVENUE BONDS, SERIES FOUR-S
(BETHEL COLLEGE & SEMINARY)
(BOOK ENTRY ONLY)**

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and Bethel College & Seminary, an institution of higher education with its primary campus located in Arden Hills, Minnesota, (the "College") in connection with the issuance of the Authority's \$22,865,000 Adjustable Demand Revenue Bonds, Series Four-S (Bethel College & Seminary) (the "Bonds" or the "Issue").

The Bonds are being issued pursuant to the provisions of Sections 136A.25 to 136A.42, Minnesota Statutes, by the provisions of which the Authority was created and authorized to issue its obligations to assist institutions of higher education within the State of Minnesota to finance certain projects.

The Bonds are being issued pursuant to the Trust Indenture (the "Indenture") between the Authority and Norwest Bank Minnesota, National Association, Minneapolis, Minnesota as trustee (the "Trustee"). The Trustee will initially also act as Tender Agent for the Issue.

Pursuant to a Loan Agreement between the College and the Authority relating to the Bonds, the College will covenant as a general obligation of the College to make payments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. A portion of the proceeds of the Bonds will be loaned to the College by the Authority to finance the following: (a) the acquisition, installation and equipping of a new four-story residence hall; (b) an addition to the Fine Arts Center including classrooms, offices and expansion of chemistry laboratories; (c) the acquisition of an existing office building to provide office space for the Development Office and the Continuing Studies Office; (d) the acquisition and installation of campus network wiring to complete the wiring of the College campus to inter-connect all offices, classrooms and residence halls; (e) the remodeling of spaces in the College complex to accommodate relocations associated with the additions to the Fine Arts Center; (f) the construction of an on-campus baseball field; and (g) the construction of a parking lot expansion and related site improvements (collectively, the "Project"), owned or to be owned and operated by the College and located on the Project Site. In addition, proceeds of the Bonds will refund in advance of maturity, the outstanding maturities of the Authority's Mortgage Revenue Bonds, Series W (Bethel College), dated August 1, 1978 (the "Series W Bonds") and will refinance the College's Senior Secured Note, dated June 14, 1995 (the "Refinanced Debt"), and will finance the capitalization of interest for approximately one year and pay for costs of issuance as more fully described, together with the Project, in "USE OF PROCEEDS," pages 22 and 23 herein.

The Bonds will be limited obligations of the Authority, payable solely from amounts drawn under the Letter of Credit or an Alternate Letter of Credit and from Loan Repayments by the College pursuant to the Loan Agreement.

At the time of the issuance of the Bonds, an irrevocable, transferable, direct pay letter of credit (the "Letter of Credit," which term includes any extensions or renewals thereof) will be delivered by Allied Irish Banks, p.l.c., acting through its New York Branch (the "Bank"), to the Trustee, which will be authorized to draw an amount equal to the aggregate principal amount of the Bonds plus 51 days of interest to accrue thereon (assuming a maximum interest rate on the Bonds of 10% per annum), plus premium in an amount equal to 5% of the aggregate principal amount of the Bonds bearing interest in an Adjustable Long Period. If the Letter of Credit is not renewed or replaced prior to its stated expiration date (June 11, 2005, unless terminated earlier pursuant to the terms thereof), the Bonds are subject to mandatory tender. See "THE BONDS—Mandatory Tender."

The Trustee is required under the Indenture to draw upon the Letter of Credit or any Alternate Letter of Credit to pay (a) principal of, premium, if any, and interest on the Bonds when due whether on scheduled principal or interest payment dates, upon redemption of all or part of the Bonds or upon acceleration of the maturity of the Bonds and (b) the Tender Price of the Bonds upon optional or mandatory tender.

The Letter of Credit is to be issued pursuant to a Letter of Credit and Reimbursement Agreement dated as of June 1, 1998 (the "Reimbursement Agreement"), between the College and the Bank. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

For information concerning the Bank, including certain financial information, see Appendix VII hereto.

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

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

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT AND, WITH RESPECT TO THE TERM OF THE LETTER OF CREDIT, INVESTORS ARE CAUTIONED THAT IT BEARS A STATED EXPIRATION DATE OF JUNE 11, 2005, THOUGH BY ITS TERMS IT MAY BE TERMINATED SOONER OR EXTENDED. SEE "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" HEREIN.

THE COLLEGE

The College, founded in 1871, is a Minnesota nonprofit corporation. The College is the sixth largest private institution of higher education in the State of Minnesota on the basis of enrollment, with a total enrollment of over 2,500 full-time and part-time students. The College is a coeducational institution offering undergraduate and graduate degree-granting programs on a 231-acre campus located in Arden Hills, Minnesota. Additional information concerning the College is included as Appendix I hereto, which has been provided in its entirety by the College, and in the audited combined financial statements and related supplemental information, included as Appendix VI hereto.

The Bethel College & Seminary Foundation (the "Foundation") was established in 1971 as a separate Minnesota nonprofit corporation to manage the College's endowment and to provide investment management and trust services to individuals and families with ties to the College. The audited combined financial statements included as Appendix VI hereto present financial information for both the College and the Foundation. The Supplemental Information attached to the audited combined financial statements provides information concerning the College's financial condition and results of operations on a stand-alone basis. While the Foundation will guaranty the College's obligations to the Bank under the Reimbursement Agreement, the Foundation will not be obligated to make any debt service payments on the Bonds and the Foundation's assets are not pledged as security for the Bonds. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT," "SOURCE OF PAYMENT FOR THE BONDS" and "THE COLLEGE—The Bethel Foundation" in Appendix I.

RISK FACTORS

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

Collateral

The Bonds are secured by (a) the Letter of Credit or an Alternate Letter of Credit; (b) a pledge of amounts payable by the College under the Loan Agreement and applied to the payment of principal and interest on the Bonds; and (c) money and investments held by the Trustee under the Indenture (except any money and investments required to be paid to the United States Treasury).

The Bonds are initially secured by the Letter of Credit issued by the Bank and the purchasers of the Bonds are expected to rely thereon in deciding whether to purchase, hold, or sell the Bonds. See "Rating" herein. However, if for any reason the Bank fails to honor a drawing on the Letter of Credit, the Bonds will be accelerated and may be paid in whole or in part out of the College's Loan Repayments. In addition, failure of the College to comply or otherwise satisfy certain terms, covenants, and conditions contained in the Reimbursement Agreement (including the incorporation by reference therein of the Events of Default under the Loan Agreement and the Indenture) would entitle the Bank to cause the Trustee to accelerate the Bonds and draw on the Letter of Credit. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

Letter of Credit

The ability of the Bank to honor drawings on the Letter of Credit will be based solely on the Bank's general credit. Certain information with respect to the Bank is set forth in Appendix VII. Such information was provided by the Bank and no representation is made as to the adequacy or accuracy thereof.

Redemption, Acceleration or Purchase Prior to Maturity

In considering whether the Bonds might be redeemed prior to maturity, Bondholders should consider the information included in this Official Statement under the heading "THE BONDS—Redemption." Certain Bonds may be called for redemption prior to maturity at the option of the College. The Bonds shall be subject to mandatory tender if the College fails to replace the

Letter of Credit with an Alternate Letter of Credit of equal rating and term prior to its initial Termination Date. In addition, if certain Events of Default otherwise occur under the Loan Agreement, the Indenture or the Reimbursement Agreement, the Bank has the right, in its sole discretion, to require that the Bonds be accelerated. The Bonds are subject to mandatory tender for purchase in the case of certain events described under the heading "THE BONDS—Mandatory Tender." The effect on Bondholders of such an acceleration or purchase would be similar to that of early redemption. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT—The Reimbursement Agreement" herein and "THE LOAN AGREEMENT—Events of Default" and "THE INDENTURE—Events of Default" in APPENDIX V—SUMMARY OF DOCUMENTS. The Reimbursement Agreement provides for the College to reimburse the Bank for drawings on the Letter of Credit, with the failure to make timely reimbursement resulting in an event of default and an acceleration of the Bonds at the option of the Bank. The ability of the College to reimburse the Bank from time to time is dependent upon its ability to receive sufficient unrestricted revenues in excess of expenditures. The amount of future unrestricted revenue may be limited by a number of factors, including competition and adverse general economic conditions.

Forward-Looking Statements

Any statements made in this Official Statement, including the Appendices, involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any such estimates will be realized. This Official Statement contains certain forward-looking statements and information that are based on the College's beliefs as well as assumptions made by and information currently available to the College. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected.

Limited Obligation

No entity or person other than the College is, or shall be, in any way liable or responsible for any payments to be made under the Loan Agreement or the Indenture. Except to the extent payable from drawings under the Letter of Credit or any Alternate Letter of Credit, the Bonds are payable solely from payments made by the College pursuant to the Loan Agreement in amounts sufficient to pay when due, the principal of and interest on the Bonds.

Bankruptcy and Receivership

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

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the College will enter into an undertaking (the "Undertaking") with the Trustee for the benefit of beneficial owners of the Bonds to provide certain financial information and operating

data relating to the College to certain information repositories annually, and to provide notices of the occurrence of the eleven events enumerated in the Rule to such repositories or the Municipal Securities Rulemaking Board and to the Minnesota state information depository, if any. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Agreement to be executed by the College at the time the Bonds are delivered, a copy of which is available from the College or the Trustee. Appendix III contains a summary of the financial information and operating data to be provided annually. The Continuing Disclosure Agreement may be amended under certain circumstances as permitted by the Rule. Furthermore, the College has reserved its right to discontinue providing information required by the Continuing Disclosure Agreement or the Rule, if a final determination is made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful, and to modify the terms of the Continuing Disclosure Agreement if a court of competent jurisdiction or the College determines that such modification is required by the Rule. The College has never been a party to any Undertaking under the Rule. A failure by the College to comply with the Undertaking will not constitute an event of default on the Bonds (although holders may have other remedies in the event of noncompliance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by the College pursuant to the Undertaking, may adversely affect the transferability and liquidity of the Bonds and their market price.

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THE BONDS

Although certain features of the Bonds described below will remain the same after any conversion to a Fixed Interest Rate, the sole purpose of this section is to describe features of the Bonds prior to conversion to a Fixed Interest Rate.

General

The Bonds will be dated the date of initial delivery thereof and will mature April 1, 2028.

The Bonds are issuable only as fully-registered bonds without coupons (initially in Book Entry Form), in minimum denominations of \$100,000 for any Short Period or \$5,000 for any Adjustable Long Period and any larger amount which is an integral multiple of \$5,000.

The Bonds initially will be issued in the Weekly Mode Period and five Adjustable Long Periods. The interest rates, Rate Periods and Adjustment Dates for the Bonds in the five initial Adjustable Long Periods are set forth on the inside cover page hereof. The initial Weekly Rate for Bonds initially issued in the Weekly Mode Period will be set on June 10, 1998, and thereafter the Weekly Rate will be established as described below under the subcaption "Interest."

The initial interest rates for the Bonds are shown on the inside front cover of this Official Statement.

Remarketing Agent

The College has appointed William Blair & Company, L.L.C. to serve as the Remarketing Agent (the "Remarketing Agent") who will determine the interest rate on the Bonds for each Adjustment Period ending prior to the Conversion Date pursuant to the Remarketing Agreement. The College or the Remarketing Agent may terminate the Remarketing Agreement effective upon the later of 30 days' notice or the effective date of appointment of a successor Remarketing Agent.

Adjustment Periods (Modes of Operation)

Under the Indenture, the Remarketing Agent may divide the term of any of the Bonds into certain periods of time ("Adjustment Periods"), each to commence on an "Adjustment Date." At any given time, the Bonds may operate in one or more Modes (as defined below), provided that the requirements, certain of which are described below, of the Indenture for entering into such Modes have been satisfied. While any single Bond may operate in only one Mode at any given time, it is not necessary that all of the Bonds operate in the same Mode at the same time. Each Adjustment Period may be either a Weekly Mode Period, a Monthly Mode Period or an Adjustable Long Period, as designated by the College to the Remarketing Agent from time to time. "Mode," with respect to a Weekly Mode Period, a Monthly Mode Period or an Adjustable Long Period, means the method of determining interest rates, Interest Payment Dates, Rate Determination Dates and Rate Change Dates within such Adjustment Period. In addition, the College may elect to convert all or any portion of the Bonds to Bonds bearing a Fixed Interest Rate. Generally, the Modes have different operating features, including, but not limited to, different demand features, mandatory tender features, optional redemption provisions, Rate Determination Dates and Rate Change Dates and Interest Payment Dates. Each Adjustment Period must be at least 20 days long.

The Bonds initially will bear interest in the Weekly Mode Period and five separate Adjustable Long Periods, as described above and on the inside cover page. Thereafter, the Remarketing Agent will designate Adjustment Periods and the Rate Determination Dates, Rate Change

Dates and Interest Payment Dates for each Bond. If the Remarketing Agent does not make the designation of an Adjustment Period or an interest rate with respect to any Bond in the manner and within the time periods described below, or if the Favorable Opinion required for certain changes to an Adjustable Long Period or to a Fixed Rate Period, as described in the Indenture, is not delivered or is withdrawn, the next Adjustment Period with respect to the Bonds in the Adjustment Period then ending shall remain in effect. Bonds that revert to operation (or remain) in such Modes in this manner will remain in such Modes until the designation, if any, of a Substitute Adjustment Date by the Remarketing Agent.

Each Adjustment Date for Bonds in a particular Adjustment Period (unless the immediately preceding Adjustment Period and the current Adjustment Period are both either Weekly Mode Periods or Monthly Mode Periods) will be a Mandatory Tender Date for such Bonds. Bonds in such Adjustment Period are required to be tendered for purchase on such Mandatory Tender Date at the Tender Price therefor. See "THE BONDS - Mandatory Tender."

Under the Indenture, certain written notices described below are required to be sent to the Owners of Bonds (except Bank Bonds) by first-class mail, and certain Immediate Notices are required to be sent by telephone, telex, electronic mail or telecopier. Failure by the Trustee to give such notice, or any defect therein, shall not extend the period for making elections or in any way change the rights, if any, of the Owners of the Bonds to elect to have their Bonds purchased on any Demand Date. Any notice so mailed, or, if Immediate Notice, sent by telephone, telex, electronic mail or telecopier, shall be conclusively presumed to have been given, whether or not the Owner receives the notice.

Interest

General. During any Weekly Mode Period or Monthly Mode Period, interest on the Bonds in such Mode will be payable on the first Business Day of each calendar month. Interest on Bonds in an Adjustable Long Period will be payable semiannually on April 1 and October 1. The first interest payment date for the Bonds initially issued in Adjustable Long Periods will be October 1, 1998. In addition, interest also will be payable on each redemption date, Adjustment Date and Mandatory Tender Date, and will be payable as part of the Tender Price on each Demand Date. Interest on the Bonds will accrue from and including the date of the first authentication and delivery of the Bonds until the principal thereof shall have been paid. During any Weekly Mode Period or Monthly Mode Period, the interest on the Bonds in that Mode for that period will be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed. During an Adjustable Long Mode, interest will be computed on the basis of a 360-day year.

From and after the date upon which any Bond is to be purchased as described below under the subcaptions "Purchase of Bonds on Demand of a Bondholder" or "Mandatory Tender," or redeemed as described below under the subcaption "Redemption," no interest shall accrue on such Bond if sufficient moneys are on deposit with the Tender Agent or the Trustee to pay the applicable purchase or redemption price thereof (including accrued interest, if any).

While the Letter of Credit or any Alternate Letter of Credit is in effect, the Bonds (other than Bank Bonds) may not bear interest at any time at a rate per annum in excess of the maximum rate specified for determining interest coverage in the Letter of Credit or Alternate Letter of Credit and in no event in excess of 15% per annum. Bonds that are Bank Bonds as a result of a draw on the Letter of Credit or Alternate Letter of Credit will bear interest, for the period in which they are Bank Bonds, at the lowest interest rate then borne by any Bond and, if all Bonds are Bank Bonds, at the rate calculated for Bonds in a Weekly Mode Period.

Weekly Mode Period or Monthly Mode Period. During each Rate Period during a Weekly Mode Period or Monthly Mode Period, the Bonds in such Mode will bear interest at a rate determined in the following manner: on the Rate Determination Date for such Rate Period, the Remarketing Agent, having due regard for prevailing market conditions, will determine the interest rate that, if

borne by such Bonds during such Rate Period, would be the interest rate, but would not exceed the interest rate, that would result in the market value of such Bonds on the Rate Change Date being 100% of the principal amount thereof (without regard to accrued interest thereon), and the interest rate so determined will be the interest rate on such Bonds for the Rate Period beginning on the next Rate Change Date.

Notwithstanding the foregoing, if, during any Monthly Mode Period, any Bonds shall have been tendered for purchase on a date not a Rate Change Date and if the Remarketing Agent provides notification to the College, the Tender Agent, the Bank and the Trustee in writing or by telephone promptly confirmed in writing that in its determination the Bonds bearing interest at the Monthly Rate then in effect will not have a market value of 100% of the principal amount thereof (without regard to accrued interest thereon) on the date of such purchase, the Remarketing Agent shall determine, and notify the College, the Tender Agent, the Bank and the Trustee of, a new interest rate for such Bonds effective for all Bonds in such Mode for such Rate Period on such date of purchase for the remainder of the Rate Period in which such determination is made (unless subsequently redetermined pursuant to this sentence). Promptly upon receipt of such notice, the Trustee shall notify each Owner whose Bonds are affected by such change of such change in writing.

With respect to each Weekly Mode Period, Rate Determination Dates shall occur weekly, initially on Wednesday of each week (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day), and Rate Change Dates shall occur weekly, initially on Wednesday of each week. With respect to each Monthly Mode Period, Rate Determination Dates shall occur monthly, initially on the first Business Day of each month, and Rate Change Dates shall occur monthly, initially on the first Business Day of each month. On the Rate Determination Date for each Weekly Mode Period and Monthly Mode Period, the Remarketing Agent shall give Immediate Notice to the Trustee and the College of the interest rate for the succeeding period. During a Weekly Mode Period or Monthly Mode Period, the Trustee shall give any Owner of such Bonds, upon the request of such Owner, information in writing regarding the Adjustment Period or Periods and interest rate or rates applicable to such Bonds.

If at any time the Remarketing Agent determines that, in its judgment, such weekly or monthly Rate Determination Dates or Rate Change Dates then in effect have become inappropriate, taking into account general market practice with respect to periodic adjustment of rates on instruments comparable to the Bonds, whether based upon the time of compilation or reporting of any interest rate or financial index or indicator or otherwise, the Remarketing Agent (upon notice as hereinafter provided) may designate a new schedule of Rate Determination Dates and/or Rate Change Dates to remain in effect until another redetermination of scheduled Rate Determination Dates or Rate Change Dates. The Remarketing Agent shall give written notice of any change in scheduled Rate Determination Dates or Rate Change Dates to the College, the Trustee, the Tender Agent and the Bank, and such change will become effective on the first scheduled Rate Determination Date or Rate Change Date, as the case may be, so designated occurring not less than 14 days following the giving of such notice. Promptly upon receipt of such notice, the Trustee shall notify each Owner whose Bonds are affected by such change of such change in writing. If for any reason an interest rate cannot be determined or become effective in the manner specified above, the interest rate for such Rate Period will be equal to 60% of the Reference Rate on such Rate Determination Date; *provided* that Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price less than 100% of the principal amount thereof.

Adjustable Long Period. The interest rates, Rate Periods and Adjustment Dates for the Bonds in the five initial Adjustable Long Periods are set forth on the inside front cover page hereof. The following discussion describes the determination of interest rates for any Bonds that bear interest in an Adjustable Long Period established in the future.

For each Rate Period during an Adjustable Long Period, the Bonds in such Mode shall bear interest at a rate determined in the following manner. The Rate Determination Date and Rate Change Date for each Rate Period shall be a Business Day designated by the Remarketing Agent, who, having due regard to prevailing market conditions, will determine the interest rate which, if borne by such Bonds during such Rate Period, would be the interest rate, but would not exceed the interest rate, which would result in the market value of such Bonds on the Rate Change Date being 100% of the principal amount thereof (without regard to accrued interest thereon); and the interest rate so determined shall be the interest rate on such Bonds for such Rate Period.

With respect to the Adjustable Long Period, the Remarketing Agent shall designate a schedule of Rate Determination Dates and Rate Change Dates in accordance with the Indenture. For the Adjustment Date which is the first day of an Adjustable Long Period, and for each Rate Change Date thereafter within such Adjustable Long Period, the Remarketing Agent will give Immediate Notice to the College, the Tender Agent, and the Trustee on each related Rate Determination Date of the interest rate which will be effective commencing on the next Rate Change Date for such Rate Period. Upon receipt of such Immediate Notice, the Trustee shall promptly notify the Owners of such Bonds in writing of the interest rate for such Rate Period.

If for any reason the interest rate cannot be determined or become effective in the manner specified above, the interest rate for such Rate Period shall be 95%, 90%, 80%, 75%, 65% or 60% of the 11-Bond Index for the most recent period (as published in The Bond Buyer or any successor publication, or if none are published and available, the published and generally available interest rate index that is, in the judgment of the Remarketing Agent, most comparable to such index) if the length of such Rate Period equals or exceeds fifteen, nine, six, two or one years or is less than one year, respectively; provided, however, that Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price of less than 100% of the principal amount thereof. If for any reason the interest rate cannot be determined or become effective in the manner specified above, the interest on Bonds in such Mode for such Rate Period shall be 90%, 75%, 65% or 60% of the Reference Rate on the first Business Day of such Rate Period if the length of such Rate Period equals or exceeds ten years, three years or one year, or is less than one year, respectively; provided, further, that Bonds may not be sold pursuant to the Remarketing Agreement or otherwise for a price of less than 100% of the principal amount thereof. Upon the alternative computation of the interest rate for any Rate Period as described in this paragraph, the Trustee shall give Immediate Notice to each Owner of Bonds in the Adjustable Long Period for which such interest rate computation is then being made, of the interest rate which will apply to such Bonds during such Rate Period.

Purchase of Bonds on Demand of a Bondholder

Each Owner of Bonds in a Weekly Mode Period or Monthly Mode Period will have the right to have such Owners' Bonds purchased on any Demand Date in the manner described below. Owners of Bonds in an Adjustable Long Period and Owners of Bank Bonds will have no right to demand to have their Bonds purchased.

During any Weekly Mode Period or Monthly Mode Period when a Book-Entry System is in effect, any Bond (other than a Bank Bond) in such Period shall be purchased, on the demand of the Beneficial Owner thereof (through its direct Participant in the Securities Depository) at the Tender Price therefor (equal to 100% of the principal amount thereof, plus accrued interest to but not including the Demand Date) on any Demand Date upon irrevocable written notice or irrevocable telephonic notice (subsequently confirmed in writing) to the Tender Agent and the Trustee at their Principal Offices, which notice must be received by the Tender Agent and the Trustee not later than 2:00 P.M., New York time, on any Business Day in order to be effective on that day. Any such notice shall state (i) the principal amount and number of such Bond, the name and the address of such Beneficial Owner and the taxpayer identification number, if any,

of such Beneficial Owner and (ii) that such Bond is to be purchased on a specified Demand Date. During any Weekly Mode Period or Monthly Mode Period or on the Adjustment Date immediately succeeding such Weekly Mode Period or Monthly Mode Period (if the Adjustment Period then commencing is a Weekly Mode Period or Monthly Mode Period, as the case may be), the Demand Date shall be the last Business Day occurring on or before the seventh day after the effective date of the receipt of such written or telephonic notice by the Tender Agent. Any Beneficial Owner of Bonds who has so demanded purchase of such Beneficial Owner's Bonds shall effect delivery of such Bonds by causing such direct Participant to transfer its interest in the Bonds tendered for purchase equal to such Beneficial Owner's interest therein in the records of the Depository to the participant account of the Tender Agent with the Depository prior to 10:00 A.M., New York time, on the Demand Date specified in the notice. During any Weekly Mode Period or Monthly Mode Period when a Book-Entry System is not in effect, an Owner of a Bond may tender the Bond or portion of Bond by delivering the notice described above in the manner described above, by the time set forth above (which shall include the certificate number of the Bond as well as the name, address and taxpayer identification number of the Owner), and shall also deliver the Bond to the Tender Agent on the Demand Date. Any telephonic notice received by the Tender Agent pursuant to this paragraph from any person reasonably believed by the Tender Agent to be the Owner or Beneficial Owner of a Bond may be conclusively relied upon by the Tender Agent as a true, irrevocable notice of demand with respect to such Bond. Notwithstanding the foregoing, the Owner or Beneficial Owner of a Bond shall not be entitled to demand purchase of such Owner's or such Beneficial Owner's Bonds as described above if (i) no Letter of Credit or Alternate Letter of Credit is in effect for the Bonds on the Demand Date; or (ii) the Bonds have been accelerated in accordance with the Indenture.

