

OFFICIAL STATEMENT DATED JANUARY 11, 1999

NEW ISSUE

Moody's Rating: Baa2

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

\$15,840,000

Minnesota Higher Education Facilities Authority
Mortgage Revenue Bonds, Series Four-Y
(Augsburg College)

Dated Date: January 1, 1999

Interest Due: April 1 and October 1,
commencing October 1, 1999

MATURITY SCHEDULE

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>
1999	\$340,000	3.60%	3.60%	2007	\$635,000	4.55%	4.65%
2000	\$475,000	3.90%	3.90%	2008	\$660,000	4.75%	4.75%
2001	\$490,000	4.00%	4.00%	2009	\$695,000	4.85%	4.85%
2002	\$510,000	4.15%	4.15%	2010	\$725,000	4.95%	4.95%
2003	\$535,000	4.30%	4.30%	2011	\$765,000	5.00%	5.05%
2004	\$555,000	4.40%	4.40%	2012	\$795,000	5.00%	5.10%
2005	\$580,000	4.40%	4.50%	2013	\$840,000	5.05%	5.15%
2006	\$605,000	4.50%	4.60%				

\$2,790,000 5.20% Term Bonds due October 1, 2016 Price 99.00%

\$3,845,000 5.30% Term Bonds due October 1, 2027 Price 98.75%

At the option of the Minnesota Higher Education Facilities Authority (the "Authority"), the Bonds are subject to optional redemption prior to maturity, as described herein. (See "The Bonds – Prior Redemption – Optional Redemption"). The Bonds will also be subject to optional redemption in whole or in part in certain cases of damage to or destruction or condemnation of the Project Facilities and in the event of a Determination of Taxability as described herein and in the Loan Agreement and Indenture. Bonds maturing October 1, 2016 and October 1, 2027 are subject to mandatory redemption in installments as described herein.

The Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases may be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. (See "Book Entry Only System" herein.) Norwest Bank Minnesota, National Association, Minneapolis, Minnesota, will act as Trustee.

The Bonds are special obligations of the Authority payable solely from Loan Repayments made by or on behalf of Augsburg College, Minneapolis, Minnesota (the "College"), pursuant to a Loan Agreement between the Authority and the College, or out of other amounts pledged pursuant to the Indenture as described herein. The Loan Repayments will be a general obligation of 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 offered when, as and if issued by the Authority and accepted by the Underwriter named below subject to the approval of legality by Faegre & Benson LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Moore, Costello & Hart, P.L.L.P., St. Paul and Minneapolis, Minnesota; and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, St. Paul, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about January 26, 1999.

The Underwriter intends to engage in secondary market trading in the Bonds, subject to applicable securities laws. The Underwriter is not obligated, however, to repurchase any of the Bonds at the request of any holder thereof. For information with respect to the Underwriter, see "UNDERWRITING" herein.

Dougherty Summit Securities LLC

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

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

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

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

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Timothy Medd (Ex Officio)	Audit Supervisor, Minnesota Higher Education Services Office, St. Paul, Minnesota
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Springsted Incorporated

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OFFICIAL STATEMENT

\$15,840,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

REVENUE BONDS, SERIES FOUR-Y

(Augsburg College)

(BOOK ENTRY ONLY)

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and Augsburg College (the "College"), an institution of higher education located in Minneapolis, Minnesota, in connection with the issuance of the Authority's \$15,840,000 Revenue Bonds, Series Four-Y (Augsburg College) (the "Bonds" or the "Issue").

The Bonds are being issued pursuant to the provisions of Sections 136A.25 to 136A.42, Minnesota Statutes, as amended, 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 also issued pursuant to a Trust Indenture (the "Indenture") between the Authority and Norwest Bank Minnesota, National Association, as trustee (the "Trustee").

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 Loan Repayments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. The proceeds of the Bonds will be loaned to the College by the Authority to be used (i) to finance the construction of a 145-bed, three-story apartment-style residence hall of approximately 66,000 square feet, with underground parking for 60 cars, including appurtenant site improvements (the "Project"), owned or to be owned and operated by the College and located on the campus of the College; (ii) to refund, in advance of maturity, the 2000 through 2017 maturities of the Authority's Revenue Bonds, Series Three-G (Augsburg College) (the "Series Three-G Bonds") issued on behalf of the College and dated May 1, 1992; (iii) to fund a debt service reserve, and (iv) to pay capitalized interest and certain issuance costs. See "USE OF PROCEEDS," herein, for a more detailed description of the use of Bond proceeds.

The Bonds are secured by a pledge of the Loan Repayments, which are a general obligation of the College, and a mortgage on and a security interest in the land, building, equipment, and certain personal property associated with the Project and the adjacent existing Anderson Hall (the "Mortgaged Property"). Under the Loan Agreement, the College agrees to provide the funds necessary to make timely payment of the Loan Repayments. See "SUMMARY OF SECURITY FOR THE BONDS" herein.

The Reserve Account will be funded in the amount of the Reserve Requirement from proceeds of the Bonds on the date of issuance. (See "RESERVE ACCOUNT" herein.)

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.

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, premium, if any, and interest on the Bonds.

Risk of Insufficient Collateral

The Bonds are secured by (a) a pledge by the Authority to the Trustee of amounts payable by the College under the Loan Agreement, (b) amounts in the Reserve Account which will be held by the Trustee and applied to the payment of principal and interest on the Bonds, and (c) a mortgage on and security interest in the Mortgaged Property. If an Event of Default occurs, there can be no assurance that such collateral will be sufficient to pay the principal of, premium, if any, and interest on the Bonds.

Adequacy of Revenues; Prior Liens

Payment of principal of and interest on the Bonds is intended to be made from Loan Repayments of the College. The College's ability to make Loan Repayments will be dependent on its ability to receive sufficient unrestricted revenues in excess of expenditures. The receipt of such revenues and the College's expenditures are subject to many conditions and factors, some of which may be beyond the control of the College and may change in the future to an extent that cannot be presently determined. Certain debt of the College is secured by prior pledges of fees, tuition, and gift receipts and by mortgage liens on property other than the Mortgaged Property, and the funds and property pledged or mortgaged would not be available to pay Bondholders until the debt so secured has been paid. See "SUMMARY OF SECURITY FOR THE BONDS — Prior Liens" herein and "Indebtedness of the College" in Appendix I.

Foreclosure of the Mortgage

The Bonds are limited obligations of the Authority and are payable from Loan Repayments by the College under the Loan Agreement or from the Reserve Account. If sufficient payments are not forthcoming from these sources, it could be necessary for the Trustee to foreclose under the Mortgage. The College has not received an appraisal of the Mortgaged Property, and no assurance can be given as to the amount which could be realized upon sale of the Mortgaged Property at a foreclosure sale. The value of the Mortgaged Property upon foreclosure of the Mortgage may be adversely affected by a number of factors. Attempts to foreclose under mortgages are frequently met with protracted litigation and/or bankruptcy proceedings, which proceedings cause delays in realizing on collateral and may otherwise limit the value of the collateral.

Reliance on Tuition and Fees

The adequacy of College revenues will be largely dependent on the amount of future tuition revenue received by the College. Such revenue in turn will depend primarily on the ability of the College to charge sufficient rates for tuition and to maintain enrollment levels. Future enrollment levels will depend on the number of students applying to the College and accepting offers of admission. A number of factors, including, without limitation, levels of tuition rates and fees, competition from other colleges, a change in the number of college-age students and changing general economic conditions will influence the number of applicants to the College.

Financial Aid

Approximately 84% of the College's students currently receive some form of financial aid covering tuition and fees or living expenses from the College and other sources. No assurance can be given that federal and State financial aid will continue to be funded at current levels or that the College will continue to fund student aid at current levels. Curtailment of such aid may cause a decline in enrollment, which may in turn have an adverse effect on the College's revenues.

Damage or Destruction

Although the College will be required to obtain certain insurance with respect to the Mortgaged Property as set forth in the Loan Agreement, there can be no assurance that the College will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss will not exceed the coverage of such insurance policies.

Nature of Pro Forma Debt Service Coverage

Certain historical operating revenue for the College and computed pro forma debt service coverage is provided in APPENDIX I under the caption "Annual Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year." The pro forma coverage is merely a mathematical computation as reflected in the applicable table and constitutes no assurance as to the future sufficiency of College revenues to satisfy College operations and debt service requirements for the Bonds and other indebtedness of the College.

College 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, the Indenture, the Mortgage or the Bonds or the other obligations of the College. Accordingly, for payment of principal, interest, and premium, if any, on the Bonds, holders of the Bonds must look solely to the Loan Repayments, the Reserve Account, the Mortgaged Property and other funds, if any, held by the Trustee under the Indenture.