Payment of the purchase price of any Bond optionally tendered for purchase will be made by check or, upon submission of a written request and instructions to the Tender Agent, by wire transfer, but only upon delivery and surrender of the Bond to the Tender Agent on the Demand Date as described above. **When the Bonds are held in the Book-Entry System, payment of the purchase price will be made by the Trustee or the Remarketing Agent in accordance with the rules and procedures of the Depository.**

Mandatory Tender

General. As more fully described below, when a Book Entry System is not in effect, the Owners of the Bonds (other than Bank Bonds) are required to tender their Bonds to the Tender Agent (if the Bonds are not held in the book entry system) for purchase by 10:00 A.M., New York time on the following Mandatory Tender Dates: (i) each LOC Termination Tender Date, (ii) the Conversion Date (but only such Bonds subject to conversion will be subject to mandatory tender on such Conversion Date), (iii) each Adjustment Date unless the immediately preceding Adjustment Period and the current Adjustment Period are both either Weekly Mode Periods or Monthly Mode Periods, (iv) each Rate Change Date within an Adjustable Long Period, and (v) following receipt by the Trustee of notice from the Bank that it has declared an event of default under the Reimbursement Agreement. On any such Mandatory Tender Date, the Owners of Bonds who duly tender their Bonds for purchase will be paid the applicable Tender Price as described under the subcaption "Tender Price" below. When a Book Entry System is in effect, the requirement for physical delivery of the Bonds under this paragraph shall be deemed satisfied when ownership rights in the Bonds (to the extent of the principal amount tendered for purchase) are transferred by direct Participants on the records of the Depository.

LOC Termination Tender Date. Upon the occurrence of an LOC Termination Tender Date, the Trustee shall give written notice thereof not less than 30 days prior thereto to all Owners of the affected Bonds (except Bank Bonds), by first class mail, postage prepaid, stating the LOC Termination Tender Date and that all such Outstanding Bonds will be purchased on the LOC Termination Tender Date by payment of the Tender Price therefor.

An "LOC Termination Tender Date" is the date five days prior to the date on which the Letter of Credit or Alternate Letter of Credit then in effect (including any extensions thereof) shall (a) be cancelled or allowed to terminate or expire and be replaced by an Alternate Letter of Credit, unless the Trustee shall have received, not less than 45 days prior to the cancellation, termination or expiration date of the Letter of Credit or Alternate Letter of Credit then in effect that is being replaced, a written statement from each Rating Agency then rating the Bonds to the effect that such replacement of the Letter of Credit or Alternate Letter of Credit then in effect shall not result in the rating or ratings by such Rating Agency of the Bonds being lowered or withdrawn or (b) be cancelled or allowed to terminate or expire without being replaced by any Alternate Letter of Credit, or be reduced in stated amount so as to no longer secure outstanding Bonds. The date of any declaration of an "event of default" under the Indenture or the date of payment of the principal and accrued interest on Bonds pursuant to an acceleration of the principal and accrued interest under the Indenture shall not be an LOC Termination Tender Date.

The Trustee shall give notice to the Owners of the Bonds by first class mail, postage prepaid, of the proposed substitution of any Alternate Letter of Credit (that does not result in an LOC Termination Tender Date as described above) not less than ten days prior to the effective date of such substitution.

Tender Price. The Tender Price for any Bond tendered or required to be tendered on a Demand Date or a Mandatory Tender Date shall be 100% of the principal amount thereof plus accrued interest thereon to but not including the Demand Date or Mandatory Tender Date, except with respect to the tender on an LOC Termination Tender Date of any Bonds in an Adjustable Long Period.

At any time for Bonds in an Adjustable Long Period, the Tender Price on an LOC Termination Tender Date shall be the purchase price (expressed as percentages of the principal amount of Bonds subject to Mandatory Tender for purchase) determined in accordance with the following table plus accrued interest to but not including such LOC Termination Tender Date:

Length of Adjustable Long Period or Period from Currently Occurring LOC Termination Tender Date Until End of <u>Adjustable Long Period</u>	Tender Price (Periods Measured from and Including <u>First Day of Such Period</u>)
Greater than 10 years	(i) after first year and for next 4 years – 105% (ii) for next 2 years – 103%; and (iii) after 7 years – 102.5% declining 0.50% per 12 months to 100%
Less than or equal to 10 years and greater than 7 years	(i) after first year and for next 4 years – 103%; and (ii) after 5 years – 101.5% declining 0.50% per 12 months to 100%
Less than or equal to 7 years and greater than 4 years	(i) after first year and for next 2 years – 102.5%; and (ii) after 3 years – 101% declining 0.50% per 12 months to 100%
less than or equal to 4 years	after first year and prior to maturity – 102.5%

The Tender Price shall be calculated in accordance with the above table. The determination of the length of the period and the corresponding Tender Price shall be made by counting from the currently occurring LOC Termination Tender Date or the first day of Adjustable Long Period to the end of such period.

Special Resetting of Interest Rate in Adjustable Long Period; Remarketing. Upon satisfaction of certain conditions set forth in the Indenture, the Remarketing Agent may determine a new interest rate for any Bonds in an Adjustable Long Period that are subject to mandatory tender for purchase prior to the end of a Rate Period within that Adjustable Long Period, and may remarket such tendered Bonds.

Conversion Date. Subject to the satisfaction of certain conditions and procedures set forth in the Indenture, the interest rate on any Bonds may be converted to a Fixed Interest Rate on any Rate Change Date for such Bonds and the interest rate on any Bank Bonds may be converted to a Fixed Interest Rate at any time. Such conversion shall occur upon receipt by the Trustee of a direction from the College not less than 15 days prior to the Conversion Date specified in such direction.

Upon conversion to a Fixed Interest Rate, such Bonds shall be subject to mandatory tender for purchase on such Conversion Date. The Trustee shall promptly give Immediate Notice of such election by the College to the Remarketing Agent, the Bank and the Owners of all Bonds to be converted that such Bonds will be purchased on the Conversion Date by payment of the Tender Price therefor.

If any condition precedent to the conversion of the interest rate on any Bonds to a Fixed Interest Rate (as provided in the Indenture) shall not occur, such conversion shall not occur and such Bonds shall continue to operate in the Mode that was effective immediately prior to the previously anticipated conversion.

Adjustment Date. In the case of a mandatory tender occurring on an Adjustment Date, the Trustee is required to give written notice as described above under the subcaption "Adjustment Periods (Modes of Operation)."

Redemption

Optional Redemption

Optional Redemption of Bonds in a Short Period. During any Weekly Mode Period or Monthly Mode Period, the Bonds in such mode will be subject to redemption, in whole or in part at any time, at the direction of the College during such Weekly Mode Period or Monthly Mode Period on or after the first Interest Payment Date during such Weekly Mode Period or Monthly Mode Period, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date upon receipt by the Trustee not less than 35 days prior to such redemption date of the written consent of the Bank and a written direction from the College to effect redemption of such Bonds.

Optional Redemption of Bonds in the Initial Adjustable Long Periods. The Bonds in the initial Adjustable Long Periods ending April 1, 2001, 2003, 2005, and 2008 are not subject to optional redemption prior to the termination of such Adjustable Long Periods. The Bonds in the initial Adjustable Long Period ending April 1, 2019 are subject to optional redemption at the direction of the College at any time on or after April 1, 2008 and prior to the termination of such Adjustable Long Period, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, upon receipt by the Trustee not less than 35 days prior to such redemption date of the written consent of the Bank and a written direction from the College to effect the redemption of such Bonds.

Optional Redemption in a Future Adjustable Long Period. Subject to the limitations set forth below, during any Adjustable Long Period established after the initial Adjustable Long Periods, the related Bonds are subject to redemption at the direction of the College in whole at any time or in part, on any Interest Payment Date during an Adjustable Long Period or on any Interest Payment Date following such Conversion Date, at the redemption prices (expressed as percentages of the principal amount) set forth in the table below plus accrued interest to the redemption date upon receipt by the Trustee not less than 45 days prior to such redemption date of the written consent of the Bank and a written request from the College stating that it intends to exercise its option to prepay all or a portion of the payments due under the Loan Agreement and thereby effect redemption of such Bonds and, if a Letter of Credit is in effect for such Bonds and it does not permit draws to pay redemption premium on such Bonds, upon receipt by the Trustee not less than 30 days prior to such redemption date of Eligible Moneys, as defined in the Indenture, sufficient to pay any applicable redemption premium, as follows:

**OPTIONAL REDEMPTION SCHEDULE APPLICABLE TO
FUTURE ADJUSTABLE LONG PERIOD**

<u>LENGTH OF ADJUSTABLE LONG PERIOD (OTHER THAN INITIAL ADJUSTABLE LONG PERIODS)</u>	<u>REDEMPTION PRICE (PERIODS MEASURED FROM AND INCLUDING FIRST DAY OF SUCH PERIOD)</u>
greater than 15 years	after 8 years - 102.5% declining 0.5% per 12 months to 100%
less than or equal to 15 years and greater than 10 years	after 7 years – 102%, declining 0.5% per 12 months to 100%
less than or equal to 10 years and greater than 7 years	after 5 years – 101.5%, declining 0.5% per 12 months to 100%
less than or equal to 7 years and greater than 4 years	after 3 years – 101%, declining 0.5% per 12 months to 100%
less than or equal to 4 years	NOT SUBJECT TO OPTIONAL REDEMPTION

Notwithstanding the foregoing, if, due to the expiration, termination, cancellation or reduction in stated amount of the Letter of Credit or Alternate Letter of Credit which results in the establishment of a different LOC Termination Tender Date for the Bonds, then after such LOC Termination Tender Date such Bonds shall be subject to optional redemption in accordance with the Optional Redemption Schedule set forth above but with reference to such LOC Termination Tender Date for purposes of determining length of Rate Period and optional redemption prices as indicated in the above table.

Optional Redemption on Adjustment Dates and Conversion Dates. The Bonds also will be subject to redemption on the Conversion Date therefor and on any Adjustment Date therefor in whole or in part at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, upon the receipt by the Trustee of a written request from the College that it intends to exercise its option to prepay all or a portion of the payments due under the Loan Agreement, and thereby effect redemption of such Bonds. The Trustee must receive such notice not less than 35 days prior to such redemption date (unless the Adjustment Period immediately preceding an Adjustment Date has a duration of less than 45 days, in which case such receipt by the Trustee shall be not later than the first Business Day of such Adjustment Period).

Mandatory Redemption

Mandatory Sinking Fund Redemption of the Bonds in the Initial Adjustable Long Periods. Bonds in initial Adjustable Long Periods ending on April 1, 2001, 2003, 2005, and 2008, and 2019, respectively, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal of the Bonds to be redeemed plus accrued interest to the redemption date on April 1 of the following years and in the following principal amounts:

Adjustable Long Period Ending April 1, 2001		Adjustable Long Period Ending April 1, 2003		Adjustable Long Period Ending April 1, 2005	
Year	Principal	Year	Principal	Year	Principal
2000	\$390,000	2002	\$420,000	2004	\$460,000
2001*	\$405,000	2003*	\$440,000	2005*	\$480,000

Adjustable Long Period Ending April 1, 2008		Adjustable Long Period Ending April 1, 2019	
Year	Principal	Year	Principal
2006	\$500,000	2009	\$575,000
2007	\$525,000	2010	\$605,000
2008*	\$550,000	2011	\$635,000
		2012	\$665,000
		2013	\$700,000
		2014	\$735,000
		2015	\$775,000
		2016	\$810,000
		2017	\$855,000
		2018	\$900,000
		2019*	\$945,000

* Adjustment Date.

Mandatory Redemption from Excess Bond Proceeds. The Bonds are subject to mandatory redemption in part, on any Interest Payment Date, at the redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, in the event the College is obligated to cause redemption of the Bonds in the amount of excess moneys remaining in the Construction Fund after the Completion Date in accordance with the Loan Agreement, to the extent of the greatest amount of such excess moneys equal to an Authorized Denomination.

Notice of Redemption. Notice of the call for any redemption of Bonds (other than Bank Bonds) or any portion thereof (which shall be in Authorized Denominations) pursuant to the Indenture identifying the Bonds or portions thereof to be redeemed, specifying the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue, shall be given by the Trustee by mailing a copy of the redemption notice by first-class mail at least 35 days and not more than 60 days prior to the date fixed for redemption to the Owner of each Bond to be redeemed in whole or in part at the address shown on the registration books.

Any redemption notice mailed as described in the prior paragraph will be conclusively presumed to have been duly given, whether or not the Owner receives the notice.

Selection of Bonds for Redemption. If less than all of the Bonds are called for redemption, the Trustee will select the Bonds to be redeemed from the Bonds not previously called for redemption, in the following order: (i) Bank Bonds then outstanding, (ii) certain Bonds

previously selected for mandatory sinking fund redemption and (iii) any Bonds then eligible for redemption, from such Mode or Modes as the College deems appropriate and fair, *provided* that if no designation is made by the College pursuant to this clause (iii), the Bonds to be redeemed will be selected in such manner as in the Trustee's discretion it deems appropriate and fair. So long as DTC or its nominee is the Owner of the Bonds, if less than all of the Bonds are called for redemption, the particular Bonds will be selected by lot by DTC in such manner as DTC may determine.

Bondholder's Failure to Deliver Bonds

If any Owner of Bonds fails to deliver at the time and place required in the Indenture (i) Bonds subject to a demand for purchase or mandatory tender or (ii) Bonds with respect to which principal thereof, premium, if any, and interest thereon shall have become due, whether at maturity or on a date fixed for redemption or otherwise, if sufficient moneys are on deposit with the Tender Agent or the Trustee to pay the applicable Tender Price or redemption price thereof (including accrued interest, if any), such Bonds will constitute Undelivered Bonds. From and after such date, all liability of the Authority to the Owners of such Undelivered Bonds shall cease, determine and be completely discharged and it shall be the duty of the Trustee to hold moneys on deposit for the benefit of the Owners of such Undelivered Bonds in a separate segregated fund. Moneys in such fund will not be invested and will be held without liability for interest thereon for the benefit of the Owners of such Undelivered Bonds. Any moneys so deposited and held by the Trustee not applied to the payment of such Undelivered Bonds within two years after the date on which such Undelivered Bonds became due shall be paid by the Trustee to the College upon the written direction of the College. Thereafter, Owners of such Undelivered Bonds shall be entitled to look only to the College for payment, and then only to the extent of the amount so repaid, and the College shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

Substitute Adjustment Dates

The Remarketing Agent may designate a Substitute Adjustment Date for any Bonds during any Weekly Mode Period or Monthly Mode Period, in lieu of the next scheduled Adjustment Date for Bonds in such Period, which Substitute Adjustment Date for such Bonds shall be considered the next succeeding Adjustment Date for such Bonds for all purposes of the Indenture (unless an LOC Termination Tender Date occurs before such Substitute Adjustment Date). Such designations must comply with the limitations set forth in the Indenture. The Remarketing Agent will evidence each such designation as provided in the Indenture. Upon receipt of such notice from the Remarketing Agent, the Trustee, at least ten days prior to such Substitute Adjustment Date, shall notify each Owner of Bonds (other than Bank Bonds) affected thereby of the Substitute Adjustment Date in accordance with the indenture.

Book Entry System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). Separate Bond certificates will be issued for each Adjustment Period, which in the aggregate will equal the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of

securities transactions, such as transfers and pledges in deposited securities through electronic computerized book entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Tender Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest or Tender Price to DTC is the responsibility of the Trustee or the Tender

Agent as the case may be, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

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

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

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

THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT

The Loan Agreement requires the College at all times during a Weekly Mode Period, a Monthly Mode Period and an Adjustable Long Period to maintain with the Trustee a Letter of Credit or an Alternate Letter of Credit

The Bank

The Letter of Credit will be issued by Allied Irish Banks, p.l.c., acting through its New York Branch (the "Bank"), upon satisfaction of certain conditions precedent to the issuance of the Letter of Credit as specified in the Reimbursement Agreement. For information concerning the Bank, see Appendix VII to this Official Statement. The information contained in Appendix VII was furnished by the Bank which is solely responsible for such information.

THE ABILITY OF THE BANK TO HONOR DRAWINGS ON THE LETTER OF CREDIT WILL BE BASED SOLELY ON THE BANK'S GENERAL CREDIT. INFORMATION AS TO THE FINANCIAL CONDITION OF THE BANK IS SET FORTH IN APPENDIX VII HERETO.

The Letter of Credit

At the time of issuance of the Bonds, the College will cause the Bank to issue the Letter of Credit to the Trustee in an original amount equal to the aggregate original principal amount of the Bonds plus interest thereon for a period of 51 days at the rate of 10% per annum, plus 5% premium with respect to the original principal amount of the Bonds bearing interest in an Adjustable Long Period (the "Original Stated Amount"). The Letter of Credit will be an irrevocable, unsecured obligation of the Bank, which will have a stated expiration date of June 11, 2005, unless terminated earlier or extended. So long as the Letter of Credit is effective (i.e., prior to the Termination Date, as hereinafter defined), the Trustee will be required to draw under the Letter of Credit, in accordance with the terms thereof, amounts sufficient to pay (i) accrued interest on the Bonds on an Interest Payment Date (an "Interest Drawing"),

(ii) principal of, premium, if any, and accrued interest on the Bonds in respect of any optional or mandatory redemption (a "Redemption Drawing"), provided that, in the event the date of redemption or purchase coincides with an Interest Payment Date, the Redemption Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iii) the Tender Price of Bonds tendered pursuant to the terms of the Indenture for purchase on a Tender Date to the extent such Bonds have not been successfully remarketed or for which the Tender Price has not been received by the Remarketing Agent or the Tender Agent, as appropriate, by 11:00 A.M., New York City time, on the Tender Date (a "Liquidity Drawing"), provided that in the event the Tender Date coincides with an Interest Payment Date, the Liquidity Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iv) to pay principal of and accrued interest in respect of Bonds the payment of which has been accelerated pursuant to the Indenture (an "Acceleration Drawing"), and (v) if the Letter of Credit has been extended and is in effect on such date, to pay the principal amount of Bonds outstanding on April 1, 2028 (a "Stated Maturity Drawing"); provided, however, none of the foregoing drawings shall be made under the Letter of Credit for payment of the principal or Tender Price of or interest on Bank Bonds or Bonds in a Fixed Rate Period.

The Available Amount (as hereinafter defined) of the Letter of Credit will be reduced automatically by the amount of any drawing thereunder; provided, however, that the amount of any Interest Drawing, less the amount of the reduction in the Available Amount of the Letter of Credit attributable to interest as specified in a certificate of the Trustee (because of a reduction in the outstanding principal amount of Bonds) shall be automatically reinstated effective the 7th Business Day from the date of such drawing unless the Trustee receives notice prior to the close of business on the 6th Business Day following the date of any Interest Drawing that the Bank has not been reimbursed in full for any such drawing or any other Event of Default has occurred and is continuing under the Reimbursement Agreement and as a consequence thereof the Available Amount attributable to such Interest Drawing will not be so reinstated, in which case, the Trustee is required to accelerate the Bonds. After payment by the Bank of a Liquidity Drawing, the Available Amount will be automatically reduced by an amount equal to the Original Purchase Price (as hereinafter defined) of any Bonds (or portions thereof) purchased pursuant to said drawing. Prior to the Conversion Date, in the event of the remarketing of any Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the Available Amount under the Letter of Credit will be automatically reinstated upon receipt of the Original Purchase Price thereof by the Trustee, on behalf of the Bank, in an amount equal to the Original Purchase Price of any Bank Bonds or portions thereof so remarketed, except that the Bank, in its sole discretion, may by notice to the Trustee, the College and the Remarketing Agent refuse to permit the remarketing of any Bank Bonds and reinstatement of the Letter of Credit if there shall have occurred and be continuing an Event of Default under the Reimbursement Agreement. Prior to the Conversion Date, in the event of a repayment of any amount relating to a Liquidity Drawing, the Available Amount under the Letter of Credit shall be automatically reinstated in an amount equal to the amount of the repayment, except that the Bank, in its sole discretion may by notice to the College, the Trustee and the Remarketing Agent refuse to so reinstate the Available Amount under the Letter of Credit if there shall have occurred and be continuing an Event of Default under the Reimbursement Agreement. The Bank will provide confirmation to the Trustee of any such reinstatement.

The "Original Purchase Price" of Bonds shall mean the principal amount of any Bonds purchased with the proceeds of a Liquidity Drawing plus the amount of accrued interest on such Bonds paid with the proceeds of a Liquidity Drawing (and not pursuant to an Interest Drawing) upon such purchase. The "Available Amount" of the Letter of Credit shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawings, (ii) less the amount of any reduction in the Available Amount of the Letter of Credit pursuant to a certificate of the Trustee to the extent such reduction is not already accounted for by a reduction in the Available Amount pursuant to (i) above, and (iii) plus the amount of all reinstatements as above described.

The "Termination Date" of the Letter of Credit is defined as the earliest to occur of the close of business of the Bank on: (i) June 11, 2005, or such later date to which the expiration date has been extended, (ii) the date which is fifteen (15) days following the receipt by the Bank of a certificate of the Trustee in the form prescribed in the Letter of Credit to the effect that either (a) no Bonds remain outstanding, (b) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, (c) an Alternate Letter of Credit has been issued in accordance with the Indenture and Reimbursement Agreement or (d) the Conversion Date for all outstanding Bonds has occurred; (iii) the date on which an Acceleration Drawing is honored and (iv) the date which is twenty (20) days following receipt by the Trustee of a written notice from the Bank notifying the Trustee that an Event of Default has occurred under the Reimbursement Agreement and that the Bank is terminating the Letter of Credit.

Alternate Letter of Credit

Subject to the terms of the Reimbursement Agreement, the College may cause the Letter of Credit or any Alternate Letter of Credit applicable to any Bond then in effect to be replaced with an Alternate Letter of Credit subject to the provisions described herein and in the Indenture; provided that the replacement may take place only if there is delivered to the Trustee and the Authority an opinion of Bond Counsel to the effect that the exclusion from Federal gross income of the Owners of the interest on such Bond would not be impaired by reason of such replacement. Under certain circumstances, the replacement of the Letter of Credit with an Alternate Letter of Credit may result in the Bonds being subject to mandatory tender for purchase. See "THE BONDS—Mandatory Tender—LOC Termination Tender Date."

The College may permit such Letter of Credit or any Alternate Letter of Credit to expire or terminate or have its stated amount reduced, without providing a replacement therefor, subject to such provisions for mandatory tender for purchase. Each Alternate Letter of Credit shall provide that it may be cancelled, terminated or reduced in stated amount prior to its stated expiration date only by the College or the bank issuing the Alternate Letter of Credit upon not less than 30 days' prior written notice thereof to the Trustee.

The College may exercise any of its rights described above if and only if the College has given notice (and such notice is, in the case of the College's rights described in the first paragraph above, accompanied by evidence satisfactory to the Remarketing Agent, the Trustee, the Bank and each Rating Agency then rating the Bonds secured by a Letter of Credit or Alternate Letter of Credit of the binding and enforceable commitment of the issuer of the Alternate Letter of Credit that it will be in place prior to the time such Letter of Credit is replaced), thereof to the Remarketing Agent, the Trustee, any Rating Agency then rating such Bonds, and the Bank not less than 45 days prior to the effective date of the cancellation, termination, expiration or reduction in stated amount (so as no longer to secure such Bonds), as the case may be, then under consideration; provided that each such notice shall also be accompanied by a written statement from each Rating Agency then rating such Bonds as to the effect of such cancellation, termination, expiration or reduction in stated amount on the rating or ratings of such Rating Agency then assigned to such Bonds.

If at any time there shall have been delivered to the Trustee (i) an Alternate Letter of Credit, (ii) a Favorable Opinion with respect to the delivery of the Alternate Letter of Credit and (iii) written evidence from each Rating Agency having a rating in effect for the Bonds proposed to be secured by an Alternate Letter of Credit that such Rating Agency has reviewed the proposed Alternate Letter of Credit and that the substitution of the proposed Alternate Letter of Credit will not, by itself, result in (A) a withdrawal of its rating or ratings of the Bonds or (B) the then current rating or ratings assigned to the Bonds being lowered, and if such rating or ratings shall be in effect on the date of such substitution, then the Trustee shall accept such Alternate Letter of Credit. Alternately, if any Rating Agency having a rating in effect for the Bonds finds

that the substitution of the proposed Alternate Letter of Credit will, by itself, result in a lowering or withdrawal of the rating or ratings then applicable to the Bonds and the College proposes to substitute such Alternate Letter of Credit for the Letter of Credit or Alternate Letter of Credit then being cancelled, terminating or expiring, and if a Favorable Opinion with respect to the proposed replacement is delivered, then the Bonds shall be subject to mandatory tender for purchase on the date of substitution of the Letter of Credit with such proposed Alternate Letter of Credit. The Trustee, on such LOC Termination Tender Date, shall draw on the Letter of Credit or Alternate Letter of Credit then terminating, expiring, being cancelled or being reduced in stated amount or amended to apply to less than all the Bonds, to the extent required by the Indenture.