Bankruptcy

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

Year 2000

Many currently installed computer systems, software products, and other devices and equipment which incorporate microprocessors are coded to accept two digit entries in the date code field. Any of those systems, products, devices and equipment that are time sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. If not corrected, such systems, products, devices and equipment could fail or create erroneous results by, at, or after January 1, 2000 (the "Year 2000 problem").

There can be no assurance that a Year 2000 problem of the College, or any entity with which the College does business, will not have a material adverse effect on the College, or jeopardize the College's ability to pay its obligations, including the Loan Repayments. (See "Year 2000 Readiness Disclosure" in Appendix I and "DTC Year 2000 Readiness" herein.)

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the College:

- (1) Reinstatement of or establishment of mandatory governmental wage and price controls.
- (2) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, without being able to obtain corresponding increases in revenues.
- (3) Adoption of Federal, State or local legislation or regulations having an adverse effect on the future operating or financial performance of the College.

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 material events enumerated in the Rule to such repositories or the Municipal Securities Rulemaking Board and to the Minnesota state information depository, if any. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Agreement to be executed by 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, as well as the list of material events. 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 failed to comply with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the College to comply with the Undertaking will not constitute an event of default under the Loan Agreement, the Indenture or the Bonds (although holders may have other remedies at law or in equity). Nevertheless, if

such a failure occurred, it would have to be reported by the College in accordance with the Rule and would have to be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by the College pursuant to the Undertaking, could adversely affect the value and marketability of the Bonds.

THE BONDS

General

The Bonds will be dated January 1, 1999. The Bonds will mature annually each October 1, commencing October 1, 1999, as set forth on the cover page of this Official Statement. The Bonds are being issued in denominations of \$5,000 and integral multiples thereof not exceeding the amount maturing in any maturity, and shall be fully registered as to principal and interest. Interest on the Bonds will be payable on each April 1 and October 1, commencing October 1, 1999.

Book Entry Only System

The Depository Trust Company

The Depository Trust Company ("DTC"), New York, NY, 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). One fully registered security certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("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 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 of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of

Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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.

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 payable 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, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, 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.

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, Security 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.

DTC Year 2000 Readiness

DTC is currently supporting Year 2000 testing. A home page on the Internet has been established by DTC at www.dtc.org where notices and other information regarding DTC's Year 2000 project progress will be made available to Internet users regarding DTC Year 2000 issues.

The information in this section concerning DTC, DTC's book entry system, and DTC Year 2000 readiness has been obtained from sources that the Authority believes to be reliable, but neither the College nor the Authority takes any responsibility for the accuracy thereof.

Prior Redemption

Mandatory Redemption

The Bonds maturing on October 1, 2016 and 2027 shall be called for redemption on October 1 in the years 2014 through 2015 and 2017 through 2026, respectively, at the principal amount thereof to be redeemed, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account, in the respective amounts set forth below.

Term Bonds Due October 1, 2016		Term Bonds Due October 1, 2027			
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2014	\$885,000	2017	\$265,000	2023	\$365,000
2015	\$925,000	2018	\$280,000	2024	\$380,000
2016*	\$980,000	2019	\$295,000	2025	\$405,000
		2020	\$310,000	2026	\$425,000
		2021	\$330,000	2027*	\$445,000
		2022	\$345,000		

* *Maturity.*

The Bonds maturing in 2016 and 2027, to be retired pursuant to the mandatory redemption obligations set forth above, may, at the option of the College, be reduced by the principal amount of any Bonds of such maturity which at least 45 days prior to such redemption:

- (1) have been delivered to the Trustee for cancellation; or
- (2) have been purchased or redeemed (other than through operation of the Sinking Fund Subaccount) and canceled by the Trustee and not theretofore applied as a credit against such mandatory redemption obligations.

Optional Redemption

The Bonds are subject to redemption at the request of the College on October 1, 2009 and on any day thereafter. Redemption may be in whole or in part in such order of maturity as directed by the College and selected by random means within a maturity, in integral multiples of \$5,000, at par plus accrued interest.

Extraordinary Optional Redemption

The Bonds are also subject to optional redemption at par and accrued interest in integral multiples of \$5,000, in whole or in part, on any date, in certain cases of damage to or destruction or condemnation of the Project Facilities, and upon a Determination of Taxability as provided in the Loan Agreement (see "Determination of Taxability" herein and "SUMMARY OF DOCUMENTS — The Loan Agreement" in Appendix V).

Partial Redemption

If less than all Bonds of a maturity are called for redemption, the Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed.

In the case of Bonds of denominations greater than \$5,000, if less than all of such Bonds then outstanding are to be called for redemption, then for all purposes in connection with redemption, each \$5,000 of principal amount shall be treated as though it was a separate Bond of the denomination of \$5,000 bearing the number borne by such fully registered Bond and a subnumber assigned by the Trustee. Interest shall cease to accrue on the portion of the principal amount of such Bond represented by such \$5,000 unit or units of principal amount on and after the date fixed for redemption provided that funds sufficient for payment of the redemption price shall have been deposited with the Trustee and shall be available for the redemption of said \$5,000 unit or units on the date fixed for redemption, and in such event, such Bond shall not be entitled to the benefit or security of the Indenture, the Mortgage or the Loan Agreement to the extent of the portion of its principal amount (and accrued interest to the date fixed for redemption and applicable premium, if any) represented by such \$5,000 unit or units of principal amount, nor shall new Bonds be thereafter issued corresponding to said unit or units.

Notice of Redemption

Notice of any redemption shall be mailed to the registered Owners at their addresses shown on the registration books of the Authority and maintained by the Trustee not less than thirty days, and if more than 60 days, then again not less than 30 nor more than 60 days, before the date fixed for such payment. If moneys are available at the office of the Trustee to pay the redemption price on the date of redemption, any Bonds thus called shall not bear interest after the call date and, except for the purpose of payment by application of the funds so deposited, shall no longer be protected by the Indenture.

Determination of Taxability

If a Determination of Taxability is made that the interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of issuance, the Bonds shall bear additional interest equal to two percent (2.00%) per annum above the basic interest rate from the Date Of Taxability effective until the date on which the principal of the Bonds is paid. **If a Determination of Taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the additional interest on the Bonds.** See "TAX EXEMPTION" herein and "DEFINITION OF CERTAIN TERMS" in Appendix IV.

The College will have the option to prepay, to the extent that interest on the Bonds becomes subject to federal income taxes, the Loan represented by the Bonds, in full or in part on the next date for which due notice can be given or any date thereafter following a Determination of Taxability at a price of par and accrued interest (including additional interest from the Date of Taxability).

Additional Bonds

In addition to the Bonds, the Authority may in its discretion and with the consent of the College issue Additional Bonds (i) to provide funds to complete the Project, or (ii) to refund all or any portion of the then outstanding Bonds, or (iii) to provide funds for improvements to or alterations, repairs or replacement of the Project Facilities or (iv) for another project or projects, as defined in and authorized by the Act, provided that no such Additional Bonds will be issued under the Indenture or secured by the Trust Estate on a parity with the Bonds then outstanding unless:

1. The exclusion of interest on the outstanding Bonds from gross income of the holders of the Bonds for purposes of federal income taxation under the Code shall not be jeopardized by the issuance of the Additional Bonds.

2. A supplement to the Mortgage is executed and delivered describing the Additional Bonds as additional indebtedness secured thereby.
3. No Default or Event of Default on the part of the College exists under the Loan Agreement or the Mortgage.
4. The College furnishes evidence satisfactory to the Authority of the College's ability to meet debt service on the Additional Bonds and comply with certain financial covenants as further provided in Section 6.14 of the Loan Agreement and deposits additional monies or investments in the Reserve Account, to be held by the Trustee under the Indenture in such amount and value as shall bring the amount on deposit in the Reserve Account to the Reserve Requirement, calculated after giving effect to the issuance of the Additional Bonds.

USE OF PROCEEDS

The Refunding

A portion of the Bonds, together with funds on deposit in certain funds and accounts of the Series Three-G Bonds will be deposited in an Escrow Account to provide for the refunding of the 2000 through 2017 maturities of the Series Three-G Bonds which will be called on January 1, 2000 at a price of 102.0% plus accrued interest.

The Series Three-G Bonds were issued to finance the acquisition, construction and equipping of Anderson Hall, a residence hall, and to refinance portions of the Foss, Lobeck, Miles Center.

At the Closing Date, Bond proceeds, together with balances in the reserve fund and other accounts held by the Series Three-G Bonds Trustee will be deposited in an Escrow Account to be established pursuant to an Escrow Agreement among the Series Three-G Bonds Trustee as Escrow Agent, the Trustee, the College and the Authority. The Escrow Account will be funded with cash and U.S. Treasury securities sufficient to provide for the defeasance of the entire outstanding principal amount of the Series Three-G Bonds, \$8,510,000 of which will be outstanding at the date of closing of the Bonds. In accordance with the trust indenture for the Series Three-G Bonds, the Series Three-G Bonds will no longer be considered outstanding under the Indenture upon such deposit for prepayment and will be payable solely from the Escrow Account.