The Reimbursement Agreement

The Letter of Credit will be issued by the Bank pursuant to the Reimbursement Agreement, under which the College will agree, among other things, to pay the Bank for drawings under the Letter of Credit plus interest thereon in the manner specified in the Reimbursement Agreement. Pursuant to the Reimbursement Agreement, the College will also agree to pay certain fees for issuance and maintenance of the Letter of Credit. The Reimbursement Agreement, and the terms, conditions and agreements contained therein, are solely for the benefit of the Bank and should not be relied upon by the Holders of Bonds or the Trustee. **The Reimbursement Agreement may be amended by the Bank and the College without the consent of or notice to the Trustee or the Holders of Bonds.**

As required by the Reimbursement Agreement, the Bethel College & Seminary Foundation (the "Foundation" or the "Guarantor") will guaranty the payment of the College's obligations under the Reimbursement Agreement pursuant to a Guaranty, expected to be dated as of June 1, 1998 (the "Foundation Guaranty") from the Foundation to the Bank.

Each of the following events constitutes an "Event of Default" under the Reimbursement Agreement:

- a) any representation or warranty made by the College in the Reimbursement Agreement, the Letter of Credit, the Indenture, the Bonds, the Loan Agreement, the Remarketing Agreement, the Bond Purchase Agreement or the Official Statement (the "Related Documents") or in any certificate, document, instrument or financial or other statement contemplated by or made or delivered pursuant to or in connection therewith, shall prove to have been incorrect, incomplete or misleading in any material respect when made;
- b) any default or event of default shall have occurred under the Related Documents (as defined therein).
- c) failure of the College to pay to the Bank any obligations of the College to the Bank under the Reimbursement Agreement when and as due;
- d) the Reimbursement Agreement or the other Related Documents to which the College is a party cease for any reason (other than release by the Bank) to be valid and binding obligations of the College and in full force and effect, or if the College shall assert that it is not liable under the Reimbursement Agreement or any other Related Documents to which it is a party or the Foundation Guaranty ceases for any reason (other than release by the Bank) to be a valid and binding obligation of the Guarantor and in full force and effect, or the Guarantor shall assert that it is not liable under the Foundation Guaranty;

- e) default in the due observance or performance of the College or the Guarantor of any other term, covenant or agreement set forth in the Reimbursement Agreement or the Foundation Guaranty and continuation of such default for thirty (30) days;
- f) the College or the Guarantor shall (i) not pay, or admit in writing its inability to pay, its debts generally as they become due or suspend payment of its obligations, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, conservator, liquidator or similar official for it or any substantial part of its property, (iv) institute any voluntary proceeding seeking to have entered against it an order for relief under the Bankruptcy Code of 1978, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshaling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, or (v) take any action in furtherance or any of the foregoing purposes;
- g) a custodian, receiver, trustee, conservator, liquidator or similar official shall be appointed for the College or the Guarantor or any substantial part of the property of the College or the Guarantor, and such appointment continues undischarged or any such proceeding continues undismissed or unstayed for a period of sixty (60) or more days;
- h) a proceeding shall be instituted in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors seeking in respect of the College or the Guarantor an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, or the like of the College or the Guarantor or of all or any substantial part of the assets of the College or the Guarantor, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by the College or the Guarantor in good faith, the same shall (i) nevertheless result in the entry of an order for relief or in any such adjudication or appointment or (ii) continue undismissed, or pending and unstayed, for any period of 60 consecutive days;
- i) default shall occur under any evidence of indebtedness of the College or Guarantor for borrowed money in an aggregate outstanding principal amount in excess of \$500,000 issued, assumed or guaranteed by the College or the Guarantor or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such indebtedness (whether or not such maturity is in fact accelerated), or any such indebtedness shall (subject to any period of any grace provided for the payment thereof) not be paid when and as due (whether by lapse of time, acceleration or otherwise);
- j) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes in an aggregate amount in excess of \$500,000 shall be entered or filed against the College or Guarantor or against any of the property of the College or Guarantor and remain unpaid, unvacated, unbonded or unstayed for a period of thirty (30) days;
- k) the Guarantor shall breach any provision of the Foundation Guaranty;
- l) the College shall cease, for any reason, to be affiliated with the Baptist General Conference; or
- m) a default shall occur and be continuing under any agreement between the College and the Bank or under any obligation owed by the College to the Bank.

Upon the occurrence and during the continuance of any Event of Default the Bank may exercise any one or more of the following rights and remedies in addition to any other remedies under the Reimbursement Agreement or by law provided:

- a) by notice to the College, declare all Letter of Credit obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, provided that upon the occurrence of an Event of Default under paragraphs (f), (g), and (h) above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the Bank in writing);
- b) give notice of the occurrence of an Event of Default to the Trustee, thereby causing the Letter of Credit to terminate twenty (20) days after receipt of such notice by the Trustee;
- c) pursue any rights and remedies it may have under the Related Documents; or
- d) pursue any other action available at law or in equity.

Amounts paid on the Letter of Credit obligations representing amounts not yet drawn on the Letter of Credit shall, after payment of all other Letter of Credit obligations, be held by the Bank in a cash collateral account, with interest to accrue thereon to the credit of the College (provided that such interest shall also secure the Letter of Credit obligations, in addition to such cash collateral) in accordance with rates then paid by the Bank on corporate money market accounts.

USE OF PROCEEDS

The Project

A portion of the Bond proceeds will finance the following projects on the campus of the College:

- Construction of a new residence hall with approximately 275 beds to provide additional on-campus housing for upperclass students at an estimated cost of \$8,000,000;
- Additions to the Fine Arts Center, composed of classrooms, offices and the expansion of chemistry laboratories at an estimated cost of \$6,500,000;
- Remodeling of spaces in various campus buildings to accommodate relocations associated with the additions to the Fine Arts Center at an estimated cost of \$500,000;
- Upgrade of campus wiring network and electronics infrastructure to inter-connect all offices, classrooms and residence halls at an estimated cost of \$505,000;
- Construction of a baseball field to NCAA Division III standards at an estimated cost of \$400,000;
- Parking expansion and improvements to replace the parking to be lost with the construction of the new residence hall and to add parking spaces, at an estimated cost of \$600,000; and
- Acquisition on or about June 1, 1998, of an existing office building to provide space for the College's Development Office and Continuing Studies Offices, at the purchase price of approximately \$800,000.

All construction projects are expected to be underway on or about June 1, 1998 with completion expected for the fall 1999 semester. The College has entered into guaranteed maximum price contracts with M.A. Mortenson, a Minneapolis general construction contractor, for the residence hall and Fine Arts Center construction. The College will act as general contractor for the smaller construction projects.

The Refinancings

A portion of Bond proceeds, together with College funds, will be used to refund, in advance of maturity, the April 1, 1999 through 2001 maturities of the Authority's First Mortgage Revenue Bonds, Series W, dated August 1, 1978. Proceeds of approximately \$255,729, and additional amounts representing the balance in the Series W Bond Account, Series W Reserve Account, Series W Repair and Replacement Account, and the amount in the Authority's General Bond Reserve applicable to the Series W Bonds, will be deposited with the Series W Trustee to provide for the payment of the Series W Bonds on their optional redemption date of October 1, 1998, at a price of par plus accrued interest.

Additional Bond proceeds in the estimated amount of \$4,399,994 will be deposited with the Trustee into the Refinancing Account to repay principal and some or all of the prepayment penalty of the College's outstanding Senior Secured Note dated June 14, 1995, issued in the original principal amount of \$5,000,000 (the "Refinanced Debt"). Upon receipt of written instructions from the College on or prior to September 1, 1998, the Trustee will release the funds in the Refinancing Account to the lender of the Refinanced Debt.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds	
Bond Proceeds	\$22,865,000
Original Issue Discount	(164,270)
Estimated Investment Earnings	427,446
College Funds	525,856
Series W Bond Fund	38,680
Series W Debt Service Reserve	162,054
Series W Repair & Replacement Reserve	140,160
Series W Portion-General Bond Reserve	<u>179,000</u>
Total Sources	<u>\$24,173,926</u>
Uses of Funds	
Project Costs	
Residence Hall	\$ 8,000,000
Fine Arts Addition	6,500,000
Acquisition of Office Building	800,000
Wiring of Campus	505,000
Baseball Field	400,000
Parking Improvements	600,000
Remodeling Existing Facilities	200,000
General Contingency	<u>510,000</u>
Total Project Costs	\$17,515,000
Payment of the Refinanced Debt	\$ 4,399,994
Refinancing of the Series W Bonds	776,100
Capitalized Interest and LOC Fees	1,104,876
Issuance Costs	<u>377,956</u>
Total Uses	<u>\$24,173,926</u>

SOURCE OF PAYMENT FOR THE BONDS

The Bonds will be special obligations of the Authority payable solely from payments made by or on behalf of the College as required by the Loan Agreement or out of other amounts pledged therefor under the Indenture including, prior to conversion to a Fixed Interest Rate, drawings under the Letter of Credit.

The Bonds are secured by the pledge of the Loan Repayments, which are a general obligation of the College. The College will agree pursuant to the terms of the Loan Agreement and the Indenture to make such payments out of its operating funds or any other moneys legally available, not including assets of the Foundation, none of which are pledged as security for the Bonds. The College covenants and agrees to charge tuition fees, other fees, rentals and charges which, together with the general funds or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement; to meet current operation and maintenance expenses of the Project Facilities; and to pay all other obligations of the College as they become due.

During a Weekly Mode Period, a Monthly Mode Period, and an Adjustable Long Period, the Bonds will be secured by the Letter of Credit or Alternate Letter of Credit, as discussed under "LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT."

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

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

ACCOUNTS

Summary

The Indenture will provide for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement and moneys from draws under the Letter of Credit or any Alternate Letter of Credit are to be deposited. These accounts include a Construction Account, a Refinancing Account into which will be deposited funds to repay the Refinanced Debt, a Purchase Fund, a Bond and Interest Sinking Fund Account, and a Reserve Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Construction Account, the Refinancing Account and the redemption account held by the trustee for the Series W Bonds. Following Bond Closing, amounts received by the Trustee from the College as Loan Repayments, proceeds of remarketing or proceeds from draws under the Letter of Credit or any Alternate Letter of Credit are to be deposited into the Bond and Interest Sinking Fund Account and used, to the extent needed, to redeem or pay the principal of and interest on or the Tender Price of the Bonds when due as described in more detail below.

Construction Account

There shall be deposited initially into the Construction Account certain proceeds of the Bonds, except as otherwise required to be deposited into the Bond and Interest Sinking Fund Account, the Refinancing Account, and the redemption account for the Series W Bonds. In addition, the College will agree in the Loan Agreement to provide for payment of all Project Costs in excess of the proceeds of the Bonds available therefor and to pay out of available general funds all costs of issuance of the Bonds (including underwriting discount) in excess of 2.00% of the

proceeds of the Bonds (principal less original issue discount according to the reoffering scale). Upon receipt of proper documentation, the Trustee will reimburse or pay for the account of the College costs incurred in connection with the Project. When work on the Project has been completed and the Project Equipment has been installed and a certificate to that effect has been furnished to the Trustee, any balance in the Construction Account shall be deposited into the Bond and Interest Sinking Fund Account.

Purchase Fund

The Purchase Fund shall be a trust fund held by the Tender Agent as agent for the Trustee and three separate accounts will be established to be designated the "Remarketing Account," the "LOC Purchase Account," and the "College Account." Funds in each account will not be commingled with funds from the other accounts or from any other source.

Any moneys received by the Tender Agent from purchasers of remarketed Bonds (other than the Bank acting pursuant to the Reimbursement Agreement) shall be deposited in the Remarketing Account of the Purchase Fund. Any moneys received by the Tender Agent from the Trustee as a result of a draw on the Letter of Credit or Alternate Letter of Credit shall be deposited in the LOC Purchase Account of the Purchase Fund. Any moneys received by the Tender Agent from the College to be applied in connection with the purchase of tendered Bonds by the College shall be deposited in the College Account of the Purchase Fund.

The Tender Agent shall deposit into the Remarketing Account of the Purchase Fund any amounts received by the Tender Agent from the remarketing of Bonds by the Remarketing Agent pursuant to the terms of the Remarketing Agreement. If the Tender Agent notifies the College that there are not sufficient moneys on deposit with the Tender Agent to provide for the purchase of all Bonds required to be purchased on a Tender Date, the Tender Agent shall give Immediate Notice to the Bank and the Trustee of the amount of such deficiency (the "Deficit Amount") and request the Trustee to draw on the Letter of Credit or Alternate Letter of Credit in an amount equal to the Deficit Amount. If the Tender Agent fails to receive the full amount of the Deficit Amount on such Tender Date from moneys obtained as a result of draws on the Letter of Credit or Alternate Letter of Credit, the Tender Agent shall give Immediate Notice to the College on such Tender Date of the Deficit Amount. On such Tender Date, the College shall deliver or cause to be delivered to the Tender Agent, for deposit into the College Account of the Purchase Fund, moneys in an amount equal to the portion of the Deficit Amount not delivered to the Tender Agent.

Moneys in the Purchase Fund shall be applied, on each Tender Date, as follows:

- (1) Moneys in the Remarketing Account of the Purchase Fund shall be used by the Tender Agent on behalf of the Bond purchasers designated by the Remarketing Agent to purchase Bonds required to be purchased on such Tender Date, and shall be so applied to the Tender Price thereof, to the extent of such moneys.
- (2) To the extent the amount of moneys in the Remarketing Account is insufficient to pay the Tender Price of all Bonds required to be purchased on such Tender Date, moneys in the LOC Purchase Account of the Purchase Fund shall be used by the Tender Agent on behalf of the College to purchase Bonds required to be purchased on such Tender Date, and shall be so applied to the Tender Price thereof, to the extent of such moneys.
- (3) To the extent the aggregate amount of moneys in the Remarketing Account and moneys in the LOC Purchase Account, on the Tender Date are insufficient to pay the Tender Price of all Bonds required to be purchased on such Tender Date, Eligible Moneys as defined in the Indenture in the College Account of the Purchase Fund shall be used by the Tender Agent on behalf of the College to purchase Bonds which the College has requested be purchased on such Tender Date, and shall be so applied to the Tender Price thereof, to the extent of such moneys.

- (4) To the extent the aggregate amount of moneys described in the above paragraphs are insufficient to pay the Tender Price of all Bonds required to be purchased on such Tender Date, any other moneys (other than Eligible Moneys) available to the Tender Agent shall be used by the Tender Agent on behalf of the College to purchase Bonds which the College has requested be purchased on such Tender Date, and shall be so applied to the Tender Price thereof, to the extent of such moneys; provided that moneys described in this paragraph will not be commingled with moneys from any other source to make such purchase. If the Letter of Credit or Alternate Letter of Credit is in effect for the Bonds, the Trustee shall promptly notify the Owners of all Bonds purchased with moneys described in this paragraph that such Bonds were purchased with funds that are not Eligible Moneys; and the payment of the Tender Price of such Bonds may be avoidable as preferential payments pursuant to the provisions of Section 547 of Title 11 of the United States Code should the Authority or the College become a debtor in any proceeding commenced thereunder.

Bond and Interest Sinking Fund Account

There shall be established within the Bond and Interest Sinking Fund Account separate interest accounts to be known, respectively, as the "Interest Account," the "LOC Interest Account" and the "Non-LOC Interest Account."

1. Interest Account. All payments of interest under the Loan Agreement, except payments pertaining to Bonds which are not secured by a Letter of Credit or any Alternate Letter of Credit, shall be deposited as and when received by the Trustee in the Interest Account.

If a Letter of Credit or any Alternate Letter of Credit is then in effect for the Bonds and a draw for interest has been made, any funds remaining on deposit in the Interest Account on any day on which a payment of interest is due, after payment in full of all interest due on the Bonds, shall be transferred by the Trustee to the Bank to the extent the Bank has not already been reimbursed with funds transferred from the LOC Interest Account, in the amount necessary to reimburse the Bank for the interest portion of the draw on the Letter of Credit.

2. LOC Interest Account. All proceeds of interest drawings under the Letter of Credit then in effect for the Bonds received in connection with any payment of interest on any Interest Payment Date for the Bonds shall be deposited in the LOC Interest Account as and when received by the Trustee and shall be applied by the Trustee solely to pay interest on the Bonds as described below.

For so long as the Letter of Credit or any Alternate Letter of Credit is in effect for the Bonds, payments of interest on Bonds secured by the Letter of Credit or any Alternate Letter of Credit shall be made, to the extent available, from Eligible Moneys on deposit in the LOC Interest Account.

On the Business Day prior to the day a payment of interest is due on the Bonds, the Trustee shall make a drawing under the Letter of Credit or any Alternate Letter of Credit in an amount equal to the interest due on such Interest Payment Date on the Bonds taking into account prior draws for such payment. Any funds remaining on deposit in the LOC Interest Account on any day on which a payment of interest is due, after payment in full of all interest due on the Bonds on such date and excluding funds deposited pursuant to a draw relating to the next interest payment date, shall be transferred by the Trustee to the Bank to reimburse the Bank for a portion of the draw relating to interest on the Letter of Credit.

3. Non-LOC Interest Account. All payments of interest under the Loan Agreement pertaining to Bonds which are not secured by the Letter of Credit or any Alternate Letter of Credit shall be deposited in the Non-LOC Interest Account as and when received by the Trustee and shall be applied by the Trustee solely to pay interest on Bonds which are not secured by the Letter of Credit or any Alternate Letter of Credit.

There shall also be established three separate principal accounts within the Bond and Interest Sinking Fund Account to be known, respectively, as the "Principal Account," the "LOC Principal Account" and the "Non-LOC Principal Account."

1. Principal Account. All payments of principal under the Loan Agreement except payments pertaining to the Bonds which are not secured by the Letter of Credit or any Alternate Letter of Credit shall be deposited as and when received by the Trustee in the Principal Account.

The Trustee shall, on the first day of each April (or, if such first day is not a Business Day, then on the first Business Day thereafter), deposit in the Principal Account any moneys received by the Trustee from the College, an amount equal to the difference, if any, between (a) the then applicable Principal Account Requirement (as defined below) and (b) the amount of moneys then on deposit in the Principal Account and not previously allocated to the payment or redemption of the Bonds.

Moneys on deposit in the Principal Account shall be used by the Trustee to pay principal on the Bonds as it becomes due; provided that if the Letter of Credit or any Alternate Letter of Credit is in effect for the Bonds, any funds remaining on deposit in the Principal Account after payment in full of all principal due on the Bonds on such date shall be transferred by the Trustee to the Bank to the extent the Bank has not already been reimbursed with funds transferred from the LOC Principal Account, in the amount necessary to reimburse the Bank for the portion of the draw relating to principal on the Letter of Credit or any Alternate Letter of Credit.

2. LOC Principal Account. All proceeds of drawings under the Letter of Credit or Alternate Letter of Credit then in effect for the Bonds to pay the principal of the Bonds at maturity, upon optional or mandatory redemption or upon acceleration shall be deposited in the LOC Principal Account as and when received by the Trustee and shall be applied by the Trustee solely to pay such principal on the Bonds.

For so long as the Letter of Credit or Alternate Letter of Credit is in effect for the Bonds, payments of principal on Bonds secured by the Letter of Credit or Alternate Letter of Credit shall be made, to the extent available, from Eligible Moneys on deposit in the LOC Principal Account.

On the fourth Business Day prior to the day on which Bonds are to be paid, the Trustee shall make a drawing under the Letter of Credit or Alternate Letter of Credit in an amount equal to the principal amount then required to be paid on the Bonds taking into account prior draws for such payment. Any funds remaining on deposit in the LOC Principal Account on any day on which a payment of principal is due after payment in full of all principal due on the Bonds and excluding funds deposited pursuant to a draw relating to the next interest payment date, shall be transferred by the Trustee to the Bank to reimburse the Bank for a portion of the draw relating to principal on the Letter of Credit or Alternate Letter of Credit.

3. Non-LOC Principal Account. All payments of principal and premium, if any, under the Loan Agreement pertaining to Bonds which are not secured by a Letter of Credit shall be deposited as and when received by the Trustee in the Non-LOC Principal Account and shall be applied by the Trustee solely to pay principal and premium, if any, on the

Bonds at maturity, upon optional or mandatory redemption or upon acceleration. The "Principal Account Requirement" for the Bonds shall be the principal amounts payable on April 1 of each year through the final maturity date of the Bonds, unless a serial maturity and/or mandatory sinking fund redemption schedule is established for all or a portion of the Bonds in a Fixed Rate Period, in which case it shall be the amounts due on the dates determined pursuant to said schedule.

Reserve Account

While the Bonds are secured by a Letter of Credit or any Alternate Letter of Credit, the Reserve Requirement is zero and there shall be no deposit required into the Reserve Account.

General Bond Reserve Account

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

Authorized Investments

Moneys on deposit to the credit of the Construction Account, Bond and Interest Sinking Fund Account, the Reserve Account, and the Purchase Fund shall be invested by the Trustee only in investments as authorized by law from time to time which are generally as follows currently: Direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states and local governments, rated at least in the rating category of "AA" or "Aa"; revenue bond obligations of states and local governments insured by municipal bond insurance and rated "AAA" or "Aaa"; mutual funds or unit trusts which invest solely in the foregoing obligations of the United States government, its agencies, state and local governments; time deposits and other accounts fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least in the rating category of "A"; certain types of repurchase agreements; and certain commercial paper maturing in 270 days or less. Section 8.05 of the Indenture sets forth further restrictions as to type and maturity of investments permitted for the trust accounts held by the Trustee or Tender Agent under the Indenture.

THE AUTHORITY

The Minnesota Higher Education Facilities Authority was created by Chapter 868, Laws of Minnesota, 1971 (Sections 136A.25 through 136A.42, Minnesota Statutes), for the purpose of assisting institutions of higher education within the State in the construction and financing of projects. The Authority consists of eight members appointed by the Governor with the advice and consent of the Senate. A representative of the Minnesota Higher Education Services Office and the President of the Minnesota Private College Council, who is a non-voting member, are also members of the Authority.

J. Luther Anderson has been the Executive Director of the Authority since June 30, 1995, at which time he replaced Joseph E. La Belle, who retired after serving as Executive Director since the inception of the Authority. Mr. Anderson was formerly a Senior Vice President with Springsted Incorporated.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$500 million. The Authority has had 106 issues (including refunded and retired issues) totaling \$618,289,189, of which \$356,989,560 (excluding the Bonds) is outstanding as of May 15, 1998. The Authority currently has no authorized but unissued debt as of that date. Bonds issued by the Authority are payable only from the rentals, revenues and other income, charges and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota.

Educational institutions eligible for assistance by the Authority are generally private nonprofit educational institutions authorized to provide a program of education beyond the high school level. Under current statutory authority, public community and technical colleges in the State are also eligible for assistance, but only in financing of child-care and parking facilities. In addition, pursuant to special legislation, the Authority has twice issued bonds on behalf of a public community college for housing purposes. Sectarian institutions are not eligible for assistance; however, the fact that an institution is sponsored by a religious denomination does not of itself make the institution sectarian. Application to the Authority is voluntary.

The scope of projects for which the Authority may issue bonds is broad, including buildings or facilities for use as student housing, academic buildings, parking facilities, day-care centers, and other structures or facilities required or useful for the instruction of students, or conducting of research, in the operation of an institution of higher education.

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

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

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

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

FINANCIAL ADVISOR

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

UNDERWRITING

The Bonds are being purchased by William Blair & Company, L.L.C. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$22,524,554.45, representing the original principal amount of the Bonds less original issue discount of \$164,270.55 and an underwriter's discount of \$176,175.00.

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

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

RATING

Moody's Investors Service has assigned a long-term rating of Aa3 and a short-term rating of VMIG-1 on the Bonds, contingent on the issuance of the Letter of Credit. The ratings will reflect only the view of such rating agency. Further information concerning the ratings is available from Moody's. There is no assurance that either rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

The Authority and the College are unaware of any pending or threatened litigation which would affect the validity of the Bonds or materially affect the ability of the College to pay the principal of or interest on the Bonds as the same become due.

LEGALITY

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

Certain legal matters will be passed upon for the College by Eastlund, Solstad & Hutchinson, Ltd., of Minneapolis, Minnesota; and for the Underwriter by Gardner, Carton & Douglas, Chicago, Illinois, and for the Bank by its special United States Counsel, Chapman and Cutler, Chicago, Illinois, and by internal counsel for the Bank.

TAX EXEMPTION

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

The Loan Agreement and Indenture contain provisions (the "Tax Covenants") including covenants of the Authority and the College, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph.

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

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

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

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

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

The dollar amount of the initial offering price to the public of the Bonds in Adjustable Long Modes with Adjustment Dates of 2005, 2008, and 2019 (the "Discount Bonds") is less than the principal amount of such maturities. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that it is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond.