Verification services necessary to ensure the adequacy of the Escrow Account to provide timely payment of the debt service for which the Escrow Account is obligated will be performed by McGladrey & Pullen, L.L.P., Certified Public Accountants.

The Project

The Project consists of the construction and equipping of a 145-bed, apartment-style student residence hall of approximately 66,000 square feet on the College's campus.

The three-story residence hall will be frame construction with a brick and stucco exterior and will include underground parking for 60 cars. The residence hall is expected to be occupied principally by junior and senior-year students. The residence hall includes nine efficiency apartments, 29 two-bedroom apartments with a combination of single and double occupancy bedrooms and 15 four-bedroom apartments, to house a total of 145 students. The living space

in the apartments is larger than in other College residential structures and has been designed to respond to student preferences identified by the College.

The architect for the Project is Elness Swenson Graham Architects Inc. The architect has extensive experience in designing college residence halls. The College has entered into a guaranteed maximum price construction contract with Kraus-Anderson Construction Company to construct the Project. The guaranteed maximum price is \$5,378,098. Site clearing and site preparation began in December 1998, and the Project is expected to be completed by fall 1999.

SOURCES AND USES OF FUNDS

<u>Sources</u>	
Bond Proceeds	\$15,840,000
Less: Original Issue Discount	(107,840)
Series Three-G Reserve Fund	<u>840,649</u>
Total Sources	<u>\$16,572,809</u>
<u>Uses</u>	
Project Costs	\$ 6,002,200
Refunding Escrow	8,855,854
Debt Service Reserve	1,234,745
Capitalized Interest	214,170
Issue Costs	<u>265,840</u>
Total Uses	<u>\$16,572,809</u>

In the event issuance costs including underwriter's discount exceed 2% of the proceeds of the Bonds, defined as par less original issue discount according to the reoffering scale, such excess shall be paid by the College from other than Bond proceeds.

Accrued interest received at Bond Closing will be deposited into the Bond and Interest Sinking Fund Account and applied as a credit against the amount to be deposited in the Bond and Interest Sinking Fund Account on or before the next interest payment date.

SUMMARY OF SECURITY FOR THE BONDS

General

The Bonds will be special obligations of the Authority payable solely from Loan Repayments made by the College as required by the Loan Agreement or out of other amounts pledged therefor under the Indenture including moneys and investments in the Reserve Account for the Bonds.

The Bonds are secured by a pledge by the Authority to the Trustee of the Loan Repayments which will be a general obligation of the College. The College will agree pursuant to the terms of the Loan Agreement to make payments directly to the Trustee in such amounts and at such times as to assure that the Trustee has sufficient funds with which to pay the principal of and interest on the Bonds. The College agrees to make such payments out of its operating funds or any other moneys legally available.

The College will covenant and agree pursuant to the terms of the Loan Agreement to charge tuition fees, other fees, rentals and charges which, together with the general funds of the College 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.

Pursuant to the Combination Mortgage, Security Agreement and Fixture Financing Statement (the "Mortgage"), the College will mortgage and grant a security interest in the Mortgaged Property to the Authority to secure the College's obligations to make timely Loan Repayments (see "SUMMARY OF DOCUMENTS — The Mortgage"). The Authority will, in turn, assign its interest in the Mortgage to the Trustee.

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").

Prior Liens

The College's \$2,610,000 Dormitory and Student Union Bonds of 1966 (the "1966 Bonds") were issued to finance the construction of Urness Tower, a student residence building, and the College Center, the student union. The 1966 Bonds are secured by a first lien on the net revenues of Urness Tower and the College Center, a first lien on student union fees of not less than \$30 per full-time student per year and a mortgage lien on Urness Tower and the College Center. For Fiscal Year ended May 31, 1998, student union fees totaled \$342,500 and the net revenues of Urness Tower totaled \$815,216. The final maturity for the 1966 Bonds is in 2016, and maximum annual debt service is \$110,500. The full amount of debt service on the 1966 Bonds is being provided from the student union fees.

The Authority's \$2,200,000 First Mortgage Revenue Bonds, Series A (Augsburg College) (the "Series A Bonds"), were issued on behalf of the College in 1972 to finance the construction of Mortenson Tower, a student residence building. The Series A Bonds are secured by a first lien on 4% of the tuition and fees received by the College, a first lien on the gross revenues of Mortenson Tower and a mortgage lien on Mortenson Tower. For Fiscal Year ended May 31, 1998, 4% of tuition and fees equaled \$1,143,897 and gross revenues of Mortenson Tower totaled \$827,000. The final maturity for the Series A Bonds is in 2012, and maximum annual debt service is \$174,240.

The Authority's \$11,840,000 Mortgage Revenue Bonds, Series Four-F (Augsburg College) (the "Series Four-F Bonds"), were issued on behalf of the College in 1996 to refinance certain prior indebtedness and to finance the acquisition and installation of energy management equipment and the construction of Lindell Library. The Series Four-F Bonds are secured by a first lien on contributions and pledge receipts restricted by donors or allocated by the College's Board of Regents to Lindell Library and by a mortgage lien on Lindell Library. The College expects to receive restricted contributions and pledge receipts in the future totaling approximately \$7,200,000 to be applied to \$9,865,000 of principal outstanding on the Series Four-F Bonds. The final maturity for the Series Four-F Bonds is in 2023.

The Authority's \$450,000 Revenue Notes, Series Four-W (Augsburg College) (the "Series Four-W Notes"), were issued on behalf of the College in 1998 to finance the purchase of improved real estate. The Series Four-W Notes are secured by a mortgage lien on the real estate.

The fees, revenues, contributions, pledge receipts and mortgaged property described herein which are subject to prior liens will not be available to pay principal and interest on the Bonds to the extent they are required to pay the indebtedness for which they have been pledged by the College (see "Indebtedness of the College" in Appendix I).

Financial Covenants

The College will covenant in the Loan Agreement that:

- a. For at least two of the preceding three complete Fiscal Years for which Audited Financial Statements are available, the Revenue/Expenditure Test must be met.
- b. For so long as the Bonds remain outstanding, the College shall incur no Funded Debt with a maturity in excess of two years (except for a refunding or refinancing of Funded Debt outstanding which does not increase Maximum Annual Debt Service and further excepting that portion of Funded Debt for capital projects for which the College has written and signed pledges of gifts for such project), unless (i) the average Debt Service Coverage Ratio for the two most recent Fiscal Years for which audited financial statements are available, or (ii) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available was at least 120% or 125%, respectively; provided that if the additional Funded Debt proposed to be incurred is to finance student housing, student dining, student union or other revenue producing facilities, there shall be added to the amount of Net Income Available for Debt Service for each Fiscal Year during the Test Period for purposes of this paragraph (b), the estimated Net Income Available for Debt Service to be derived from such facility in the first Fiscal Year following the estimated date of completion of such facility as estimated in a report of an Independent Management Consultant to the College and the Trustee; and provided further that if the Board of Regents has increased tuition, student fees or other rates or charges at or after the end of such Fiscal Year, for purposes of this paragraph (b), there shall be added to Net Income Available for Debt Service for each Fiscal Year during the Test Period the amount of such increase net of increased operating expenses, as estimated in a report of an Independent Management Consultant to the College and the Trustee; and provided further that if the Additional Funded Debt proposed to be incurred is to finance equipment or facilities which will produce savings in operating costs of the College, as estimated in a report of an Independent Management Consultant to the College and the Trustee, there shall be added to the amount of Net Income Available for Debt Service for each Fiscal Year during the Test Period, for purposes of this paragraph (b), the estimated net savings to be derived from such equipment or facilities in the first Fiscal Year following the estimated date of acquisition or construction of such equipment or facilities. At no time shall the amount of Funded Debt which is variable rate indebtedness exceed 40% of total Funded Debt as shown on the most recent audited financial statements of the College.

For purpose of these covenants, the following terms shall have the following meanings:

"Adjusted Increase (Decrease) in Unrestricted Net Assets" means the Increase (decrease) in Unrestricted Net Assets, as reported in the Statement of Activities section of the audited financial report of the College; adjusted to: (a) exclude depreciation and amortization expense and include (as a reduction to unrestricted net assets) the cost of current-year equipment acquisitions which have been acquired with unrestricted funds and capitalized, (b) exclude net assets released from restriction representing acquisition of land, buildings and equipment, (c) exclude extraordinary gains or losses, and (d) exclude unrealized net gains or losses on unrestricted investments.