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

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

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

THE COLLEGE

Introduction

Bethel College & Seminary is located in the City of Arden Hills, Minnesota, approximately 10 minutes from downtown Minneapolis and St. Paul. The College was first established as an institution of higher education in 1871 in Chicago, moving to St. Paul, Minnesota in 1884. The College began its four-year liberal arts program in 1947. In 1972, the College moved from its former campus in St. Paul to its current 231 acre site in Arden Hills. The College's steady growth to over 2,500 students has made it the sixth largest private college in Minnesota.

It is the official policy and commitment of the College not to discriminate on the basis of race, color, national or ethnic origin, age, sex, or disability in its educational programs, admissions, or employment practices.

Description and Accreditations

The College is comprised of an undergraduate liberal arts college, a graduate program and a seminary, all located on the same campus, but with separate facilities, plus another seminary campus in San Diego ("Bethel West"). The College is accredited by the North Central Association of Colleges and Schools, the National Council for Accreditation of Teacher Education, the Council on Social Work Education (at the undergraduate level), and the National League for Nursing. Undergraduate teacher preparation programs leading to licensure for pre-kindergarten, kindergarten, elementary, and secondary teaching, as well as graduate programs leading to licensure in special education and middle school teaching are approved by the Minnesota Board of Teaching. The nursing program is approved by the Minnesota Board of Nursing.

The academic program at the College is enriched by its membership and participation in the following programs: the Minnesota Private College Fund, the Minnesota Private College Council, the Christian College Consortium, the Coalition for Christian Colleges and Universities, the Upper Midwest Association for Intercultural Education, the Institute of Holy Land Studies, and the AuSable Institute of Environmental Studies.

U.S. News and World Report: America's Best Colleges ranked the College among the top 10 regional liberal arts colleges in the Midwest for 1997. This rating marks the third year in a row the College has made the magazine's listings. In 1996, *U.S. News and World Report* ranked the College as among the three best teaching colleges among liberal arts institutions in the Midwest.

The John Templeton Foundation Honor Roll named the College one of 124 colleges and universities nationwide that "promote character and value development."

The College is included in *Peterson's Competitive Colleges* publication.

Governance

In August of 1996, the College became a Minnesota not-for-profit corporation, an action coinciding with a reorganization of the Baptist General Conference ("BGC"), an Illinois corporation of which the College had long been a department. They are now separate 501(c)(3) not-for-profit corporations. The College is governed by a 35-member Board of Trustees. Except for two representatives of the district executive ministers council, members of the Board are elected or confirmed by delegates from the churches of the BGC meeting in annual session. The College's president and the president of the BGC are ex-officio members of the Board of Trustees. The Board of Trustees meets three times a year to carry out its responsibilities.

Board of Trustees

<u>Name/Title</u>	<u>Term Ending</u>	<u>Profession</u>	<u>State</u>
Dr. Leith C. Anderson*	2001	Senior Pastor, Wooddale Church	MN
Rollie H. Anderson	2002	EVP, Anderson Trucking Service, Inc.	MN
Wade T. Anderson*	1999	Gray, Plant, Mooty, Mooty & Bennett, P.A.	MN
Dr. David T. Bjork	2001	Fergus Falls Medical Group	MN
David M. Blomberg	1998	Retired Corporate Executive, Waste Management, Inc.	IL
Donald H. Bodel	2002	President, Richard Ellis, Inc.	IL
Dr. George K. Brushaber	ex officio	President, Bethel College & Seminary	MN
Larry A. Carlson*	2000	President, Arden Foundation	MN
Warren E. Eastlund	emeritus	Eastlund, Solstad & Hutchinson, Ltd.	MN
Charles "Denny" Ford	2000	Wright, Ford, Browning & Young, Certified Public Accountants, Inc.	CA
Richard J. Gabriel	2000	President, Heritage Container	CA
LaVone B. Holt	2000	Retired Educator	IL
Wayland E. Jensen	1998	President, Jensen Window Corporation	IL
Eugene D. Johnson, Chair*	1999	Publisher, Press Publications	MN
Susan E. Johnson	2000	National Sales Executive, Daniel Swarovski Crystal Eyewear Silhouette Optical, Ltd.	MN
Dr. Morris E. Jones	1998	Institutional Chaplaincy	IN
Dr. Truett M. Lawson*	1999	Executive Minister, Minnesota Baptist Conference	MN
David E. Monson, Treasurer*	1998	President, Monson Insurance	MN
Dorothy Naylor	1998	Retired Educator	MT
Michelle M. Obleton	2001	Waukegan Community Church, Staff	IL
Hon. Mary E. Pawlenty*	2002	Judge, State of Minnesota, First Judicial District	MN
Dr. Donald E. Phillips	2002	Retired Corporate Executive, Pitman-Moore, Inc.	IL
Anthony O. Pratt	2001	Chairman, International Trade Division International Minority Business Corporation	NY
David C. Price	2001	Retired Corporate Executive, Price Industries, Inc.	CA
Dr. Robert S. Ricker	ex officio	President, Baptist General Conference	IA
Rev. David A. Ridder	2000	Senior Pastor, First Baptist Church of Newtown	PA
Dr. Paul S. Sanders, Vice Chair*	2001	CEO, Minnesota Medical Association	MN
Dr. Gerald R. Sheveland	2002	Senior Pastor, College Avenue Baptist Church	CA

Board of Trustees (continued)

<u>Name/Title</u>	<u>Term Ending</u>	<u>Profession</u>	<u>State</u>
Dr. James D. Smith, III	2001	Pastor, Claremont Emmanuel Baptist Church	CA
Sherman L. Stevens	1999	Retired, King County Medical Blue Shield	WA
Rev. Richard R. Sturm	1998	Executive Minister, Columbia Baptist Conference	WA
Ann L. Tschetter	2002	Co-owner, Thermo King of Sioux Falls	SD
Ronald A. Tschetter, Secretary*	1999	Executive Vice President, Retail Sales Dain Rauscher, Inc.	MN
Jerry K. Twogood*	2002	Retired Corporate Executive, Deluxe Corporation	MN
Jack B. Van Mark	1999	Van Mark Farms, Inc.	WY

* *Member of Executive Committee.*

Bethel Administration

George K. Brushaber, President: Dr. Brushaber has served as the College's President since 1982 and was dean of the College from 1975 to 1982. He has been involved in academic administration in diverse capacities since receiving his M.A. in religion from Wheaton College in 1961. Dr. Brushaber also holds a Master of Divinity and a Ph.D. in Epistemology and Metaphysics from Boston University. He has served with various Christian organizations throughout his career and is currently Chair of the Board of Senior Editors of *Christianity Today* and founding editor of *Christian Scholars Review*.

James H. Barnes III, Executive Vice President and Provost of the College: Dr. Barnes joined the College in 1995. His prior educational service included 15 years as Vice President for Student Development at Messiah College (PA), four years on the residence life staff at Wheaton College (IL), and four years as teacher and administrator at the Black Forest Academy in Germany. Dr. Barnes received a B.S. in Mathematics from Wheaton College, an M.A. in educational counseling from the University of Connecticut, and the Ed.D. in college student personnel work from Loyola University-Chicago.

Sherman A. Swenson, Executive Vice President for Administration and Finance: Mr. Swenson joined the College as Executive Vice President for Administration and Finance in 1987. Previously, Mr. Swenson acted as the Chairman and CEO of B. Dalton Booksellers. Mr. Swenson has also served as President and COO of Daytons Department Stores of Minnesota and President and CEO of Dayton Hudson Jewelers of Minnesota. Mr. Swenson sits on the Boards of Image Retailing (Audio King Stores), FCS Floor to Ceiling Stores and Twin Cities Christian Homes. Mr. Swenson is also a Speaker for the U.S. Christian Businessmen's Association and Christian Management Association. Mr. Swenson intends to retire from his position with the College during 1998 and a replacement has not been selected.

Thomas J. Johnson, Executive Vice President: Dr. Johnson has served as Executive Vice President in charge of enrollment, financial aid, program development and strategic planning since 1993. Mr. Johnson joined the College in 1971 as a Professor of Education and has served in a number of capacities including Director of Faculty Development, Assistant to the Dean, and Executive Assistant to the President. Dr. Johnson received a B.A. from Bethel College and M.A. and Ed.D. degrees from the University of Minnesota.

Ronald R. Harris, Vice President of Development: Dr. Harris is the Vice President of Development, Alumni & Parent Relations, a position he has held since 1993. Prior to that, Dr. Harris was the Dean of Faculty Growth & Assessment at the College. He is a former faculty member in the colleges of business at Montana State University, California State University-Pomona and Southwestern Technical College. He has administrative experience at the department head, direction and dean's level. Dr. Harris holds the Doctorate in Business and Education Administration (Montana State University), Masters in Business (Mankato State University) and Bachelor's degrees (Bethel College).

Leland V. Eliason, Executive Vice President and Provost of Seminary: Dr. Eliason rejoined the College as Executive Vice President and Dean of Seminary in 1994. Before serving as the Senior Pastor for Whittier Area Baptist Fellowship (1983-1994), Eliason worked for a decade as Assistant to the Dean and Director of Field Education at the Bethel Theological Seminary. As part of his dedication to community service, Dr. Eliason has undertaken several mission trips to areas including Cameroon, Ethiopia, Brazil and the Philippines; he is also a speaker for Overseas Crusade International. Dr. Eliason received a B.A. from Bethel College and a B.D. from Bethel Theological Seminary. He also has earned S.T.M. and Th.D. degrees.

Facilities

The College's campus borders Lake Valentine in Arden Hills and comprises 231 acres. The majority of the campus was built in the 1970s. Most of the campus is interconnected via a system of skyways, tunnels and breezeways, providing easy access in all weather conditions. Versatile buildings provide centers for the sciences, humanities, physical education, learning resources and the arts.

A recent addition to the campus has been the Lundquist Community Life Center (the "CLC"), completed in 1994. At the heart of the CLC is the Benson Great Hall, a 1,700 seat auditorium which provides an attractive and comfortable setting for musical and dramatic presentations, and a meeting place for large gatherings. It is one of the outstanding facilities of its kind in the Twin Cities and has become renowned for its acoustical excellence. In addition to the Great Hall, the CLC also provides classroom facilities and a large foyer and general information area which provides a "front door" for the campus. The CLC is the campus centerpiece and also a striking architectural and aesthetic statement.

The Bethel Learning Resource Center collection includes over 125,000 volumes, and students have computerized access to nine other Twin Cities libraries through membership in the Cooperating Libraries in Consortium, the Twin Cities private college inter-library loan group.

The College boasts state-of-the-art science and computer labs and modern classroom facilities, music practice rooms, and residence halls.

The College's Sports and Recreation Center, constructed in 1984, with its six-lane track, soccer field, and basketball, tennis and volleyball courts, is one of the largest in the state and is used almost continuously for intercollegiate and intramural sports and personal recreation. In 1997, the College unveiled a new, \$850,000 football/soccer complex, in honor of the College's 50 years of intercollegiate athletics.

In addition to the benefits of its own facilities, the College's location provides quick access (approximately ten minutes) to the benefits of the Twin Cities of Minneapolis and St. Paul.

In addition to the campus located in Arden Hills, Minnesota, the College established an extension campus, Bethel Theological Seminary West ("Bethel West"), in San Diego, California in 1977. Bethel West offers post-graduate theological study with four degree programs taught by 24 faculty members. Bethel West's operations are consolidated with the College's. In 1990, a \$2 million seminary complex was completed for Bethel West. This facility houses offices, classrooms, a student center and library facilities with more than 45,000 volumes.

Bethel West is accredited by the Association of Theological Schools and the North Central Association of Colleges and Schools. Current enrollment is 171 students, constituting a wide variety of vocational, cultural and denominational backgrounds, and with undergraduate degrees from universities across the country and abroad.

Faculty and Academic Programs

More than 88 percent of College faculty members hold a terminal degree (Doctorate or equivalent). As of fall 1997, there were 125 full-time College faculty members and 100 part-time College faculty members. The Faculty-student ratio is currently one to sixteen. There is no denominational prerequisite nor any participatory religious requirements for faculty or staff membership. The College subscribes to the 1940 Statement of Principles on Academic Freedom of the American Association of University Professors and the Association of American Colleges.

The College offers 68 academic programs within 57 majors. In addition to course work in a selected major, all undergraduate students must take 50 semester credit hours in the General Education Program. The General Education Program is a group of common courses intended to develop the following assets in its students: (i) the ability to think and work cross-culturally; (ii) marketable skills for a service and information, rather than a manufacturing, society; (iii) interpersonal skills; (iv) a knowledge of Western roots; and (v) a background in Christianity.

Objectives of education are to promote self-knowledge, appreciation of intellectual and cultural heritage, evaluation and understanding of physical and societal surroundings, exercise of critical judgment, creative communication of ideas, effective cooperation with others, and establishment of lifelong learning habits. These objectives are considered basic to all of the College's academic programs. The College views Christian faith as relevant to all facets of human knowledge and experience, an integrative principle of its entire curriculum. The community environment is also judged to be an integral part of a person's learning experience, enhancing personal growth and interpersonal skills.

The College operates on an early semester calendar with two 15-week semesters and a three-week Interim in January.

Student load for fall and spring semesters is 12 to 18 credits for full-time students and less than 12 credits for part-time students. Student load for Interim is a maximum of three credits (a Health and Wholeness course may also be taken). To enroll for more than 18 credits, a student must have a grade point average of at least 3.25 in each of the two preceding semesters, show in a petition the reason(s) for the overload, and receive the approval of the adviser and the Registrar. No overloads are permitted during Interim.

A minimum of 122 credits are required for graduation. Three Interims (three credits in each Interim) are required.

**BETHEL COLLEGE
(EXCLUDES SEMINARY)
STATISTICAL SUMMARY**

	Academic Year				
	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Fall Enrollment					
Undergraduate Program	1,796	1,878	1,983	2,039	2,149
Center for Continuing Studies (PACE Program)	<u>217</u>	<u>231</u>	<u>212</u>	<u>237</u>	<u>242</u>
Total Undergraduates	2,013	2,109	2,195	2,276	2,391
Graduate Programs	<u>88</u>	<u>99</u>	<u>153</u>	<u>198</u>	<u>221</u>
Total College and Graduate Enrollment	2,101	2,208	2,348	2,474	2,612
Matriculation Ratio (Enrolled/Accepted)	59.1%	55.3%	55.6%	51.8%	51.6%
Selectivity Ratio (Accepted/Applications)	80.5%	80.3%	74.7%	77.7%	79.3%
Average SAT Score	1,033	1,038	1,014	1,144	1,139
Average ACT Score	23.4	23.4	23.6	24.0	23.9
High School Class Rank Percentile	71.9	74.1	75.5	76.0	76.3
Faculty Full-Time Equivalent	112	119	122	125	n.a
% of Entering Class from Top 20% of High School Class	52.6	51.8	53.1	54.1	54.3
FTE Students/FTE Faculty	15.5	15.2	15.8	15.9	n.a
Tuition	\$11,050	\$11,700	\$12,260	\$13,180	\$13,840
Percentage Increase	n.a.	5.88%	4.79%	7.50%	5.01%

Student Enrollment (Excludes Seminary)

The College enrolled 2,612 students in the fall of 1997, the highest enrollment in the school's history. Fall 1997 enrollment exceeded the previous record set in 1996 by 138 students (5.6 percent). The fall 1997 undergraduate headcount enrollment in the day school increased to 2,149 students, up 110 students (5.4 percent) from 1996. This increase was mainly caused by improved retention of continuing students and an additional 40 post-secondary education option students compared with the previous year. As of the tenth day of class in the day school, there were 242 adult students enrolled in the PACE degree completion program. The total undergraduate enrollment of 2,391 is also the largest undergraduate enrollment in the College's history, exceeding the previous record set in 1996 by 115 students. The addition of 221 graduate students pushes the total College enrollment to 2,612.

Headcount enrollment by category compares with previous years as follows:

	<u>Fall 1993</u>	<u>Fall 1994</u>	<u>Fall 1995</u>	<u>Fall 1996</u>	<u>Fall 1997</u>
New Freshmen	425	481	547	544	589
Transfers	170	155	147	134	127
Re-Admits	<u>53</u>	<u>56</u>	<u>42</u>	<u>45</u>	<u>55</u>
Sub-Total New	648	692	736	723	771
Continuing	<u>1,148</u>	<u>1,186</u>	<u>1,247</u>	<u>1,316</u>	<u>1,378</u>
TOTAL	1,796	1,878	1,983	2,039	2,149
Center for Continuing Studies (PACE)	<u>217</u>	<u>231</u>	<u>212</u>	<u>237</u>	<u>242</u>
TOTAL UNDERGRADUATES	2,013	2,109	2,195	2,276	2,391
Graduate Programs	<u>88</u>	<u>99</u>	<u>153</u>	<u>198</u>	<u>221</u>
GRAND TOTAL	<u>2,101</u>	<u>2,208</u>	<u>2,348</u>	<u>2,474</u>	<u>2,612</u>

The College's 2,149 undergraduate students (headcount) enrolled for fall 1997 represent a wide range of national and international cultures and 30 religious denominations. Approximately 65% of the undergraduate students are from outside the Twin Cities metropolitan area, and 38% are from outside the state of Minnesota.

The mean high school rank was at the 76th percentile and the mean score on the ACT was 23.9.

Full-Time Equivalent ("FTE") enrollment for the past five years has been:

	<u>Fall 1993</u>	<u>Fall 1994</u>	<u>Fall 1995</u>	<u>Fall 1996</u>	<u>Fall 1997</u>
Undergraduate FTEs	1,948	2,040	2,139	2,218	2,331
Graduate FTEs	<u>88</u>	<u>99</u>	<u>153</u>	<u>198</u>	<u>221</u>
Total FTEs	2,036	2,139	2,292	2,416	2,552

Applications, Acceptances and Enrollments (Undergraduate Only)

	<u>Fall 1993</u>	<u>Fall 1994</u>	<u>Fall 1995</u>	<u>Fall 1996</u>	<u>Fall 1997</u>
Total Applicants	1,361	1,559	1,772	1,797	1,885
Total Accepted	1,096	1,252	1,324	1,397	1,464
Enrolled	648	692	736	723	771

Ratios

Applied to Accepted	80.5%	80.3%	74.7%	77.7%	79.3%
Applied to Enrolled	47.6	44.4	41.5	40.2	40.9
Accepted to Enrolled	59.1	55.3	55.6	51.8	51.6

Bethel Theological Seminary Enrollment by Degree Programs

Enrollment by Degree—Fall 1997

<u>Degree Program</u>	<u>St. Paul</u>	<u>Bethel West</u>	<u>Total</u>
Masters	435	153	588
Doctoral	<u>113</u>	<u>18</u>	<u>131</u>
Total	<u>548</u>	<u>171</u>	<u>719</u>

Enrollment History—Headcount

	<u>Fall 1993</u>	<u>Fall 1994</u>	<u>Fall 1995</u>	<u>Fall 1996</u>	<u>Fall 1997</u>
St. Paul	383	406	434	519	548
Bethel West	<u>131</u>	<u>147</u>	<u>134</u>	<u>149</u>	<u>171</u>
Total	514	553	568	668	719
Total FTE	414	434	457	559	579

Overview of Teaching Faculty^(a)

	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>
FT Teaching Faculty	111	110	110	113	121
PT Teaching Faculty	<u>79</u>	<u>97</u>	<u>100</u>	<u>100</u>	<u>107</u>
Total Teaching Faculty	190	206	210	213	228
Total FTE Faculty	112.2	111.8	118.9	122.0	124.6
Total Student Enrollment	1,719	1,796	1,978	1,983	2,039
Total FTE Students ^(b)	1,658	1,731	1,809	1,927	1,981
FT Fac/FT Student Ratio	1/14.4	1/15.3	1/16.0	1/16.5	1/15.9
FTE Fac/FTE Students	1/14.8	1/15.5	1/15.2	1/15.8	1/15.9

(a) *Excludes persons on sabbatical; includes one-year replacements and private music instructors.*

(b) *FTEs exclude Center for Continuing Studies.*

Retirement Plans

The College has a defined benefit pension plan which covers substantially all full-time salaried employees of the College and certain other eligible employees of BGC. Benefits are based on years of service and each employee's highest average compensation during five consecutive years of employment. The College's policy is to annually fund pension cost accrued. For further information concerning the plan's status as of May 31, 1997, see APPENDIX IV—Note 9.

The College also has a noncontributory defined contribution retirement plan which covers substantially all employees. The College contributes amounts, determined by management, based on participants' annual compensation level. Expense for this plan was \$646,769 and \$558,052 during fiscal years 1997 and 1996, respectively.

The College's plans are considered "church plans" under the Employee Retirement Income Security Act of 1974 (the "Act"). The plans are generally exempt from the provisions of the Act unless management makes an election to come within its regulations. Management currently does not intend to make that election.

Tuition and Fees (Excludes Seminary)

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

	<u>1993/94</u>	<u>1994/95</u>	<u>1995/96</u>	<u>1996/97</u>	<u>1997/98</u>
Undergraduate (full-time) per academic year					
Tuition and Fees	\$11,050	\$11,700	\$12,260	\$13,180	\$13,840
Room	2,220	2,350	2,490	2,640	2,800
Full Board	<u>1,780</u>	<u>1,870</u>	<u>1,970</u>	<u>2,050</u>	<u>2,150</u>
Total	\$15,050	\$15,920	\$16,720	\$17,870	\$18,790

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

Comparison of Undergraduate Charges for Minnesota Private Colleges (1997-1998)

	<u>Tuition</u>	<u>Room and Board</u>	<u>Total</u>
Carleton College	\$21,885	\$4,440	\$26,325
Macalester College	18,758	5,430	24,188
St. Olaf College	16,500	4,020	20,520
Gustavus Adolphus College	16,170	4,010	20,180
Mpls. College of Art & Design	15,808	4,075	19,883
College of St. Benedict	14,758	4,706	19,464
University of St. Thomas	14,660	4,769	19,429
St. John's University	14,758	4,574	19,332
Augsburg College	13,996	4,986	18,982
Bethel College	13,840	4,950	18,790
College of St. Catherine	14,258	4,430	18,688
College of St. Scholastica	13,995	3,957	17,952
St. Mary's University	12,495	4,120	16,615
Concordia University (St. Paul)	11,980	4,500	16,480
Concordia College (Moorhead)	12,145	3,525	15,670
Average	\$15,054	\$4,456	\$19,509

Source: Minnesota Private College Council.

Financial Aid

Approximately 82% of the full-time students enrolled receive scholarships or grants from the College. The following table is a five-year summary of financial aid from College and non-College sources and these figures include both need-based and merit-based financial aid.

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>Estimated 1997-98</u>
Unrestricted Institutional					
Scholarships and Grants	\$ 3,375,346	\$ 3,808,216	\$ 4,632,511	\$ 5,445,777	\$ 6,210,000
Endowed and Restricted					
Gift Institutional Scholarships	301,707	313,319	344,831	358,183	435,000
Federal Pell & SEO Grants	1,003,419	996,359	1,009,195	1,016,890	1,105,000
Minnesota State Grants	1,984,089	1,911,337	2,049,829	2,091,485	2,330,000
Other Scholarships and Grants	<u>518,772</u>	<u>539,455</u>	<u>628,666</u>	<u>763,267</u>	<u>703,000</u>
Total Scholarships and Grants	\$ 7,183,333	\$ 7,568,686	\$ 8,665,032	\$ 9,675,602	\$10,783,000
Student Loans	5,261,791	6,049,333	6,393,094	6,577,650	7,500,000
Student Work	<u>966,061</u>	<u>1,046,904</u>	<u>1,128,084</u>	<u>1,263,975</u>	<u>1,350,000</u>
Total Financial Aid	\$13,411,185	\$14,664,923	\$16,186,210	\$17,517,227	\$19,633,000

Fundraising

Over the past three fiscal years, the College has averaged annual contributions of approximately \$4.5 million, and through March 1998 more than \$5 million in contributions have been recorded for the current fiscal year. Alumni giving increased by more than six percent in the past fiscal year. In addition, the College has successfully completed fundraising campaigns for specific purposes. The most recent campaign was for the Community Life Center, completed in 1995. It was the most ambitious building project the College had undertaken to date. The CLC required \$12.5 million to construct and over \$9 million was funded with private gifts raised through the 5-year campaign.

The College has launched a new \$48.5 million comprehensive campaign called the New Century Campaign. Included in this fundraising campaign are resources for a new student life building and various related projects (\$22 million), endowment (\$10 million), and annual fund (\$16.5 million).

In 1997, the College launched the quiet "leadership" phase of the \$7 million portion of this campaign for construction of the new student life building. The results to date on this campaign and the other categories of the campaign are as follows:

	<u>Goal</u>	<u>To Date</u>
Student Life Building (and related projects)	\$22.0 million	\$2.8 million
Endowment*	\$10.0 million	\$1.2 million
Annual Fund	\$16.5 million	\$1.8 million

* Endowment includes transfers from matured trusts.