"Debt Service Coverage Ratio" means for any particular period, the ratio (expressed as a percentage) determined by dividing Net Income Available for Debt Service during the period by the total amount of principal of and interest required to be paid on Funded Debt during the period; provided that for purposes of calculating Debt Service Coverage Ratio under Section 6.14(b), Maximum Annual Debt Service of (a) then outstanding Funded Debt and (b) Funded Debt thereafter incurred or proposed to be incurred shall be substituted for total amount of principal of and interest required to be paid on Funded Debt during the period.

"Funded Debt" shall mean indebtedness (including a guarantee of indebtedness) for borrowed money having a maturity date of more than one year from the date of creation thereof and which, under generally accepted accounting principles, is shown on the balance sheet as a liability, including such indebtedness whenever payable if renewable at the sole option of the College for a term (including such renewal) of more than one year pursuant to the terms thereof or of a revolving loan agreement for a period of more than one year from the date of creation thereof unless and to the extent the lender thereunder may at its option require repayment at intervals of one year or less and including lease rental obligations with a term of more than one year which, under generally accepted accounting principles, are shown on the balance sheet as a liability.

"Maximum Annual Debt Service" means the largest total amount of principal of and interest on Funded Debt payable by the College in any future Fiscal Year during which Bonds will (if paid at their stated maturity dates or redeemed in accordance with a mandatory sinking fund schedule) be outstanding and as further defined in Section 6.14 of the Loan Agreement.

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

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

"Test Period" means either the two most recent Fiscal Years for which audited financial statements are available or the most recent Fiscal Year for which audited financial statements are available, as appropriate.

For purposes of (a) and (b) above, all capitalized terms used but not otherwise defined in the Loan Agreement shall have the meanings provided for audits of colleges and universities, as applied by Virchow, Krause & Company, LLP in the report of the College's financial statements for the Fiscal Year ended May 31, 1998.

ACCOUNTS

Summary

The Indenture will provide for the creation of certain trust accounts into which certain proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement are to be deposited. These accounts include a Construction Account, a Bond and Interest Sinking Fund Account, a Reserve Account, and a Redemption Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Escrow Account or into the Construction Account, except that the amount of \$1,234,745 will be deposited into the Reserve Account and accrued interest will be deposited in the Bond and Interest Sinking Fund Account. Following Bond Closing, amounts received by the Trustee from the College as Loan Repayments are to be deposited into the Bond and Interest Sinking Fund Account, the Reserve Account and the Redemption Account as required by the Loan Agreement and used, to the extent needed, to redeem or pay the principal of and interest on the Bonds.

Construction Account

There shall be deposited initially into the Construction Account the balance of the proceeds received from the sale of the Bonds, exclusive of accrued interest and the initial deposit to the Reserve Account, less the amount of the underwriter's discount and the amount of the deposit to the Escrow Account. 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 (other than Bond proceeds) all costs of issuance of the Bonds (including underwriting discount) in excess of 2.00% of the proceeds of the Bonds (par value minus 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 construction, furnishing and equipping of 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 or the Redemption Account.

Bond and Interest Sinking Fund Account and Sinking Fund Subaccount

Initially there shall be deposited into the Bond and Interest Sinking Fund Account any amount of Bond proceeds representing accrued interest, which is to be used to pay interest on the Bonds. Deposits shall be made to the Bond and Interest Sinking Fund Account from transfers of amounts in other accounts, as permitted by the Indenture, and from Loan Repayments made by the College. A separate Sinking Fund Subaccount will be maintained within the Bond and Interest Sinking Fund Account for the retirement of Term Bonds on each Sinking Fund redemption date. Deposits into the Sinking Fund Subaccount shall be made at least two Business Days prior to each October 1 on which a sinking fund payment is due in amounts equal to the redemption price of the principal specified for mandatory redemption. The moneys and investments in the Bond and Interest Sinking Fund Account will be irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of and interest on the Bonds as and when such principal and interest shall become due and payable and for that purpose only.

Reserve Account

There shall be initially deposited into the Reserve Account from Bond proceeds the Reserve Requirement for the Series Four-Y Bonds. The Reserve Account is irrevocably pledged to the payment of principal of and interest on the Bonds, as may be required from time to time. All amounts paid by the College as Loan Repayments not deposited or required to be deposited into the Bond and Interest Sinking Fund Account or the Redemption Account will be deposited into the Reserve Account in order to maintain the Reserve Account in an amount not less than the Reserve Requirement.