The quiet phase of the campaign was officially launched in the Fall of 1997 and the entire campaign is scheduled to conclude in 2002-03.

The College has not pledged the receipt of any gifts to payment of the Bonds.

The Bethel Foundation

The Bethel Foundation (the "Foundation") was established in 1971 to manage the College's endowment and to provide investment management and trust services to individuals and families with ties to the College. The Foundation's services include: investment management; retirement income management; trust management; charitable gift planning; and asset management (real estate, businesses, farms, stocks, and bonds). Over 100 individuals and families have entrusted the Foundation with the investment and management of all or portions of their assets. The Foundation allows individuals the chance to plan ultimate distribution of those assets to other individuals and to the College, their church or other organizations. The Foundation seeks to maintain the flexibility individuals need to meet a diversity of circumstances and needs. The Foundation, as of the end of the prior fiscal year, April 30, 1997, had assets under management of \$37,206,086. **Revenues and assets of the Foundation are not available for payment of the Bonds.** The Foundation has guaranteed the College's obligations under the Reimbursement Agreement. See "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT – The Reimbursement Agreement."

Gifts and Grants

Beginning with fiscal year 1996, the College is reporting gifts and grants in accordance with FASB 116. Gifts are recorded as pledges are received.

Listed below is data for the two years in which the College, excluding the Foundation, has reported gifts and grants in accord with FASB 116:

<u>Fiscal Year</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
1996	\$3,775,739	\$682,229	\$579,217	\$5,037,185
1997	3,809,216	554,058	336,849	4,700,123

Endowment Funds

Endowment funds and deferred gift funds, excluding the Foundation, listed below are shown at market value.

<u>Fiscal Year</u>	<u>Endowment Funds</u>	<u>Gift Annuity Funds</u>	<u>Total Funds</u>
1993	\$ 9,192,656	\$ 783,808	\$ 9,976,464
1994	9,323,421	1,382,574	10,705,995
1995	10,118,352	1,365,889	11,484,241
1996	11,599,997	1,384,514	12,984,511
1997	12,824,246	1,383,005	14,207,251

As of March 31, 1998, the market value of the College's endowment was \$15.6 million.

Presentation of Financial Statements

For the year ended May 31, 1996, the College adopted two new Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board. Together the new statements significantly alter the appearance and content of private college and university financial statements. These changes in presentation make it difficult to draw comparisons between the financial statement for the fiscal years ended prior to May 31, 1996, and the financial statements for 1996 and thereafter.

SFAS #116, *Accounting for Contributions Received and Contributions Made*, has two significant aspects. The first is a requirement to record certain specifically verifiable donor promises as revenues in the period the promises are received, and to reflect the promises as receivables of the College. This contrasts with the previous practice of recording contributions when the actual cash or property was received.

The second aspect of SFAS #116 is the requirement to record contributions into one of three classes of net assets: permanently restricted, temporarily restricted or unrestricted, based on the existence or absence of donor imposed restrictions.

SFAS #117, *Financial Statements for Not-for-Profit Organizations*, is intended to make financial statements of not-for-profit organizations more understandable to users of those statements, and requires that the financial statements of all not-for-profit organizations include a statement of position, a statement of activities and a statement of cash flows. Such financial statements focus on the College as a whole and present balances and transactions according to the existence or absence of donor imposed restrictions, and again classify fund balances and transactions into three classes of net assets: permanently restricted, temporarily restricted or unrestricted.

In addition, under these provisions, the College is required to combine within its financial statements the net assets of entities which meet certain control considerations. Accordingly, the net assets of the Foundation are included in the financial statement of the College, beginning with the fiscal year ended May 31, 1996. However, the revenues and assets of the Foundation are not pledged to pay debt service on the Bonds.

The College adopted SFAS #116 and SFAS #117 effective June 1, 1995, and retroactively restated its beginning net assets for the year ended May 31, 1996 to conform to the new standards.

Appendix VI sets forth the audited financial statements of the College (including the Foundation) for the fiscal year ended May 31, 1997. The financial statement for the fiscal year ended May 31, 1997 was prepared in accordance with SFAS No. 116 and SFAS No. 117. The supplemental information on pages VI-21 to VI-23 reflects the financial data of the College without the Foundation. The Foundation is not obligated to pay debt service on the Bonds.

Statement of Financial Activity for Fiscal Years 1993 through 1997

The table on page I-14 sets forth the College's statements of current unrestricted revenues, expenditures and other changes for the College for the Fiscal Years ended May 31, 1993 through 1995 which were maintained and presented on the fund accounting system. **The table on page I-15 sets forth the College's statements of unrestricted activities for the Fiscal Years ended May 31, 1996 and 1997, excluding the Foundation.**

BETHEL COLLEGE & SEMINARY

STATEMENT OF UNRESTRICTED CURRENT FUND REVENUES, EXPENDITURES AND OTHER CHANGES For the Years Ended May 31,

	1993	1994	1995	1996	1997
REVENUE:					
Tuition and instructional fees	\$ 20,027,346	\$ 21,845,682	\$ 24,243,941		
Baptist General Conference	391,144	378,466	385,576	See	
Contributions, gifts and bequests	1,297,829	1,144,258	1,574,708		
Auxiliary services	6,616,428	7,347,913	8,247,951	"Statement of	
Endowment income	150,181	42,724	50,956		
Bethel College & Seminary				Unrestricted Activities and	
Foundation	625,000	795,363	35,542		
Other sources, primarily student charges	575,477	618,113	617,152	Changes in Net Assets"	
Investment income, net	136,456	146,882	143,907	Columns	
Total Revenues	29,819,861	32,319,401	35,299,733	on	
EXPENDITURES AND MANDATORY TRANSFERS:				Page I-15	
Instructional	7,987,054	9,294,029	9,784,611		
General operating:					
Academic support	2,927,818	2,987,720	3,330,194		
Institutional support	6,071,566	6,239,094	6,863,139		
Public service	229,217	235,368	254,415		
Student services	1,748,566	1,828,693	1,979,788		
Plant operation and maintenance	1,494,596	1,731,481	2,065,380		
Auxiliary services	5,130,961	5,540,592	6,171,842		
Student aid	3,144,558	3,617,199	4,065,701		
Other		13,259	1,403		
Interest	256,544	171,161	341,992		
Mandatory transfers:					
Net reduction in long-term debt	885,304	691,220	466,362		
Total Expenditures and Mandatory Transfers	29,876,184	32,349,816	35,324,827		
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):					
Nonmandatory transfers among funds	88,291	192,120	91,753		
NET INCREASE IN FUND BALANCE	\$ 31,968	\$ 161,705	\$ 66,659		

Source: Audited financial statements of the College.

BETHEL COLLEGE & SEMINARY (1)

STATEMENT OF UNRESTRICTED ACTIVITIES AND CHANGES IN NET ASSETS For the Years Ended May 31,

	1993	1994	1995	1996	1997
Operating Revenues and Net Assets					
Released from Restrictions:					
Tuition and instructional fees, net of internally funded aid				\$ 21,787,281	\$ 23,911,761
Auxiliary services				9,129,004	9,436,044
Contributions, gifts and bequests				2,783,548	2,828,693
Grants, primarily federal financial aid				691,079	691,502
Endowment income				319,555	387,771
Other sources, primarily student charges			"Statement of Unrestricted	2,376,597	1,991,243
Investment income, net				404,605	217,042
Baptist General Conference gift			Current Fund Revenues,	301,112	289,021
Net assets released from restrictions				606,814	758,713
			Expenditures and		
			Other Changes"	38,399,595	40,511,790
Total Operating Revenues and Net Assets released from Restrictions					
Expenses:			Columns		
Instructional			on	12,708,920	14,058,722
General operating:					
Academic support			Page I-14	4,248,144	4,438,492
Institutional support				7,568,536	8,476,304
Public service				316,635	333,731
Student services				2,906,885	3,019,778
Auxiliary services				8,731,834	9,322,193
Government funded grant aid to students				691,079	691,502
Total Expenses				37,172,033	40,340,722
Change in Net Assets Before Excess of Endowment Earnings over Spending Rate				1,227,562	171,068
Excess of Endowment Earnings over Spending Rate				836,853	694,298
Change in Net Assets				2,064,415	865,366
Net Assets at Beginning of Year (Restated)				26,311,874	29,243,938
Net Assets at End of Year				\$ 28,376,289	\$ 30,109,304

(1) This schedule includes activities related to the College and excludes activities related to the Foundation.

Source: Audited financial statements of the College.

The audited financial statements for the Fiscal Year ended May 31, 1997 are included as Appendix VI.

Long-Term Debt

The College has the following long-term debt outstanding as of May 31, 1998.

- (a) \$2,360,000 Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds, Series W, dated August 1, 1978; principal due April 1, 1999 through 2001. The Series W Bonds financed two residence halls. \$750,000 is currently outstanding. The Series W Bonds are being refinanced by the Series Four-S Bonds.
- (b) Multiple Advance Converting Term Note, borrowed July 1, 1995, in the original amount of \$3,000,000 to finance the Community Life Center; 8.02% interest payable monthly and principal payable semi-annually through January 1, 2002. \$1,714,279 is outstanding.
- (c) Various capital leases for computer equipment, science and office equipment, and furniture, payable at various interest rates with final installment due March 2008. \$979,314 is currently outstanding.
- (d) \$5,000,000 Senior Secured Notes financed at 8.6% due in annual installments with a \$950,000 balloon payment due June 15, 2005. \$3,995,000 is currently outstanding. The Notes financed additions to the Nelson Dormitory and Robertson Building. The Notes are being refinanced by the Series Four-S Bonds.

As of May 31, 1998, the total long-term debt outstanding adjusted to include the Series Four-S Bonds and exclude the Series W Bonds and the Senior Secured Notes, is \$25,558,593.

PROPOSED FORM OF LEGAL OPINION

FAEGRE & BENSON LLP

2200 NORWEST CENTER, 90 SOUTH SEVENTH STREET
MINNEAPOLIS, MINNESOTA 55402-3901

TELEPHONE 612-336-3000
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§ _____

Minnesota Higher Education Facilities Authority
Adjustable Demand Revenue Bonds, Series Four-S
(Bethel College & Seminary)

We have acted as bond counsel in connection with the issuance by the Minnesota Higher Education Facilities Authority (the "Authority") of its fully registered (initially book-entry) Adjustable Demand Revenue Bonds, Series Four-S (Bethel College & Seminary), in the aggregate principal amount of \$ _____ (the "Bonds"), dated June __, 1998, and maturing on April 1, 2028.

The Bonds are issued for the purpose of funding a loan from the Authority to the Bethel College & Seminary, a Minnesota nonprofit corporation and institution of higher education located in the City of Arden Hills, Minnesota (the "College"), in order to finance refunding of certain bonds and improvement of existing facilities and acquisition, construction and installation of new facilities, all owned or to be owned and operated by the College and located on its main campus in Arden Hills, Minnesota. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College and the Trust Indenture (the "Indenture") between the Authority and Norwest Bank Minnesota, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee") each dated as of June 1, 1998, one or more opinions of Eastlund, Solstad & Hutchinson, Ltd., as counsel to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officials of the College without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of Eastlund, Solstad & Hutchinson, Ltd., as to the Loan Agreement having been duly authorized and executed and being binding upon the College and as to the corporate organization, tax-exempt status, good standing and powers of the College, and as to title to the Project Site (as defined in the Loan Agreement and Indenture), without examining the records of the College or original title records or abstracts of title. We have also relied upon the opinions of Chapman & Cutler, counsel to Allied Irish Banks, p.l.c. (the "Bank") acting through its New York Branch and of Bryan Sheridan, a Solicitor of the Courts of Ireland and Group Law Agent of the Bank, as to the Letter of Credit having been duly executed and delivered and being a valid and binding obligation of the Bank.

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

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

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

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

3. The Bonds are valid and binding limited obligations of the Authority, payable solely from the proceeds of periodic draws under the Letter of Credit issued by the Bank and are further secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payments held by the Trustee, as assignee, under the Loan Agreement.

4. Assuming compliance with the covenants in the Loan Agreement and Indenture, the interest on the Bonds is not includable in gross income for purposes of Federal income taxation or in taxable income of individuals, estates and trusts for purposes of Minnesota income taxation under present laws and rulings. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in "adjusted current earnings" for purposes of the computation of "alternative minimum taxable income" of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Bonds are "private activity bonds" within the meaning of Section 141(a) and "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code. Ownership of the Bonds will result in disallowance of a deduction for a portion of the interest expense of a "financial institution" under Section 265(b) of the Code. Reference is made to the caption "Tax Exemption" in the Official Statement for a description of the effect of certain provisions of the Code relating to,

among other things, the branch profits tax imposed on foreign corporations, losses incurred by property and casualty insurance companies, Subchapter C earnings of S corporations, net investment income of foreign corporations, and the taxability of Social Security and railroad retirement benefits.

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

Dated at Minneapolis, Minnesota, June ___, 1998.

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CONTINUING DISCLOSURE AGREEMENT**ANNUAL REPORT INFORMATION
TO BE PROVIDED AS CONTINUING DISCLOSURE**

The Annual Report Date will be 270 days after each fiscal year end, commencing with the fiscal year ended May 31, 1998. The Annual Report will contain:

1. Audited combined financial statements for the most recent complete fiscal year prepared in accordance with generally accepted accounting principles.
2. An update of the material financial and material operating data of the same general nature as that contained under the following captions in Appendix I to the Final Official Statement:
 - Bethel College (Excludes Seminary) Statistical Summary
 - Student Enrollment (Excludes Seminary)
 - Applications, Acceptances And Enrollments (Undergraduate Only)
 - Bethel Theological Seminary Enrollment by Degree Program
 - Overview of Teaching Faculty
 - Tuition and Fees (Excludes Seminary)
 - Financial Aid
 - Gifts and Grants
 - Endowment Funds
 - Statement of Financial Activity for Fiscal Years 1993 through 1997
 - Long-Term Debt

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DEFINITIONS OF CERTAIN TERMS

"Account" or "Accounts" means one or more of the Accounts or Funds created under the Indenture.

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

"Adjustable Long Period" means any Adjustment Period other than a Short Period. There shall be no Demand Dates during an Adjustable Long Period.

"Adjustment Date" means with respect to each Bond, (i) the date or dates specified in the Official Statement, (ii) each LOC Termination Tender Date and (iii) any other date so designated by the Remarketing Agent in the manner set forth in the Indenture, including any Substitute Adjustment Date. Each Adjustment Date is also a Rate Change Date.

"Adjustment Period" means with respect to each Bond, the period beginning on the date of the initial authentication and delivery of such Bond and ending at 12:00 Midnight, Chicago time, on the applicable date specified in the Official Statement (unless the interest rate on such Bond has been converted to the Fixed Interest Rate or a Substitute Adjustment Date has occurred) and, thereafter, each period beginning on an Adjustment Date for such Bond and ending on the day before the next Adjustment Date for such Bond. No Adjustment Period shall be for a duration of less than 20 days. Unless and until the Remarketing Agent affirmatively designates a different Adjustment Period and all other conditions relating to such designation are satisfied as specified in the Indenture, if the preceding Adjustment Period for such Bond was a Weekly Mode Period, a Monthly Mode Period or an Adjustable Long Period, such period shall remain in effect.

"Alternate Letter of Credit" means, after expiration, termination or cancellation of the Letter of Credit with respect to any Bond, one or more letters of credit or other facilities (other than the Letter of Credit) of any person, including any confirming letter of credit, line of credit, insurance policy, surety bond, bond purchase agreement, guaranty or other instrument, providing credit and/or liquidity support for (i) the principal of (whether upon maturity, redemption or acceleration) and interest on the Bonds when due and/or (ii) the Tender Price with respect to such Bonds tendered or required to be tendered for purchase pursuant to the Indenture. No Alternate Letter of Credit may have a stated expiration date of less than the lesser of (i) 12 months from the date of issuance or delivery thereof or (ii) the maturity of the Bonds.

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

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

"Authorized Investments" means investments authorized for moneys in the accounts created under the Indenture and described in Section 8.05 thereof.

"Bank" means (i) Allied Irish Banks, p.l.c., acting through its New York Branch, while the Letter of Credit is in effect or any obligations remain outstanding under the Reimbursement Agreement, and its successors and (ii) at any time that an Alternate Letter of Credit is in effect, the issuer or issuers (acting through an agent) of such Alternate Letter of Credit, and its successors.

"Bank Bond" means any Bond purchased upon an optional or mandatory tender for purchase with a draw on the Letter of Credit or Alternate Letter of Credit and delivered to the Bank or, if the Book-Entry System is in effect, the beneficial ownership of which is registered in the name of the Bank, or such agent or nominee as the Bank shall direct, as collateral security in favor of the Bank pursuant to the Reimbursement Agreement, until such time as such Bond is remarketed pursuant to the Remarketing Agreement or the Bank is reimbursed by the College for such draw on the Letter of Credit or Alternate Letter of Credit pursuant to the Reimbursement Agreement.

"Board of Trustees" means the Board of Trustees of the College, and includes any Executive Committee or any other committee authorized to act for such board.

"Bond and Interest Sinking Fund Account" means the Bond and Interest Sinking Fund Account established under the Indenture into which the Authority and Trustee shall deposit certain moneys for payment of principal of and interest on the Bonds.

"Bond Resolution" means the Series Resolution of the Authority adopted on May 20, 1998, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

"Bonds" means the Minnesota Higher Education Facilities Authority Adjustable Demand Revenue Bonds, Series Four-S (Bethel College & Seminary).

"Building Equipment" means those items of goods, equipment, furnishings, furniture, inventory, machinery or other tangible personal property now or hereafter owned by the College and located on the Project Site acquired with funds other than the proceeds of the Series W Bonds, the Refinanced Debt or the Bonds.

"Business Day" means any day other than (i) a Saturday, Sunday, (ii) a day on which commercial banks in New York, New York or Chicago, Illinois or the city or cities in which are located the principal corporate trust office of the Trustee and the office of the Bank at which demands for payment under the Letter of Credit or any Alternate Letter of Credit are to be presented, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

"College" means Bethel College & Seminary, a Minnesota nonprofit corporation, its successors and assigns, as owner and operator of the Institution.

"College Account" means the account so designated which is created and established in the Purchase Fund pursuant to the Indenture.

"Construction Account" means the Construction Account established under the Indenture for the deposit of certain Bond proceeds and other funds to be used for the payment of Project Costs.

"Conversion Date" means the date upon which any Bond begins to bear interest at the Fixed Interest Rate as provided in the Indenture.

"Default" or "event of default" means any of those events defined as events of default in the Indenture, Loan Agreement or the Reimbursement Agreement, as the context requires, which has not been cured.

"Demand Date" means a date upon which any Owner or Beneficial Owner demands to have its Bonds purchased in accordance with the Indenture, which, during a Weekly Mode Period or a Monthly Mode Period and on the Adjustment Date immediately succeeding such Weekly or Monthly Mode Period (if the Adjustment Period then commencing is either a Weekly Mode

Period or a Monthly Mode Period, as the case may be), will be the last Business Day occurring on or before the seventh day after the effective date of receipt of irrevocable written notice or irrevocable telephone notice (subsequently confirmed in writing) by the Tender Agent. There shall be no Demand Dates during an Adjustable Long Period or after conversion to a Fixed Interest Rate.

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

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

"Eligible Moneys" means (a) proceeds of the Bonds, (b) moneys drawn under the Letter of Credit or an Alternate Letter of Credit which are either (i) applied directly to the payment of the principal of, or interest on the Bonds when due or to the payment of the Tender Price of the Bonds when due, or (ii) if not so applied, are held in a separate and segregated subaccount under the Indenture until so applied, (c) moneys which have been on deposit with the Trustee as agent and bailee for the Bondholders for 123 days during which and prior to which no petition in bankruptcy is pending or has been filed by or against the College or the Authority under the United States Bankruptcy Code, (d) proceeds from the remarketing of Bonds pursuant to the Remarketing Agreement (or any underwriting or purchase agreement permitted by the College or the Authority, (e) moneys which are derived from any other source if the Trustee has received an unqualified opinion of recognized bankruptcy counsel acceptable to the Trustee and to each Rating Agency then maintaining a rating of the Bonds to the effect that payment of such amounts to Bondholders would not constitute avoidable preferences pursuant to the provisions of the United States Bankruptcy Code, and (f) investment income derived from the investment of the foregoing types of moneys; provided that such proceeds, moneys or income shall not be deemed to be Eligible Moneys or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, moneys or income from being applied to make such payment.

"Event of Default" means an Event of Default described in the Indenture, Loan Agreement or the Reimbursement Agreement, as the context requires, which has not been cured.

"Favorable Opinion" means an opinion of Bond Counsel delivered to the Authority and the Trustee, to the effect that a specific action proposed to be taken is authorized by the Indenture and will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

"Financial Journal" means Northwestern Financial Review, The Bond Buyer, Finance & Commerce, or any other newspaper or journal devoted to financial news published in the English language in Minneapolis or St. Paul, Minnesota, or in the City of New York, New York.

"Fiscal Year" means the College's fiscal year, and shall initially mean the 12-month period commencing on June 1 in each year.

"Fixed Interest Rate" means the fixed annual interest rate on any Bond established in accordance with the Indenture.

"Fixed Rate Period" means the remaining term to maturity or earlier mandatory redemption of any Bond after conversion of the interest rate on such Bond to the Fixed Interest Rate.

"General Bond Reserve Account" means the General Bond Reserve Account created pursuant to the General Bond Resolution.

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

"Government Securities" means (i) direct non-callable obligations of the United States of America and (ii) direct non-callable, non-prepayable obligations as to which the timely payment of principal and interest is fully guaranteed by the United States of America.

"Holder," "Bondholder" or "Owner" means the person in whose name a Bond shall be registered, except if any Bond is in Book-Entry Form, with respect to any consent or approval of a Holder of Bonds of such Series, the terms shall mean the Beneficial Owner.

"Immediate Notice" means notice by telephone, telex, electronic mail or telecopier to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail postage prepaid.

"Indenture" means the Trust Indenture between the Authority and the Trustee, dated as of June 1, 1998, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

"Institution" means the Bethel College & Seminary, a Minnesota institution of higher education headquartered in the City of Arden Hills, Minnesota owned and operated by the College.

"Interest Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account pursuant to the Indenture

"Interest Payment Date" means (i) each Adjustment Date; (ii) each Mandatory Tender Date; (iii) for Bonds in a Weekly Mode Period or Monthly Mode Period, the first Business Day of each calendar month; (iv) for Bonds in an Adjustable Long Period, each Rate Change Date and each April 1 and October 1; (v) after the Conversion Date for any Bond, each April 1 and October 1 with respect to such Bond; or (vi) each optional or mandatory redemption date.

"Internal Revenue Code" means the Internal Revenue Code of 1986 and amendments thereto.

"Issue" means the Bonds.

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

"Letter of Credit" means that certain Irrevocable Direct Pay Letter of Credit to be dated the date of initial delivery of the Bonds, from the Bank in favor of the Trustee, issued at the request and for the account of the College, as the same may from time to time be transferred, assigned, reissued, extended or reduced in stated amount in accordance with its terms and the terms of the Reimbursement Agreement.

"Loan Agreement" means the Loan Agreement between the Authority and the College dated June 1, 1998, as from time to time amended or supplemented, relating to the Bonds.

"LOC Interest Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account pursuant to the Indenture.

"LOC Principal Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account pursuant to the Indenture.

"LOC Purchase Account" means the account so designated which is created and established in the Purchase Fund pursuant to the Indenture.

"LOC Termination Tender Date" means the date five days prior to the date on which the Letter of Credit or Alternate Letter of Credit then in effect (including any extensions thereof) with respect to the Bonds shall (a) be cancelled or allowed to terminate or expire and be replaced by an Alternate Letter of Credit with respect to the Bonds, unless the Trustee shall have received, not less than 45 days prior to the cancellation, termination or expiration date of the Letter of Credit or Alternate Letter of Credit then in effect which is being replaced, a written statement from each Rating Agency then rating the Bonds to the effect that such replacement of the Letter of Credit or Alternate Letter of Credit then in effect shall not result in the rating or ratings by such Rating Agency of the Bonds being lowered or withdrawn or (b) be cancelled or allowed to terminate or expire without being replaced by any Alternate Letter of Credit with respect to the Bonds, or be reduced in stated amount so as to no longer secure outstanding Bonds. The date of any declaration of an "event of default" under the Indenture or the date of payment of the principal and accrued interest on the Bonds shall not be an LOC Termination Tender Date.

"Mandatory Tender Date" means each date on which Owners and Beneficial Owners are required to tender their Bonds for purchase as described in "THE BONDS—Mandatory Tender."

"Mode," with respect to a Weekly Mode Period, Monthly Mode Period or Adjustable Long Period, means the method of determining interest rates, Interest Payment Dates, Rate Determination Dates and Rate Change Dates within such Adjustment Period.

"Monthly Mode Period" means any Adjustment Period during which Rate Determination Dates occur on the Rate Change Date in such calendar month specified by the Remarketing Agent (and on any other Business Day as set forth in the Indenture), Interest Payment Dates occur on the first Business Day of each calendar month and an Owner or Beneficial Owner of Bonds in such Mode may cause such Bonds to be purchased at the Tender Price thereof on the last Business Day occurring on or before the seventh day after the effective date of receipt of irrevocable written notice or irrevocable telephonic notice (subsequently confirmed in writing) by the Tender Agent.

"Non-LOC Interest Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account.

"Non-LOC Principal Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account.

"Paying Agent" means the Trustee serving as Paying Agent.

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

"Principal Account" means the account so designated which is created and established in the Bond and Interest Sinking Fund Account.

"Project" means the Project described in this Official Statement.

"Project Buildings" mean the facilities acquired, improved or constructed with proceeds of the Bonds, including investment earnings, and any other building acquired, constructed or improved with proceeds of the Series W Bonds or the Refinanced Debt, including investment earnings.

"Project Costs" means costs properly payable from the Construction Account for improvement, acquisition, construction, and equipping of the Project.

"Project Equipment" means all fixtures, equipment, and other personal property of a capital nature acquired with proceeds of the Series W Bonds, the Refinanced Debt or the Bonds, including investment earnings.

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

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

"Purchase Fund" means the Purchase Fund which is established by the Trustee with the Tender Agent pursuant to the Indenture.

"Rate Change Date" means the date the interest rate on a Bond changes; specifically (i) during any Weekly Mode Period, the day of the week (initially, Wednesday) designated as such by the Remarketing Agent from time to time, (ii) during any Monthly Mode Period, the day of the month (initially, the first Business Day of the month) designated as such by the Remarketing Agent from time to time (and any other Business Day as set forth in the Indenture), (iii) a Demand Date during a Monthly Mode Period on which any Bonds are actually delivered in accordance with the requirements of the Indenture, (iv) during any Adjustable Long Period, the date(s) specified in the notice delivered to the Trustee and (v) each Adjustment Date.

"Rate Determination Date" means the date the interest rate on a Bond is determined; specifically (i) during any Weekly Mode Period, the day of the week (initially, Wednesday) designated as such by the Remarketing Agent from time to time, before the Rate Change Date for the related Rate Period (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day), (ii) during any Monthly Mode Period, the day of the month (initially, the first Business Day of the month) designated as such by the Remarketing Agent from time to time (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately succeeding Business Day), a Demand Date during a Monthly Mode Period on which any Bonds are actually delivered in accordance with the requirements of the Indenture, and on any other Business Day as set forth in the Indenture, and (iii) during any Adjustable Long Period, the date(s) specified in the notice delivered to the Trustee.

"Rate Period" means each period specified by the Remarketing Agent, commencing on a Rate Change Date to and including the day before the next Rate Change Date.

"Record Date" means with respect to any Interest Payment Date, the fifteenth day before such Interest Payment Date, or, if such day shall not be a Business Day, the immediately preceding Business Day, except that during a Short Period, "Record Date" means the Business Day before such Interest Payment Date.

"Reference Rate" means the interest rate per annum announced from time to time by the Trustee, as its prime or reference rate.

"Refinanced Debt" means the Senior Secured Note in the original principal amount of \$5,000,000 and due June 15, 2005 which was originally incurred to finance an addition to Nelson Dormitory and a classroom and office addition to the Robertson Building.

"Refinanced Project" means the facilities acquired, constructed, improved, furnished or equipped by the Refinanced Debt.

"Refinancing Account" means the Refinancing Account created under the Indenture, into which will be deposited certain Bond proceeds to pay the Refinanced Debt.

"Reimbursement Agreement" means (i) the Letter of Credit and Reimbursement Agreement dated as of June 1, 1998, between the College and the Bank relating to the obligation of the College to reimburse the Bank for moneys drawn on the Letter of Credit, and (ii) with respect to any Alternate Letter of Credit, the agreement or instrument between the College and the issuer or issuers of such Alternate Letter of Credit which governs the rights, duties and obligations of such parties, in each case as each such agreement may be amended or supplemented.

"Remarketing Account" means the account so designated which is created and established in the Purchase Fund pursuant to the Indenture.

"Remarketing Agent" means William Blair & Company, L.L.C., or any successor or successors appointed and serving in such capacity pursuant to the Indenture.

"Remarketing Agreement" means the Remarketing Agreement dated June 1, 1998 between the College and the Remarketing Agent, including any amendments thereto; and any other written agreement among the Authority and/or the College and any Remarketing Agent describing the responsibilities of the Remarketing Agent.

"Reserve Account" means the Reserve Account established under the Indenture.

"Series Four-S Bonds" means the Minnesota Higher Education Facilities Authority Adjustable Demand Revenue Bonds, Series Four-S (Bethel College & Seminary).

"Series W Bond Account" means the Bond and Interest Sinking Fund Account created under the Series W Indenture.

"Series W Bond Documents" means the Series W Lease and the Series W Indenture.

"Series W Bonds" means the Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series W (Bethel College), dated August 1, 1978 in the original principal amount of \$2,360,000.

"Series W Indenture" means the Mortgage Trust Indenture dated as of July 1, 1978 between the Authority and the Series W Trustee relating to the Series W Bonds.

"Series W Lease" means the Lease dated as of July 1, 1978 between the Authority and the Baptist General Conference relating to the Series W Bonds.

"Series W Project" means the acquisition, construction, furnishing and equipping of the two housing residences which were originally financed by the Series W Bonds on the main campus of the College in Arden Hills, Minnesota.

"Series W Repair and Replacement Account" means the Repair and Replacement Account created under the Series W Indenture.

"Series W Reserve Account" means the Reserve Account created under the Series W Indenture.

"Series W Trustee" means Norwest Bank Minnesota, National Association (formerly Northwestern National Bank of Minneapolis), or any successor Trustee under the Series W Indenture.

"Short Period" means a Weekly Mode Period or a Monthly Mode Period.

"Substitute Adjustment Date" means any date designated by the Remarketing Agent in accordance with the Indenture.

"Tender Agent" means the Tender Agent appointed in accordance with the Indenture (initially the Trustee), and any successor Tender Agent appointed thereunder.

"Tender Date" means a Demand Date or a Mandatory Tender Date.

"Tender Price" means the applicable purchase price for the Series Four-S Bonds on a Demand Date or a Mandatory Tender Date (including any premium payable upon mandatory tender).

"Trust Estate" means the interest of the Authority in the Loan Agreement assigned under Granting Clause I of the Indenture; the revenues, moneys, investments, contract rights, general intangibles and instruments and proceeds and products and accessions thereof as set forth in Granting Clause II of the Indenture; and additional property held by the Trustee pursuant to Granting Clause III of the Indenture.

"Trustee" means the trustee at the time serving as such under the Indenture.

"Undelivered Bond" means (i) Bonds the Owners or Beneficial Owners of which have demanded purchase thereof pursuant to the Indenture or any Bonds which are required to be tendered to the Tender Agent for purchase for which sufficient moneys are on deposit with the Trustee or the Tender Agent to pay the applicable Tender Price thereof, as provided in the Indenture, but which Bonds have not been presented to the Tender Agent on the related Demand Date or Mandatory Tender Date as required and (ii) Bonds (other than Bonds described in (i) above) which are not presented to the Trustee for payment when the principal thereof and premium, if any, and interest thereon shall have become due, either at maturity or on the date fixed for redemption or otherwise, and for which sufficient moneys are on deposit with the Trustee to pay such principal, premium, if any, and interest thereon in accordance with the Indenture.

"Underwriter" means William Blair & Company, L.L.C., a limited liability company, as original purchaser of the Bonds.

"Weekly Mode Period" means any Adjustment Period during which Rate Determination Dates occur on the Rate Change Date in such calendar week specified by the Remarketing Agent, Interest Payment Dates occur on the first Business Day of each calendar month and an Owner of Bonds in such Mode may cause such Bonds to be purchased at the Tender Price thereof on the last Business Day occurring on or before the seventh day after the effective date of receipt of irrevocable written notice or irrevocable telephonic notice (subsequently confirmed in writing) by the Tender Agent.

SUMMARY OF DOCUMENTS**THE LOAN AGREEMENT**

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

Construction of Project

The College represents that the acquisition, construction and installation of the Project are to be substantially completed by no later than December 31, 1999 subject only to "force majeure," as provided in the Loan Agreement. The College may apply to the Authority at any time to delete from the Project any building, system or equipment proposed to be acquired, constructed or improved as part of the Project, or to add any building, system or equipment to the Project, or both, and upon approval of the Authority, the description of the Project shall accordingly be amended by a supplement to the Loan Agreement executed by the Authority and the College, a copy of which shall be furnished to the Trustee, provided that no such amendment of the description of the Project shall be approved if the Project, as so amended, will not constitute an authorized "project" under the Act or will adversely affect the tax exempt status of interest on the Bonds and an opinion of counsel to such effects is furnished. The College agrees that it has previously paid or will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs exceed the proceeds of the Bonds in the Construction Account.

Loan Repayments

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

- (a) Into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest on the Bonds on the next succeeding Interest Payment Date and the amount payable as principal on the Bonds on the next succeeding principal payment date; and
- (b) Forthwith, into the Bond and Interest Sinking Fund Account, as required, the amount of any deficiency in the event the funds on deposit in the Bond and Interest Sinking Fund Account are for any reason insufficient to pay principal, premium (if any) and interest on the Bonds then due (whether at maturity, or by redemption or acceleration of maturity in event of default); and
- (c) on and after each Conversion Date, into the Reserve Account forthwith any amounts which may then be required to be deposited therein by Section 8.02 of the Indenture.

Without limiting the generality of the foregoing covenant to make payments, the College agrees to make or cause to be made payments to the Trustee (or, at the direction of the Trustee, to the Tender Agent) as follows:

- (i) with respect to any Outstanding Bonds, no later than 10:00 A.M. (Chicago time), on each Business Day on which interest on such Bonds is payable, a sum equal to the interest to be paid on such Outstanding Bonds on such day; and
- (ii) with respect to any Outstanding Bonds, no later than 10:00 A.M. (Chicago time), on each Business Day on which principal and premium, if any, of such Bonds is payable upon mandatory tender or optional redemption, maturity or acceleration, a sum equal to the principal of such Outstanding Bonds which will become due and payable on such day; and
- (iii) no later than 10:00 A.M. (Chicago time), on each Demand Date and Mandatory Tender Date with respect to any Bonds, a sum equal to the Tender Price for such Bonds to be purchased on such Demand Date or Mandatory Tender Date;

provided, that the obligation of the College to make any such payment (a) pursuant to (i) or (ii) above shall be deemed to be satisfied and discharged to the extent moneys are available therefor in the Bond and Interest Sinking Fund Account (other than in the LOC Interest Account or the LOC Principal Account thereof as specified in the Indenture), and (b) pursuant to (iii) above shall be deemed to be satisfied and discharged to the extent moneys are available therefor in the Purchase Fund; and provided, further, that if no Letter of Credit or Alternate Letter of Credit is in effect, the payments due by the College pursuant to clauses (i), (ii), and (iii) above under this heading shall be due and payable one Business Day prior to the due date specified in such clauses.

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

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

Use of Project Facilities

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

Maintenance of Project Facilities

The College agrees that, so long as there are Bonds outstanding, the College will keep the Project Facilities in good repair and good operating condition at its own cost, making such repairs, modifications and replacements as are necessary so that the Prior Bonds Project and the Project will remain a "project" under the Act and interest on the Bonds will be exempt from federal income taxation. The College may lease or sublease or enter into agreements in the ordinary course of business for the use of the Project Facilities, so long as the tax-exempt status of the Bonds will not be affected thereby and such lease, sublease or use agreement shall not be inconsistent with the Loan Agreement, the Indenture or the Act, and the College shall remain fully obligated under the Loan Agreement as if such lease, sublease or use agreement had not been made.

Title to Property and Liens

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

Taxes and Other Governmental Charges

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

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

Insurance

The College is required to maintain, or cause to be maintained, insurance, with certain deductible amounts, as follows:

- (a) Insurance against loss and/or damage to the Project Facilities and contents, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to \$250,000.
- (b) Comprehensive general public liability insurance against liability for personal injury in the minimum amount for each occurrence of \$5,000,000 and aggregate for each year of \$5,000,000 with a deductible amount of up to \$250,000 per occurrence and against liability for property damage in the minimum amount for each occurrence of \$100,000.
- (c) Workers' compensation insurance (including self-insurance) in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College.

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

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

Removal or Release of Project Equipment and Building Equipment

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

- (a) the College may substitute equipment and related property for any Project Equipment and Building Equipment, provided that such substitution shall not materially impair the character or revenue producing significance or value of the Project Facilities;
- (b) the College may release any equipment from the definition of Project Equipment (with or without the physical removal thereof) without substitution therefor, provided that the College pays a sum equal to the then value of such Project Equipment as determined by an independent engineer selected by the College, to the Trustee for deposit in the Redemption Account for the redemption and prepayment of the Bonds; provided that if the depreciated book value of any item of equipment so released was less than \$25,000, such release without substitution and such deposit to the Redemption Account may be effected without such determination of value and Certificate by an independent engineer upon such showing by the College as may be satisfactory to the Trustee; and
- (c) the College may remove any Building Equipment without substitution therefor provided that such removal will not materially impair the character or revenue producing significance or value of the Project Facilities.

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

Indemnification

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

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

Existence and Accreditation of College and Institution

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

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

The College has represented that the sum of the principal amount of the Bonds, plus the respective outstanding aggregate principal amounts of all tax-exempt bonds issued on behalf of or for the benefit of the College and all organizations under common management or control with the College (other than qualified hospital bonds and other than tax exempt bonds issued after August 5, 1997 as part of an issue 95% or more of the net proceeds of which are to be used to finance capital expenditures incurred after such date), within the meaning of Section 145 of the Internal Revenue Code, does not exceed \$150,000,000. Under the Loan Agreement, in no event will the College affiliate or consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets or the assets of the Institution as an entirety if the effect of any such transaction would be to adversely affect the tax-exempt status of the Bonds, such as by exceeding limitations on the outstanding aggregate principal amounts of all tax-exempt bonds issued by or on behalf of the College or such other resulting entity, and all organizations under common management or control with the College or such resulting entity (other than qualified hospital bonds and other than tax exempt bonds issued after August 5, 1997 as part of an issue 95% or more of the net proceeds of which are to be used to finance capital expenditures incurred after such date), within the meaning of Section 145 of the Internal Revenue Code.

Institution to be Nonsectarian

Except for the Seminary, which is separable from the general undergraduate and graduate programs for which the Project Facilities have been or are to be completed, the College agrees that the Institution will continue to be nonsectarian; will not require or forbid attendance by students or any other persons at religious worship or acceptance of any religious creed; and will not promulgate the distinctive doctrines, creeds or tenets of any particular religious sect.

Federal Income Tax Status

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

Other Covenants

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

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

Events of Default

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

- (a) If the College shall fail to make any Loan Repayment when due and the moneys on deposit in the Bond and Interest Sinking Fund Account or Reserve Account, as the case may be, on a Bond principal or interest payment date are insufficient to pay when due principal, premium, if any, and interest on the Bonds; or
- (b) If the College shall fail to comply with the provisions of Section 6.09(f) of the Loan Agreement (relating to arbitrage calculation and rebate requirements); or
- (c) On or after the Conversion Date, if the College shall fail to maintain the balance in the Reserve Account in the amount of the Reserve Requirement, if any is so required, provided failure to comply with such requirement shall not become an Event of Default unless the College fails to restore such deficiency within a period of thirty (30) days after written notice specifying such deficiency and requesting that it be remedied is given to the College by the Authority or the Trustee; or
- (d) Any Event of Default under the Indenture shall occur and be continuing; or
- (e) Unless waived by the Bank, if the College fails to perform (unless as a result of a cause or event not reasonably within the control of the College), any other covenant, condition or agreement on its part under the Loan Agreement or any representation or warranty by the College proves untrue in any material respect as of the date of the making thereof and the College fails to remedy such default within thirty (30) days after notice from the Trustee, unless the nature of the default is such that it cannot be remedied within the 30-day period and the Trustee grants an extension of time and the College diligently pursues corrective action; or
- (f) If the College files a petition in voluntary bankruptcy, or for the composition of its affairs or for its corporate reorganization under any state or Federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the property of the College; or

- (g) If a court of competent jurisdiction shall enter an order, judgment or decree against the College in any insolvency, bankruptcy, or reorganization proceeding, or appointing a trustee or receiver of the College or of the whole or any substantial part of the property of the College and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof; or
- (h) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the College or of the whole or any substantial part of the property of the College, and such custody or control shall not be terminated within ninety days from the date of assumption of such custody or control; or
- (i) If the Bank notifies the Trustee in writing that an event of default as defined in the Reimbursement Agreement has occurred and directs the Trustee to declare acceleration of the maturity or a mandatory tender of the Bonds.

Remedies on Default

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

- (a) Subject to the Bank's right of consent, the Trustee may declare all or any amount of Loan Repayments thereafter to become due under and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.
- (b) The Trustee (or the Authority with respect to certain sections of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement.
- (c) Subject to the Bank's right of consent, the Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to action taken under the foregoing paragraphs shall be applied as provided in Section 10.05 of the Indenture, a description of which appears in this Appendix V under the heading "THE INDENTURE—Application of Moneys."

Amendments

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

THE INDENTURE

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

Granting Clauses

Pursuant to the Indenture, the Authority grants to the Trustee, as security for the Holders of the Bonds, and the Bank, which security interest is subordinate in every respect to the interest of the Holders, the following:

- (a) all right, title and interest of the Authority under the Loan Agreement and all Loan Repayments and other sums due under the Loan Agreement, except the Authority's annual fee and rights to indemnity and reimbursement;
- (b) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be created and maintained under the Indenture, (ii) moneys and investments in the Construction Account not paid out for Project Costs, and (iii) all accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof; and
- (c) any and all other property of every name and nature from time to time conveyed, mortgaged, assigned or transferred, or in which a security interest is granted, by the Authority or the College or by anyone in behalf of them or with their written consent, to the Trustee.

Accounts

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

Trustee's Right to Payment

The Trustee shall have a lien, with right of payment prior to payment of interest on or principal of the Bonds, for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created by the Indenture and exercise and performance of the powers and duties of the Trustee under the Indenture, and the cost and expenses incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee). The Trustee has no lien upon or right to receive payment of any fees, expenses or other amounts from the Purchase Fund or amounts drawn or deemed to have been drawn under the Letter of Credit or Alternate Letter of Credit or the proceeds of remarketing the Bonds.

Covenants of the Authority

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

Draws Under Letter of Credit or Alternate Letter of Credit

The Trustee will pay when due the principal, premium, if any, and interest on the Bonds whether at maturity, by mandatory sinking fund redemption or upon acceleration, upon an Interest Payment Date, upon optional redemption, upon optional or mandatory tender for purchase, or otherwise, from the following sources, in the order listed:

- (1) With respect to optional or mandatory tenders for purchase, proceeds of remarketing of Bonds pursuant to the Remarketing Agreement (or, with the written consent of each Rating Agency, any other underwriting or purchase agreement otherwise permitted by the Indenture) to any Person (other than the College or the Authority or an affiliate of the College) who has purchased such Bonds with their own assets and for their own account, to the extent available, but only to pay the Tender Price of Bonds;
- (2) Amounts drawn under the Letter of Credit or Alternate Letter of Credit then in effect, if any, provided, however, that the Trustee shall not apply such Eligible Moneys for the payment of Bonds which are not secured by such Letter of Credit or Alternate Letter of Credit;
- (3) Any other Eligible Moneys; and
- (4) Other moneys paid to the Trustee by the College.

The Trustee shall maintain a record of the total amount from time to time on deposit in all accounts of each of the Funds which constitute deposits therein from moneys of the College and the date of each such deposit, such amount being hereinafter sometimes referred to as the "College Deposit" in the respective Funds. In the event that the Letter of Credit or Alternate Letter of Credit terminates and is not replaced with an Alternate Letter of Credit, the separate accounts in the respective Funds shall be terminated and all moneys on deposit in such accounts shall be held by the Trustee in respective Funds without segregation or separate identification except for the record required to be maintained by the Trustee of the amounts of the College Deposit.

The Trustee agrees pursuant to the Indenture to draw moneys under the Letter of Credit or Alternate Letter of Credit if then in effect in accordance with the terms of the Indenture to make timely payments of: (A) principal on the Bonds secured by the Letter of Credit or Alternate Letter of Credit, at maturity, by optional or mandatory redemption or upon acceleration by depositing in the LOC Principal Account the moneys required by the Indenture; (B) interest on

the Bonds secured by the Letter of Credit or Alternate Letter of Credit, by depositing in the LOC Interest Account the moneys required by the Indenture; (C) the Tender Price of Bonds tendered or required to be tendered for purchase by depositing in the LOC Account the moneys required by the Indenture; and (D) if the Letter of Credit or Alternate Letter of Credit then in effect permits the Trustee to draw moneys for the payment of redemption premium on the Bonds, redemption premium on the Bonds secured by the Letter of Credit or Alternate Letter of Credit, by depositing in the LOC Principal Account the moneys required by the Indenture.

In no event shall any moneys other than Eligible Moneys be used to pay the principal, interest, redemption premium or Tender Price of the Bonds secured by the Letter of Credit or Alternate Letter of Credit if Eligible Moneys are available for such payment; and if the Letter of Credit or any Alternate Letter of Credit is in effect, in no event shall any moneys other than Eligible Moneys drawn under such Letter of Credit or Alternate Letter of Credit be used to pay such principal or interest (or, if secured by such Letter of Credit or Alternate Letter of Credit, redemption premium) if the same are available therefor.

During any period when the Bonds bear interest at an Adjustable Long Mode or a Fixed Interest Rate, commencing on a date on which such Bonds begin to bear interest in an Adjustable Long Period or a Fixed Rate Period and on the first Business Day of each calendar month thereafter while such Bonds bear interest in an Adjustable Long Period or a Fixed Rate Period, the Trustee shall draw under the Letter of Credit or Alternate Letter of Credit an amount sufficient to cause the amount on deposit in the LOC Interest Account on such day to equal (i) the accrued and unpaid interest on such Bonds, plus (ii) the interest that would accrue on such Bonds from such day to and including the first Business Day of the following month assuming such Bonds remain Outstanding until such day, calculated (x) at the actual rate of interest on such Bonds for any day interest is to accrue at a rate known on the day such draw is made, and (y) at the rate per annum which is the maximum rate specified for determining interest coverage in the Letter of Credit or any Alternate Letter of Credit for any day interest is to accrue at a rate unknown on the date such draw is made. Notwithstanding the deposit of any such moneys under the Indenture and the reimbursement of the Bank for any such drawing under the Letter of Credit or Alternate Letter of Credit, the College shall have no right, title and interest in and to such moneys, which shall be held exclusively for the holders of the Bonds in accordance with the provisions of the Indenture. In the event the College causes to be delivered to the Trustee an effective amendment or supplement to the Letter of Credit or Alternate Letter of Credit increasing the stated amount thereof to an amount sufficient to pay the principal amount of the Bonds plus 215 days' interest with respect to Bonds bearing interest at an Adjustable Long Period and 215 days' interest with respect to Bonds bearing interest at a Fixed Rate Period, and if so directed in writing by the College, the Trustee shall make drawings under the Letter of Credit or Alternate Letter of Credit in accordance with the third paragraph above under this heading rather than in this paragraph.

Events of Default

The following are Events of Default under the Indenture:

- (a) If payment of any interest on any of the Bonds when the same shall become due and payable shall not be made; or
- (b) If payment of the principal of or the redemption premium, if any, on any of the Bonds, when the same shall become due and payable (whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise), shall not be made; or
- (c) If payment of the Tender Price of any of the Bonds shall not be made when the same shall become due and payable; or

- (d) The occurrence of a Determination of Taxability by reason of noncompliance with the Indenture relating to arbitrage rebate; or
- (e) If the Authority fails to perform its obligations in the Bonds or in the Indenture (except a failure that results in an event of default under clause (a), (b) or (c) above), the performance of which is material, and such default shall have continued for a period of thirty days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and to the College by the Trustee, which may give such notice in its discretion and shall give such notice upon written request of the Holders of not less than 10% in principal amount of the Bonds then outstanding; or
- (f) If any "event of default" on the part of the College, as that term is defined in the Loan Agreement shall occur and be continuing; or

The following are Events of Default only when the Bonds are secured by the Letter of Credit or an Alternate Letter of Credit:

- (a) If the Trustee receives written notice from the Bank that an Event of Default under the Reimbursement Agreement has occurred; or
- (b) If the Trustee receives a written notice from the Bank that it will not reinstate the interest portion of the Letter of Credit or Alternate Letter of Credit following an interest drawing; or
- (c) If the Bank fails to pay any amount payable pursuant to a properly presented and conforming draw under its Letter of Credit or Alternate Letter of Credit.

Acceleration

Upon the occurrence of certain of the events of default described above, the Trustee shall immediately declare the principal and accrued interest on all Bonds to be due and payable as soon as practicable after such declaration; provided, however, that an "event of default" pursuant to certain of the events of default described above shall be treated by the Trustee as an event requiring the mandatory tender of the Bonds pursuant to Indenture, as soon as practicable after the declaration of such "event of default" by the Trustee but in no event to occur later than the LOC Termination Date. Upon the occurrence and continuation of certain other events of default specified above and with the consent of the Bank (if the Letter of Credit or Alternate Letter of Credit is then in effect and the Bank has not failed to pay a properly presented and conforming draw thereunder) the Trustee may and, upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds then owned by the College) shall, immediately declare the entire principal amount of the Bonds then Outstanding and the interest accrued thereon to be due and payable on the fifth day after such declaration, and the said entire principal amount and such accrued interest shall thereupon become and be due and payable on such date. Interest shall cease to accrue upon declaration of acceleration. Upon a declaration that the principal of and such accrued interest on the Bonds shall be due and payable on such date, the Trustee shall immediately draw on the Letter of Credit or Alternate Letter of Credit in the manner set forth in the Indenture, if the Letter of Credit or Alternate Letter of Credit is then in effect, to pay the principal of, premium, if any, and such accrued interest on the Bonds secured by the Letter of Credit or Alternate Letter of Credit. The foregoing provisions are subject, however, to the right of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Trustee and to the Authority, and with the consent of the Bank (if the Letter of Credit or Alternate Letter of Credit is then in effect and the Bank has not failed to honor a properly presented and conforming drawing thereunder) to annul such

acceleration of Bonds and destroy its effect as hereinafter provided; provided, however, that there shall be no annulment of acceleration unless the Trustee has received written notice from the Bank that (a) the Bank rescinds its notice, if any, of an event of default under the Reimbursement Agreement or its intention not to reinstate the Letter of Credit or Alternate Letter of Credit following a draw thereunder and that (b) the Bank will reinstate the Letter of Credit or Alternate Letter of Credit up to the full amount available under it immediately prior to such event of default.

Remedies

Upon the occurrence and continuance of an event of default specified above, the Trustee may pursue any available remedy by suit, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding or to enforce any obligations of the Authority under the Indenture.

If an event of default shall have occurred, and if requested so to do by the Owners of a majority in aggregate principal amount of the Bonds then outstanding and if indemnified as provided in the Indenture, the Trustee shall be obliged to exercise such one or more of the rights and powers as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners; provided, however, that the Trustee shall not be obliged to so act if an event of default under (d) or (e) above (except an event which is also an event of default under the Reimbursement Agreement, which shall not require the consent of the Bank) shall have occurred unless the Bank shall have consented thereto (if the Letter of Credit or Alternate Letter of Credit is then in effect and the Bank is not in default thereunder).

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bondholders now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any event of default shall impair any such right or power or shall be construed to be a waiver of any event of default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any event of default under the Indenture, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent event of default or shall impair any rights or remedies consequent thereon.

Anything in the Indenture to the contrary notwithstanding, the Bank or the Owners of a majority in aggregate principal amount then outstanding with the consent of the Bank shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, the method and the place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Application of Moneys

Subject to the provisions of the Indenture, and provided that moneys held by the Trustee representing amounts due to Bondholders with respect to the Undelivered Bonds and amounts drawn under the Letter of Credit or Alternate Letter of Credit, if any, shall be applied solely to pay the principal of, premium, if any (if the Letter of Credit or Alternate Letter of Credit provides for draws to pay redemption premium), Tender Price and interest on the Bonds secured by the

Letter of Credit or Alternate Letter of Credit and shall not be paid to the United States Treasury as arbitrage rebate or applied to pay any costs or expenses of collection or expenses, liabilities or advances of the Trustee, all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Non-LOC Principal Account and the Non-LOC Interest Account, and together with all moneys in the Funds maintained by the Trustee under Articles IV, V and VIII of the Indenture, shall be applied as follows:

- (a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST To the payment of amounts, if any, to be paid pursuant to the Indenture relating to arbitrage rebate;

SECOND To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

THIRD To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they become due, and if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and premium, if any, due on such date, to the persons entitled thereto without any discrimination or privilege.

FOURTH To the payment to the Bank for obligations owed by the College under the Reimbursement Agreement.

- (b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied first, to the payment of amounts, if any, to be paid pursuant to the Indenture relating to arbitrage rebate, and second, to the payment of the principal, premium, if any, and interest then due and unpaid upon the Bonds, without preference or priority of principal, premium or interest over any of the others, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal, premium, if any, and interest, to the persons entitled thereto without any discrimination or privilege and then to the Bank for obligations owed by the College under the Reimbursement Agreement..
- (c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture, then subject to the provisions of subsection (b) under this heading in the event that the principal of all Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subsection (a) under this heading.

Whenever moneys are to be applied pursuant to the provisions described above, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for such application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue.

The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all amounts, if any, payable pursuant to the Indenture relating to the arbitrage rebate have been paid, all principal of, premium, if any, and interest on all Bonds have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, any balance remaining in any of the Funds established under the Indenture shall be paid to the Bank, to the extent any amounts are then owing to it under the Reimbursement Agreement, and then to the College.

Waivers of Events of Default

The Trustee shall waive any event of default under the Indenture and its consequences and rescind any declaration of maturity of principal of and interest on the Bonds upon the written request of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding; provided, however, that there shall not be waived (a) any event of default in the payment of the principal of any Outstanding Bonds at the date of maturity specified therein, or (b) any default in the payment when due of the interest on any such Bonds unless prior to such waiver or rescission, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest or all arrears of payments of principal and premium, if any, when due, as the case may be, and all expenses of the Trustee, in connection with such event of default shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon. The foregoing notwithstanding, there shall not be any waiver of an event of default unless the Trustee has received written notice from the Bank that (a) the Bank rescinds its notice, if any, of an event of default under the Reimbursement Agreement or its intention not to reinstate the Letter of Credit or Alternate Letter of Credit following a draw thereunder and that (b) the Bank has reinstated the Letter of Credit or Alternate Letter of Credit up to the full amount available thereunder.

Concerning the Trustee

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to the reference rate of Norwest Bank Minnesota, National Association, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses, advances and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the College to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of \$10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court. Provision is also made for removal of the Trustee by Bondholders or the Authority, at the request of the College, if an Event of Default has occurred and is continuing or a default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

Rights and Remedies of Bondholders

No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy thereunder, unless a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which it is deemed to have notice, nor unless also such default shall have become an event of default and the Owners of a majority in aggregate principal amount of Bonds then Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, nor unless also they have offered to the Trustee indemnity, as provided in the Indenture, nor unless the Trustee shall thereafter fail or refuse to exercise the powers granted in the Indenture, or to institute such action, suit or proceeding in its, his or their name or names. Such notification, request, and (except with respect to a declaration of acceleration as provided in the Indenture and with respect to drawing under the Letter of Credit or any Alternate Letter of Credit as required by the Indenture) offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trust of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by its, his or their action or to enforce any right under the Indenture except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of the Owners of all Bonds then Outstanding. Nothing in the Indenture shall, however, affect or impair the right of any Bondholder to enforce the covenants of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds issued under the Indenture to the respective Owners thereof at the time and place, from the source and in the manner provided for in said Bonds.

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

Defeasance

If the Authority and the College shall:

- (a) pay or cause to be paid the principal of, and premium, if any, and interest on the outstanding Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal, premium, if any, and interest on the Bonds by depositing with the Trustee at or at any time before maturity an amount either in Eligible Moneys or noncallable Government Securities purchased with Eligible Moneys and the principal of and the interest on which, or the principal of which when due will provide moneys sufficient to pay when due or to become due for principal and interest prior to and at maturity of all such Bonds outstanding, and, if such Bond is subject to optional or mandatory tender for purchase prior to its applicable maturity date, sufficient to cover the Tender Price therefor (after payment of such Tender Price, such Bond shall be cancelled) and provided further that such a deposit may be made only if, a Favorable Opinion that the interest on the Bonds would not become subject to inclusion in the federal gross income of the Owners as a result thereof is provided to the Trustee and the Trustee has received (i) a verification report of a recognized public accounting firm satisfactory to the Trustee stating that such Government Securities and cash, if any, will be sufficient to pay when due the principal or Tender Price, if applicable, and interest due and to become due on such Bond and (ii) written evidence from each Rating Agency having a rating in effect for such Bonds that the proposed defeasance will not result in the reduction or withdrawal of the rating on such Bonds, or

- (c) deliver to the Trustee (1) proof that notice of redemption of all of such outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the College for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in Eligible Moneys or noncallable Government Securities purchased with Eligible Moneys and the principal of and interest on which, or the principal of which, when due, will provide sufficient moneys for the payment of the principal and interest or redemption price if applicable, prior to and on the date such Bonds are to be redeemed on maturity date thereof as the case may be, and, if such Bond is subject to optional or mandatory tender for purchase prior to its applicable redemption or maturity date, sufficient to cover the Tender Price therefor (after payment of such Tender Price, such Bond shall be cancelled) and provided further that such a deposit may be made only if, a Favorable Opinion that the interest on the Bonds would not become subject to inclusion in the federal gross income of the Owners as a result thereof is provided to the Trustee and the Trustee has received (i) a verification report of a recognized public accounting firm satisfactory to the Trustee stating that such Government Securities and cash, if any, will be sufficient to pay when due the principal or redemption price or Tender Price, if applicable, and interest due and to become due on such Bond and (ii) written evidence from each Rating Agency having a rating in effect for such Bonds that the proposed defeasance will not result in the reduction or withdrawal of the rating on such Bonds, or
- (d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided,

and shall also pay all obligations owing to the Bank under the Reimbursement Agreement, the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148(f) of the Internal Revenue Code and regulations thereunder, then at the request of the Authority or the College all the Trust Estate shall revert to the Authority and the College as their interests appear, and the entire estate, right, title and interest of the Trustee, and of Owners of the Bonds in respect thereof, shall thereupon cease, determine and become void unless otherwise expressly stated in the Indenture, rights granted by provision relating to redemption shall thereupon terminate; and the Trustee in such case, upon cancellation of all Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent, and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

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

Supplemental Indentures

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

- (a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;
- (b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority;
- (c) to evidence the succession of any other department, agency, body or corporation to the Authority;
- (d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any supplemental indenture and which shall not impair the security of the same;
- (e) to modify the Indenture as authorized by Holders;
- (f) to modify or supplement provisions relating to procedures for drawing on the Letter of Credit in connection with the issuance of an Alternate Letter of Credit; and
- (g) to make other changes with the Bank's consent except those changes requiring unanimous approval by Holders of all the outstanding Bonds as described in the next paragraph.

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

Any supplemental indenture affecting the rights or obligations of the Remarketing Agent or the Tender Agent shall not be effective without written consent of the party affected thereby.

Amendments to the Loan Agreement

The Authority and Trustee may, without the consent of or notice to any of the Bondholders, consent to and (if requested) execute any amendment, change or modification of the Loan Agreement as may be required (a) by the provisions of the Loan Agreement or Indenture, or

(b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement, or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds, or (d) in connection with any other change approved by the Bank except those amendments, changes or modifications which require unanimous consent of the holders of all outstanding Bonds.

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

Any amendment to or other modification of the Loan Agreement or waiver of any provision thereof may not be entered into or given without the prior written consent of the Bank. Any amendment to or other modification of the Loan Agreement which affects any of the rights or obligations of the Tender Agent shall not be effective without the written consent of the Tender Agent.

Registration

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

**BETHEL COLLEGE & SEMINARY
AND
BETHEL COLLEGE & SEMINARY FOUNDATION**

**AUDITED FINANCIAL STATEMENTS FOR THE
YEAR ENDED MAY 31, 1997 AND 1996**

**COMPARABLE TOTALS FOR THE
FISCAL YEAR ENDED MAY 31, 1996**

Report of Independent Accountants

To the Board of Trustees of
Bethel College and Seminary:

We have audited the accompanying combined balance sheet of Bethel College and Seminary and Bethel College and Seminary Foundation (collectively known as Bethel) (an affiliate of the Baptist General Conference, an Illinois not-for-profit corporation) as of May 31, 1997, and the related combined statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of Bethel's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Bethel College and Seminary and Bethel College and Seminary Foundation as of May 31, 1997, and the combined change in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 3, Bethel has restated its May 31, 1996 net asset classifications.

Coopers & Lybrand L.L.P.

Minneapolis, Minnesota
August 13, 1997

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Combined Balance Sheet**

May 31, 1997, with comparative totals for the year ended May 31, 1996

ASSETS	1997						1996 Total
	General	Unrestricted Long-Lived Assets	Total	Temporarily Restricted	Permanently Restricted	Total	
Cash and cash equivalents	\$ 728,756	\$ (1,294,421)	\$ (565,665)	\$ 1,146,717	\$ 92,990	\$ 674,042	\$ 2,488,577
Inventories	552,040		552,040			552,040	499,086
Receivables, net	6,399,967	23,581	6,423,548	563,165		6,986,713	6,523,302
Cash and U.S. Government securities, at market, retained in sinking fund accounts for retirement of long-term debt		716,048	716,048			716,048	1,038,731
Investments, at market	1,847,613	8,861,868	10,709,481	754,814	8,930,467	20,394,762	18,796,555
Interest in trust assets				2,620,000	703,000	3,323,000	3,010,000
Interfund receivable (payable)		(1,319,581)	(1,319,581)	1,132,473	187,108		
Other assets	87,376	94,024	181,400		15,000	196,400	224,511
Property and equipment, net		36,132,629	36,132,629			36,132,629	35,874,479
Total assets	<u>\$ 9,615,752</u>	<u>\$ 43,214,148</u>	<u>\$ 52,829,900</u>	<u>\$ 6,217,169</u>	<u>\$ 9,928,565</u>	<u>\$ 68,975,634</u>	<u>\$ 68,455,241</u>

The accompanying notes are an integral part of the combined financial statements.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Combined Balance Sheet, Continued**

May 31, 1997, with comparative totals for the year ended May 31, 1996

LIABILITIES	1997						1996 Total
	General	Unrestricted Long-Lived Assets	Total	Temporarily Restricted	Permanently Restricted	Total	
Demand notes payable	\$ 155,000		\$ 155,000			\$ 155,000	\$ 155,000
Line of credit	300,000		300,000			300,000	
Accounts payable	825,440	\$ 41,294	866,734			866,734	1,226,032
Accrued faculty salaries	1,246,654		1,246,654			1,246,654	1,514,433
Student deposits and advance registration fees	574,080		574,080			574,080	536,953
Deferred tuition revenue	1,487,615		1,487,615			1,487,615	1,055,939
Liability for self insurance	233,256		233,256			233,256	242,098
Gift annuity contracts				\$ 796,087	\$ 187,108	983,195	957,129
Long-term debt		8,744,949	8,744,949			8,744,949	10,185,086
Accrued pension liability	316,356		316,356			316,356	363,300
Perkins loans refundable	2,789,350		2,789,350			2,789,350	2,831,383
Total liabilities	7,927,751	8,786,243	16,713,994	796,087	187,108	17,697,189	19,067,353
NET ASSETS							
Unrestricted:							
General unrestricted	1,688,001	31,498,532	33,186,533			33,186,533	32,068,326
Unspent endowment earnings		2,808,505	2,808,505			2,808,505	2,114,207
Equipment replacement reserve		120,868	120,868			120,868	105,948
Total unrestricted	1,688,001	34,427,905	36,115,906			36,115,906	34,288,481
Temporarily restricted				5,421,082		5,421,082	4,863,150
Permanently restricted					9,741,457	9,741,457	10,236,257
Total net assets	1,688,001	34,427,905	36,115,906	5,421,082	9,741,457	51,278,445	49,387,888
Total liabilities and net assets	\$ 9,615,752	\$ 43,214,148	\$ 52,829,900	\$ 6,217,169	\$ 9,928,565	\$ 68,975,634	\$ 68,455,241

The accompanying notes are an integral part of the combined financial statements.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Combined Statement of Activities and Change in Net Assets**

for the year ended May 31, 1997, with comparative totals for the year ended May 31, 1996

	1997				1996
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating revenues and net assets released from restrictions:					
Tuition and instructional fees, net of internally funded aid of \$6,640,609 and \$5,713,057 for 1997 and 1996, respectively	\$ 23,911,761			\$ 23,911,761	\$ 21,787,281
Auxiliary services	9,436,044			9,436,044	9,129,004
Contributions, gifts and bequests	2,741,789	\$ 554,058	\$ 336,849	3,632,696	3,531,768
Grants, primarily federal financial aid	691,502			691,502	691,079
Change in interest in trust assets		277,000	36,000	313,000	706,000
Endowment spending rate income	387,771	331,237		719,008	574,080
Other sources, primarily student charges	2,141,912	61,754		2,203,666	2,581,014
Investment income, net	371,949	92,596		464,545	620,653
Baptist General Conference gift	289,021			289,021	301,112
Net assets released from restrictions	758,713	(758,713)			
Total operating revenues and net assets released from restrictions	40,730,462	557,932	372,849	41,661,243	39,921,991
Expenses:					
Instructional	14,058,722			14,058,722	12,708,920
General operating:					
Academic support	4,438,492			4,438,492	4,248,144
Institutional support	8,600,566			8,600,566	7,796,463
Public service	333,731			333,731	316,635
Student services	3,019,778			3,019,778	2,906,885
Auxiliary services	9,322,193			9,322,193	8,731,834
Government funded grant aid to students	691,502			691,502	691,079
Total expenses	40,464,984			40,464,984	37,399,960
Change in net assets before excess of endowment earnings over spending rate	265,478	557,932	372,849	1,196,259	2,522,031
Excess of endowment earnings over spending rate	694,298			694,298	836,853
Change in net assets	959,776	557,932	372,849	1,890,557	3,358,884
Net assets at beginning of year (restated)	35,156,130	4,863,150	9,368,608	49,387,888	46,029,004
Net assets at end of year	<u>\$ 36,115,906</u>	<u>\$ 5,421,082</u>	<u>\$ 9,741,457</u>	<u>\$ 51,278,445</u>	<u>\$ 49,387,888</u>

The accompanying notes are an integral part of the combined financial statements.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Combined Statement of Cash Flows**

for the years ended May 31, 1997 and 1996

	1997	1996
Cash flows from operating activities:		
Change in net assets	\$ 1,890,557	\$ 3,358,884
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,820,513	1,703,838
Cash contributions with donor restrictions	(851,021)	(1,313,501)
Gain on sale of fixed assets	(41,730)	
Net unrealized loss (gain) on investments	1,279,020	(1,936,359)
Change in interest in trust assets	(313,000)	(379,000)
Change in operating assets and liabilities:		
Receivables	(463,411)	241,294
Inventories	(52,954)	62,953
Other assets	28,111	(24,213)
Accounts payable	(329,298)	(944,306)
Accrued liabilities	(314,723)	225,898
Student deposits and advance registration fees	37,127	51,429
Gift annuity contracts	(3,934)	25,432
Deferred tuition revenue	431,676	(37,185)
Perkins loans refundable	(42,033)	22,472
Liability for self insurance	(8,842)	10,092
Net cash provided by operating activities	<u>3,066,058</u>	<u>1,067,728</u>
Cash flows from investing activities:		
Purchase of fixed assets	(2,069,683)	(5,140,193)
Proceeds from sale of investments	17,444,575	6,305,455
Purchase of investments	(20,321,802)	(7,264,598)
Proceeds from sale of fixed assets	<u>76,310</u>	<u></u>
Net cash used in investing activities	<u>(4,870,600)</u>	<u>(6,099,336)</u>

The accompanying notes are an integral part of the combined financial statements.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Combined Statement of Cash Flows, Continued**

for the years ended May 31, 1997 and 1996

	1997	1996
Cash flows from financing activities:		
Net increase in demand notes payable		\$ 20,000
Proceeds from long-term notes payable		5,415,896
Proceeds from (payment on) line of credit	\$ 300,000	(500,000)
Payments on long-term debt	(1,483,697)	(1,219,108)
Net decrease (increase) in sinking fund	322,683	(33,112)
Cash contributions with donor restrictions	851,021	1,313,501
	<u>(9,993)</u>	<u>4,997,177</u>
Net decrease in cash and cash equivalents	(1,814,535)	(34,431)
Cash and cash equivalents at beginning of year	<u>2,488,577</u>	<u>2,523,008</u>
Cash and cash equivalents at end of year	<u>\$ 674,042</u>	<u>\$ 2,488,577</u>
Supplemental data:		
Interest paid, net of capitalized interest of \$43,560 and \$92,694, respectively	\$ 824,342	\$ 834,843
Noncash financing activity:		
Property acquired through capital leases	43,560	238,984
Property acquired through gift		46,000
Mortgage assumed on property acquired		36,000

The accompanying notes are an integral part of the combined financial statements.

Bethel College and Seminary and Bethel College and Seminary Foundation Notes to Combined Financial Statements

1. Organization:

In August of 1996, Bethel College and Seminary (the College) became a Minnesota not-for-profit corporation, an action coinciding with the reorganization of the Baptist General Conference (the Conference), an Illinois corporation. Prior to that time, the College was a department of the Conference. They are now twin corporations. The College is controlled by a 35-member Board of Trustees who are selected by the delegates from the churches of the Conference.

Bethel is required to combine within its financial statements the net assets of entities which meet certain control considerations. Accordingly, the financial statements of the College include the accounts of the Bethel College and Seminary Foundation (Foundation). The Foundation was established by the College's Board of Regents to facilitate the College's deferred gifts program. All significant intercompany accounts and transactions have been eliminated in combination. Collectively, the two entities are referred to herein as Bethel.

2. Summary of Significant Accounting Policies:

Accrual Basis:

The financial statements of Bethel have been prepared on the accrual basis of accounting.

Basis of Presentation:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Bethel and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of Bethel and/or the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they may be maintained permanently by Bethel. Generally, the donors of these assets permit Bethel to use all, or part of, the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment income, gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Temporarily restricted net assets for which donor-imposed restrictions are met in current or subsequent reporting periods are reclassified to unrestricted net assets and reported as assets released from restrictions. Net assets which have no donor-imposed restrictions are recognized as revenues in the period received.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

2. Summary of Significant Accounting Policies, continued:

Basis of Presentation, continued:

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

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

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

The College utilizes a total return concept in managing its investments. Income and realized and unrealized net gains on endowment and similar funds in excess of the spending rate is recorded as nonoperating revenue.

The College's endowment spending policy authorizes spending of all nonscholarship endowment income of one-half of the average three-year realized return (interest and dividend income and realized investment gains and losses) on endowments, not to exceed 7.5%. The spending rate policy for scholarship endowments is to distribute 6.5% of the current fair market value of the endowment assets annually.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended May 31, 1996, from which the summarized information was derived.

Cash and Cash Equivalents:

Cash and cash equivalents consist of money market funds and certificates of deposit managed by the College to be used for Bethel's short-term needs, with maturities at the time of purchase of three months or less, and are recorded at cost, which approximates market value.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

2. Summary of Significant Accounting Policies, continued:

Student Loans:

Student loans consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

Inventories:

Inventories consist of books, clothing, and other bookstore merchandise held for resale and are stated at the lower of cost or market with cost determined by the first-in, first-out or specific identification method.

Investments:

Investments in securities are stated at quoted market. Investments in real estate are stated at cost or at estimated fair value at the date of gift. Changes in quoted market are recorded as unrealized gains or losses in the period of change. Realized gains and losses on sales of securities are determined using the average cost method and recorded based on trade dates.

Property, Plant and Equipment:

Property and equipment are stated at cost, except those received as gifts or bequests which are stated at estimated fair market value at the date of gift. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings (30-50 years) and equipment (3-15 years). During 1997 and 1996, interest costs of \$43,560 and \$92,694 relating to the purchase and construction of long-term assets were capitalized and are being amortized over the related assets' estimated useful lives.

Gift Annuity Contracts:

Gift annuity contracts represent Bethel's liability under annuity contracts with donors. The liability is established at the time of the contribution using actuarial tables and revalued at the end of each fiscal year. Actual gains and losses resulting from the annual re-evaluation of annuity obligations are included in other sources and reflected as temporarily restricted or permanently restricted, consistent with the method used to initially record the contributions.

Income Taxes:

Bethel qualifies as a tax-exempt not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and similar statutes of Minnesota law. Accordingly, income taxes have not been recorded in the accompanying financial statements. Bethel is subject to unrelated business income tax as further explained in Note 9.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

2. Summary of Significant Accounting Policies, continued:

Interest in Trust Assets:

Bethel is the ultimate beneficiary of certain funds held in trust by the Foundation. The Foundation, as a trustee, has entered into various trust agreements which provide that the trustee shall make specified annual payments to the grantors or other income beneficiaries. Upon the death of the grantors or other designated beneficiaries, the remaining assets in the trusts shall be disposed of by the Foundation in accordance with the terms of the agreements.

Bethel's interest is recorded at the present value of the year end market value of the trust assets. These assets are classified as either permanently or temporarily restricted, depending on donor-imposed restrictions for the use of the funds upon maturity of the trust. The present value is calculated based on a formula involving (a) specified annual payments to the grantors or other income beneficiaries, (b) mortality of grantors or beneficiaries, (c) assumed investment return (8% at April 30, 1997 and 1996) and (d) a present value factor reflecting a risk-weighted rate at the date of the gift, 8% at April 30, 1997.

Bethel does not record any net interest in trusts which are revocable or in which it does not have a defined remainder interest.

Interfund Loan:

The interfund loan between net asset categories accrues interest at 5.5% and both principal and interest are payable on demand.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas which require the use of management estimates relate to interest in trust assets, gift annuity contracts and the allowance for doubtful accounts.

Concentration of Credit Risk:

Student tuition receivables consist of amounts due from students who are primarily from the midwestern region of the United States. To the extent that economic conditions adversely impact this region, the collectibility of these receivables may also be impacted. In addition, approximately 95% of Bethel's non-real estate investments are managed and held by IAI and Piper Jaffray, and the majority of Bethel's cash and cash equivalents are concentrated in one bank. The investment viability and return of funds held by these institutions is dependent on, among other factors, the financial results of the underlying issuers.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

3. Reclassification and Restatement of Net Assets:

The provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations," require that internally designated endowment assets are to be classified as unrestricted net assets. During fiscal year 1996, this provision was interpreted differently by Bethel and, as a result, Bethel has restated its previously issued fiscal year 1996 financial statements. This restatement resulted in a reclassification of certain endowment assets as of May 31, 1996 of \$867,649 previously classified as permanently restricted to unrestricted.

The following table reconciles net assets as of May 31, 1996, as previously reported, to net assets restated for the effect of the reclassification:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
May 31, 1996 net assets, as previously reported	\$ 34,288,481	\$ 4,863,150	\$ 10,236,257	\$ 49,387,888
Reclassification	<u>867,649</u>	<u> </u>	<u>(867,649)</u>	<u> </u>
May 31, 1996 net assets, as restated	<u>\$ 35,156,130</u>	<u>\$ 4,863,150</u>	<u>\$ 9,368,608</u>	<u>\$ 49,387,888</u>

Certain 1996 financial statement amounts have been reclassified to conform with the 1997 presentation. These reclassifications had no effect on net assets as of May 31, 1996.

4. Receivables:

Receivables as of May 31, 1997 and 1996, are as follows:

	1997	1996
Student tuition and fees	\$ 2,853,787	\$ 2,313,384
Student loans	3,253,492	3,323,520
Pledges, net of discount	593,051	888,993
Other	<u>553,944</u>	<u>361,987</u>
	7,254,274	6,887,884
Less allowance for doubtful accounts	<u>(267,561)</u>	<u>(364,582)</u>
	<u>\$ 6,986,713</u>	<u>\$ 6,523,302</u>

Pledges are expected to be collected between one and five years as of May 31, 1997 and 1996, respectively.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

5. Investments:

Investments consist of the following at May 31, 1997 and 1996:

	1997		1996	
	Market	Cost	Market	Cost
Certificates of deposit and money market funds	\$ 692,355	\$ 692,355	\$ 1,069,275	\$ 1,010,841
Stocks, principally common and equity mutual funds	8,791,865	7,859,406	7,915,812	5,681,565
Bonds, notes and debt mutual funds	6,863,569	6,857,592	5,693,692	5,848,841
Real estate	3,870,552	3,870,552	3,924,378	3,924,378
Other	176,421	151,794	193,398	88,847
Total investments	<u>\$ 20,394,762</u>	<u>\$ 19,431,699</u>	<u>\$ 18,796,555</u>	<u>\$ 16,554,472</u>

6. Property, Plant and Equipment:

Property, plant and equipment as of May 31, 1997 and 1996 are as follows:

	1997	1996
Land and land improvements	\$ 2,487,461	\$ 1,839,211
Buildings and building improvements	43,764,770	42,968,858
Furniture and equipment	13,567,282	13,043,524
Construction in progress	547,179	436,436
	60,366,692	58,288,029
Less accumulated depreciation	(24,234,063)	(22,413,550)
	<u>\$ 36,132,629</u>	<u>\$ 35,874,479</u>

7. Bank Line of Credit and Demand Notes Payable:

The College has a \$2,000,000 revolving credit agreement with a bank. This agreement expires on December 31, 1997. Significant covenants under this agreement require the maintenance of specified net worth and debt to equity ratios. Interest on the outstanding balance is payable monthly at one percent (1%) in excess of the bank's reference (prime) rate (8.50% and 8.25% at May 31, 1997 and 1996, respectively). At May 31, 1997, there was \$300,000 outstanding on this credit facility. At May 31, 1996, there were no amounts outstanding.

Bethel has other uncollateralized demand notes payable outstanding of \$155,000 at May 31, 1997 and 1996, respectively.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

8. Long-Term Debt:

Description	Balance at May 31, 1997			Sinking Funds at May 31, 1997	Collateral
	Principal Due Within One Year	Principal Due After One Year	Total		
Minnesota Higher Education Facilities Authority, First Mortgage Revenue Bonds, Series B, 5.4% to 5.6%, due in annual installments of \$140,000 to \$160,000 to June 1997	\$ 146,000		\$ 146,000	\$ 217,686	Arden Hills townhouse apartments and related gross receipts and revenues, as defined
Minnesota Higher Education Facilities Authority, First Mortgage Revenue Bonds, Series W, 6.4% to 7.0%, due in annual installments of \$125,000 to \$450,000 to April 2001	150,000	\$ 750,000	900,000	498,362	Arden Hills residence halls and related gross receipts and revenues, as defined
First Bank, Multiple Advance Converting Term Note, 8.02%, interest payable monthly with 14 equal semi-annual principal payments commencing July 1, 1995, with any remaining principal and accrued interest due January 1, 2002	428,570	1,714,279	2,142,849		Foundation-owned apartments, capital campaign donations, collections and pledge receivables associated with the Community Life Center project
Capitalized lease obligations, notes payable, bank note, various interest rates, due in various monthly installments to March 2005	306,580	884,520	1,191,100		Computer equipment, science and office equipment, furniture and generator equipment
Senior Secured Note, 8.6%, due in unequal annual installments with a \$950,000 balloon payment due June 15, 2005	370,000	3,995,000	4,365,000		Seminary apartment buildings, Montana ranch land and \$1,000,000 of marketable securities held by the Foundation
	<u>\$ 1,401,150</u>	<u>\$ 7,343,799</u>	<u>\$ 8,744,949</u>	<u>\$ 716,048</u>	

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

8. Long-Term Debt, continued:

Maturities of long-term debt, including scheduled interest payments, for the next five years aggregate:

Fiscal Year	
1998	\$ 2,093,269
1999	1,762,653
2000	1,710,336
2001	1,963,372
2002	1,366,292
Thereafter	<u>2,641,775</u>
	11,537,697
Less cumulative scheduled interest payments	<u>(2,792,748)</u>
Total	<u>\$ 8,744,949</u>

According to the terms of various debt agreements, Bethel is required to maintain certain balances in bond and interest sinking funds. The amounts on deposit in these sinking funds at May 31, 1997 were sufficient to comply with the requirements of the agreements. Approximately \$159,565 of the bond sinking funds are subject to use by the Minnesota Higher Education Facilities Authority (MHEFA) to cover debt service payments on pooled revenue bonds issued by MHEFA to other Minnesota higher education institutions in the event any of the institutions default.

The loan agreement between the College and First Bank requires that at the end of each fiscal year, general unrestricted fund revenues as defined must not be more than \$250,000 less than general unrestricted fund expenditures. In addition, total net assets must be equal to or greater than \$32 million. These requirements were met by the College at May 31, 1997.

All First Mortgage Revenue Bond agreements and the Multiple Advance Converting Term Note have been signed by the Conference with Bethel as guarantor.

9. Retirement Plans:

Bethel has a defined benefit pension plan which covers substantially all full-time salaried employees of Bethel and certain other eligible employees of the Conference. Benefits are based on years of service and each employee's highest average compensation during five consecutive years of employment. Bethel's policy is to annually fund pension cost accrued.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

9. Retirement Plans, continued:

Components of net periodic cost for fiscal years 1997 and 1996 are presented below:

	1997	1996
Service cost, benefits earned during the period	\$ 894,909	\$ 799,340
Interest cost	1,778,563	1,592,886
Actual return on assets	(2,918,532)	(2,953,599)
Net amortization and deferral	<u>1,216,498</u>	<u>1,413,626</u>
Net periodic pension cost	<u>\$ 971,438</u>	<u>\$ 852,253</u>

The funded status of the plan as of May 31, 1997 and 1996 is as follows:

	1997	1996
Actuarial present value of benefit obligation:		
Vested	\$ 18,273,475	\$ 16,640,100
Nonvested	<u>60,502</u>	<u>38,700</u>
Accumulated benefit obligation	18,333,977	16,678,800
Effect of projected future salary increases	<u>5,212,466</u>	<u>4,384,200</u>
Projected benefit obligation	23,546,443	21,063,000
Plan assets at fair value	<u>22,964,450</u>	<u>20,021,300</u>
Projected obligations in excess of assets	(581,993)	(1,041,700)
Unrecognized transition asset	(797,762)	(898,700)
Unrecognized prior service costs	810,598	879,900
Unrecognized net loss	<u>252,801</u>	<u>697,200</u>
Net pension liability	<u>\$ (316,356)</u>	<u>\$ (363,300)</u>

The plan assets are held in a master trust and are commingled with investments of certain retirement plans of the Conference. The investments of the master trust consist principally of common stocks, U.S. Government bonds, corporate bonds, real estate and short-term investments.

Assumptions used in the actuarial determination of the above amounts for the years ended May 31, 1997 and 1996, are as follows:

Discount rate for service and interest cost	8.0%
Rates of increase in compensation levels	5.0%
Expected long-term rate of return on assets	9.0%
Discount rate for year-end benefit obligation	8.0%

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Notes to Combined Financial Statements, Continued**

9. Retirement Plans, continued:

Bethel also has a noncontributory defined contribution retirement plan which covers substantially all employees. Bethel contributes amounts, determined by management, based on participants' annual compensation level. Expense for this plan was \$646,769 and \$558,052 during fiscal years 1997 and 1996, respectively.

Bethel's plans are considered "church plans" under the Employee Retirement Income Security Act of 1974 (Act). The plans are generally exempt from the provisions of the Act unless management makes an election to come within its regulations. Management currently does not intend to make that election.

10. Income Taxes:

Bethel is generally exempt from income taxes. Certain rental income and income generated from dormitories is subject to unrelated business income tax. Related to these activities, Bethel has small net operating loss carryforwards at May 31, 1997.

SUPPLEMENTAL INFORMATION

Report of Independent Accountants on Supplemental Information

To the Board of Trustees of
Bethel College and Seminary:

Our report on the audit of the combined financial statements of Bethel College and Seminary and Bethel College and Seminary Foundation as of May 31, 1997 and for the year then ended appears on page 1. This audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Minneapolis, Minnesota
August 13, 1997

Coopers & Lybrand L.L.P.

**Bethel College and Seminary and
Bethel College and Seminary Foundation**
Detail Schedule of Activities and Change in Net Assets
for the year ended May 31, 1997, with comparative totals for the year ended May 31, 1996

VI-20

	1997						1996 Total
	General	Unrestricted Long-Lived Assets	Total	Temporarily Restricted	Permanently Restricted	Total	
Operating revenues and net assets released from restrictions:							
Tuition and instructional fees, net of internally funded aid of \$6,640,609 and \$5,713,057 for 1997 and 1996, respectively	\$ 23,911,761		\$ 23,911,761			\$ 23,911,761	\$ 21,787,281
Auxiliary services	9,436,044		9,436,044			9,436,044	9,129,004
Contributions, gifts and bequests	2,506,028	\$ 235,761	2,741,789	\$ 554,058	\$ 336,849	3,632,696	3,531,768
Grants, primarily federal financial aid	691,502		691,502			691,502	691,079
Change in interest in trust assets				277,000	36,000	313,000	706,000
Endowment spending rate income	387,771		387,771	331,237		719,008	574,080
Other sources, primarily student charges	1,975,478	166,434	2,141,912	61,754		2,203,666	2,581,014
Investment income, net	232,255	139,694	371,949	92,596		464,545	620,653
Baptist General Conference gift	289,021		289,021			289,021	301,112
Net assets released from restrictions		758,713	758,713	(758,713)			
Total operating revenues and net assets released from restrictions	39,429,860	1,300,602	40,730,462	557,932	372,849	41,506,336	39,921,991
Expenses:							
Instructional	13,102,542	956,180	14,058,722			14,058,722	12,708,920
General operating:							
Academic support	4,228,840	209,652	4,438,492			4,438,492	4,248,144
Institutional support	8,310,555	290,011	8,600,566			8,600,566	7,796,463
Public service	325,662	8,069	333,731			333,731	316,635
Student services	2,837,595	182,183	3,019,778			3,019,778	2,906,885
Auxiliary services	8,255,215	1,066,978	9,322,193			9,322,193	8,731,834
Government funded grant aid to students	691,502		691,502			691,502	691,079
Total expenses	37,751,911	2,713,073	40,464,984			40,464,984	37,399,960
Allocation among unrestricted funds:							
Plant facilities allocation	(310,262)	310,262					
Long-term debt reduction	(1,299,138)	1,299,138					
Allocated reserves for equipment replacement	(14,920)	14,920					
Change in net assets before excess of endowment earnings over spending rate	53,629	211,849	265,478	557,932	372,849	1,196,259	2,522,031
Excess of endowment earnings over spending rate		694,298	694,298			694,298	836,853
Change in net assets	53,629	906,147	959,776	557,932	372,849	1,890,597	3,358,884
Net assets at beginning of year (restated)	1,634,372	33,521,758	35,156,130	4,863,150	9,368,608	49,387,888	46,029,004
Net assets at end of year	\$ 1,688,001	\$ 34,427,905	\$ 36,115,906	\$ 5,421,082	\$ 9,741,457	\$ 51,278,445	\$ 49,387,888

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Balance Sheet - Bethel, Excluding the Activities of
Bethel College and Seminary Foundation**

May 31, 1997, with comparative totals for the year ended May 31, 1996

ASSETS	1997						1996 Total (1)
	General	Unrestricted Long-Lived Assets	Total	Temporarily Restricted	Permanently Restricted	Total (1)	
Cash and cash equivalents	\$ 875,894	\$ (1,818,926)	\$ (943,032)	\$ 1,146,717	\$ 135,042	\$ 338,727	\$ 2,289,279
Inventories	552,040		552,040			552,040	499,086
Receivables, net	6,975,467	15,000	6,990,467	563,165		7,553,632	7,156,138
Cash and U.S. government securities, at market, retained in sinking fund accounts for retirement of long-term debt		716,048	716,048			716,048	1,038,731
Investments, at market	1,847,613	2,866,362	4,713,975	754,814	8,930,467	14,399,256	12,712,305
Interfund receivable (payable)		(1,319,581)	(1,319,581)	1,132,473	187,108		
Other assets	87,376	30,082	117,458		15,000	132,458	154,154
Property and equipment, net		35,954,629	35,954,629			35,954,629	35,660,479
Total assets	<u>\$ 10,338,390</u>	<u>\$ 36,443,614</u>	<u>\$ 46,782,004</u>	<u>\$ 3,597,169</u>	<u>\$ 9,267,617</u>	<u>\$ 59,646,790</u>	<u>\$ 59,510,172</u>

(1) This schedule includes activities related to Bethel and excludes activities related to the Foundation.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Balance Sheet, Continued - Bethel, Excluding the Activities of
Bethel College and Seminary Foundation**

May 31, 1997, with comparative totals for the year ended May 31, 1996

LIABILITIES	1997						1996 Total (1)
	General	Unrestricted Long-Lived Assets	Total	Temporarily Restricted	Permanently Restricted	Total (1)	
Demand notes payable	\$ 155,000		\$ 155,000			\$ 155,000	\$ 155,000
Line of credit	300,000		300,000			300,000	
Accounts payable	825,440		825,440			825,440	1,197,103
Accrued faculty salaries	1,246,654		1,246,654			1,246,654	1,514,433
Student deposits and advance registration fees	574,080		574,080			574,080	536,953
Deferred tuition revenue	1,487,615		1,487,615			1,487,615	1,055,939
Liability for self insurance	233,256		233,256			233,256	242,098
Gift annuity contracts				\$ 796,087	\$ 187,108	983,195	957,129
Long-term debt		\$ 8,744,949	8,744,949			8,744,949	10,149,086
Accrued pension liability	316,356		316,356			316,356	363,300
Perkins loan refundable	2,789,350		2,789,350			2,789,350	2,831,383
Total liabilities	7,927,751	8,744,949	16,672,700	796,087	187,108	17,655,895	19,002,424
NET ASSETS							
Unrestricted:							
General unrestricted	2,410,639	24,769,292	27,179,931			27,179,931	26,156,134
Unspent endowment earnings		2,808,505	2,808,505			2,808,505	2,114,207
Equipment replacement reserve		120,868	120,868			120,868	105,948
Total unrestricted	2,410,639	27,698,665	30,109,304			30,109,304	28,376,289
Temporarily restricted				2,801,082		2,801,082	2,520,150
Permanently restricted					9,080,509	9,080,509	9,611,309
Total net assets	2,410,639	27,698,665	30,109,304	2,801,082	9,080,509	41,990,895	40,507,748
Total liabilities and net assets	\$ 10,338,390	\$ 36,443,614	\$ 46,782,004	\$ 3,597,169	\$ 9,267,617	\$ 59,646,790	\$ 59,510,172

(1) This schedule includes activities related to Bethel and excludes activities related to the Foundation.

**Bethel College and Seminary and
Bethel College and Seminary Foundation
Statement of Activities - Bethel, Excluding the Activities of
Bethel College and Seminary Foundation**

for the year ended May 31, 1997, with comparative totals for the year ended May 31, 1996

	1997						1996 Total (1)
	General	Long-Lived Assets	Released From Temporarily Restricted	Total	Temporarily Restricted	Permanently Restricted	
Revenues and other additions:							
Tuition and instructional fees, net of internally funded aid of \$6,640,609 and \$5,713,057 for 1997 and 1996, respectively	\$ 23,911,761			\$ 23,911,761			\$ 21,787,281
Auxiliary services	9,436,044			9,436,044			9,129,004
Contributions, gifts and bequests	2,710,657	\$ 118,036		2,828,693	\$ 554,058	\$ 336,849	4,044,994
Grants, primarily federal and state financial aid	691,502			691,502			691,079
Endowment spending rate income	387,771			387,771	331,237		719,008
Other sources, primarily student charges	1,975,478	15,765		1,991,243	61,754		2,494,504
Investment income, net	232,255	(15,213)		217,042	92,596		407,429
Baptist General Conference gift	289,021			289,021			301,112
Net assets released from restrictions			\$ 758,713	758,713	(758,713)		
Total revenues and other support	39,634,489	118,588	758,713	40,511,790	280,932	336,849	39,429,483
Expenditures and other deductions:							
Instructional	13,102,542	370,464	585,716	14,058,722			12,708,920
General operating:							
Academic support	4,228,840	182,183	27,469	4,438,492			4,248,144
Institutional support	8,310,555	151,719	14,030	8,476,304			7,568,536
Public service	325,662	8,069		333,731			316,635
Student services	2,837,595	182,183		3,019,778			2,906,885
Auxiliary services	8,255,215	935,480	131,498	9,322,193			8,731,834
Government grant aid to students	691,502			691,502			691,079
Total expenditures	37,751,911	1,830,098	758,713	40,340,722			37,172,033
Allocation among unrestricted funds:							
Plant facilities allocation	(310,262)	310,262					
Long-term debt reduction	(1,299,138)	1,299,138					
Allocated reserves for equipment replacement	(14,920)	14,920					
Change in net assets before excess of endowment earnings over spending rate	258,258	(87,190)		171,068	280,932	336,849	2,257,450
Excess of endowment earnings over spending rate		694,298		694,298			836,853
Change in net assets	258,258	607,108		865,366	280,932	336,849	3,094,303
Net assets at beginning of year (restated)	2,152,381	27,091,557		29,243,938	2,520,150	8,743,660	37,413,445
Net assets at end of year	\$ 2,410,639	\$ 27,698,665	-	\$ 30,109,304	\$ 2,801,082	\$ 9,080,509	\$ 40,507,748

(1) This schedule includes activities related to Bethel and excludes activities related to the Foundation.

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ALLIED IRISH BANKS, p.l.c.

Allied Irish Banks, p.l.c. ("AIB") is issuing the Letter of Credit through its New York Branch, a full branch banking facility which is licensed by the State of New York Banking Department and insured by the Federal Deposit Insurance Corporation.

AIB, originally named Allied Irish Banks Limited, was incorporated in the Republic of Ireland in September 1966 in connection with the amalgamation of three long-established banks (the "Constituent Banks") with assets aggregating IR£255 million; The Munster and Leinster Bank Limited (established 1885), Provincial Bank of Ireland Limited (established 1825) and the Royal Bank of Ireland Limited (established 1836). The shares of the Constituent Banks were acquired by and were transferred to AIB as a holding company. In 1972, AIB became the sole banking entity in place of the three Constituent Banks.

In December 1983, AIB acquired 43% of the outstanding shares of First Maryland Bancorp ("FMB"). FMB is engaged in general commercial and retail banking and trust business throughout the State of Maryland. On March 21, 1989 AIB completed the acquisition of the remaining shares in FMB. At December 31, 1997, FMB had total assets of US\$10.9 billion and stockholders equity of US\$1.2 billion.

On July 18, 1991, AIB acquired TSB Bank of Northern Ireland, plc (a bank with 56 branches in Northern Ireland) for IR£133.8 million (US\$240.48 million*). The net assets of TSB Bank Northern Ireland, plc were IR£82.2 million translated at an exchange rate of IR£1 = STG£ 0.9040, the exchange rate prevailing at the date of acquisition.

On December 31, 1991, FMB completed its acquisition of the York Bank and Trust Company ("York Bank"), a State-chartered commercial bank based in York, Pennsylvania and in 1996 completed its acquisition of First Washington Bancorp which had total assets of \$810 million.

On December 29, 1995 AIB acquired an interest of 79.7% in the John Govett Group. The transaction makes AIB Ireland's largest fund manager with more than IR£20 billion of funds under management worldwide.

On April 30, 1997, Wielkopolski Bank Kredytowy (WBK), one of Poland's leading regional banks became a subsidiary of AIB when AIB's shareholding in the bank increased to 60%.

On July 8, 1997, FMB completed its acquisition of Dauphin Deposit Corporation ("Dauphin Deposit"), a Pennsylvania bank holding company. At December 31, 1997 Dauphin Deposit had total assets in US\$6.7 billion.

AIB is the largest banking corporation organized under the laws of Ireland. At December 31, 1997 AIB Group's total assets were IR£37.6 billion (US\$53.8 billion**). AIB Group provides a diverse and comprehensive range of banking, financial and related services principally in Ireland, Britain and the United States. AIB Group is currently organized into four divisions: AIB Bank (comprising Ireland and Britain), USA, Capital Markets, and WBK (Poland). AIB Bank, with assets of IR£14.4 billion (US\$20.6 billion**) at December 31, 1997 provides banking and related services to retail and corporate customers through 430 outlets and offices in Ireland, Britain, Channel Islands and the Isle of Man. The USA Division, with assets of IR£12.3 billion (US\$17.6 billion**) at December 31, 1997 consists of AIB's wholly-owned subsidiary, FMB, First National Bank of Maryland, Dauphin Deposit Bank and Trust Company, the York Bank, and AIB New York Branch. The Capital Markets Division, with assets of IR£9.3 billion (US\$13.3 billion**) at December 31, 1997, has responsibility for treasury operations worldwide, banking services for major corporate and state-owned entities in Ireland, international banking and investment banking services. WBK, in which AIB has a 60% shareholding, is one of Poland's leading regional banks. WBK's total assets amounted to IR£1.3 billion (US\$1.9 billion**) at December 31, 1997.

AIB's authorized capital is IR£250 million (US\$358 million**) of which IR£213.3 million (US\$305 million**) has been issued and fully subscribed. Pre-tax profits for the year ended December 31, 1997 amounted to IR£580 million (US\$830 million**), an increase of 38% from the previous year. Profit after tax was IR£398.5 million (US\$570 million**). Return on equity was 23.6 percent, and return on assets was 1.23% for the year ended December 31, 1997. AIB employs 23,800 people worldwide.

* Exchange Rate IR£1 = US\$1.8000

** Exchange Rate IR£1 = US\$1.4304