In the event that a withdrawal of funds from the Reserve Account reduces the balance therein to a sum less than the Reserve Requirement, the College shall forthwith restore the deficiency, provided that if such funds are withdrawn in order to make any rebate payment required to be made by the Authority under the Loan Agreement, the Authority shall restore such deficiency or shall reimburse the College for amounts so withdrawn. Investments in the Reserve Account shall be valued at market value. Investments in the Reserve Account shall be valued by the Trustee not less frequently than as of the first day of the calendar month next preceding October 1, 1999 and semiannually thereafter. If upon any valuation date, the amount on deposit in the Reserve Account (exclusive of accrued but unrealized interest on moneys or investments therein) is more than the amount of the Reserve Requirement, or more than the amount (if less than the Reserve Requirement) allowed for a reasonably required reserve fund under the Arbitrage Regulations, the Trustee shall forthwith transfer the excess to the Bond and Interest

Sinking Fund Account. If on any valuation date the amount on deposit in the Reserve Account is less than the amount of the Reserve Requirement, then (unless the value of the amount on deposit exceeds the amount allowed for a reasonably required reserve fund under the Arbitrage Regulations) such deficiency shall be restored to an amount equal to the amount of the Reserve Requirement within not less than 30 days.

Interest and income in the Reserve Account shall be transferred to the Bond and Interest Sinking Fund Account, to the extent the amount on deposit in the Bond and Interest Sinking Fund Account is less than the amount permitted for a bona fide debt service fund under the Arbitrage Regulations, and any excess interest and income to the Redemption Account. When funds on deposit in the Reserve Account, together with available funds in any other Account, shall be sufficient to pay the principal of and interest on all outstanding Bonds, when due, such funds shall be transferred, as appropriate, into the Bond and Interest Sinking Fund Account or the Redemption Account; provided that the Trustee is authorized, in its discretion, to use funds and investments in the Reserve Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if the College or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

Redemption Account

Any amounts received which are not otherwise committed will be paid into the Redemption Account. Funds in this Account will be available to maintain required balances in other accounts and to purchase or redeem Bonds. No specific amounts are required. Notwithstanding the foregoing, the Trustee, in its discretion, is authorized to use funds and investments in the Redemption Account to pay the amount of any rebate due the United States in respect of the Bonds under Section 148 of the Internal Revenue Code if the College or the Authority shall have failed to pay or provide for the payment thereof under the Loan Agreement.

General Bond Reserve Account

Pursuant to its General Bond Resolution adopted October 31, 1972, the Authority has established and maintains a General Bond Reserve Account. In general, the General Bond Reserve Account secures certain 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, Reserve Account, and the Redemption Account shall be invested by the Trustee only in investments as authorized by law from time to time which currently and generally are as follows: Direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states and local governments and state housing finance agencies, rated at least "A;" revenue bond obligations of states and local governments rated at least "AA" or "Aa;" mutual funds or unit trusts which invest solely in the foregoing obligations of the United States government, its agencies, state and local governments or in repurchase agreements or reverse repurchase agreements collateralized by the foregoing obligations; 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 "A;" certain types of repurchase agreements; and certain commercial paper maturing in 270 days or less. Section 5.04 of the Indenture sets forth further restrictions as to type and maturity of investments.

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. 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 113 issues (including refunded and retired issues) totaling \$705,676,189, of which \$405,750,967 (excluding the Bonds) is outstanding as of December 1, 1998. No additional bonds have been authorized but unissued 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 Dougherty Summit Securities LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$15,589,599.65 (representing the aggregate principal amount of the Bonds less an underwriter's discount of \$142,560.00 and original issue discount of \$107,840.35) plus accrued interest with respect to the Bonds.

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

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

As noted on the cover page hereof, Moody's Investors Service has assigned a long-term rating of "Baa2" to the Bonds. The rating reflects only the view of such rating agency. Further information concerning the rating is available from Moody's. There is no assurance that the rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

FUTURE FINANCING

The College regularly improves and expands its physical plant and may incur long-term financing in compliance with the financial covenants made in the Loan Agreement for these purposes. The College plans to sell to Hennepin County, Minnesota and lease back the College's ice arena during the first quarter of 1999 pursuant to a 20-year capital lease. Lease payments are expected to be approximately \$200,000 per year in Fiscal Years 2000 through 2019 and \$57,000 in Fiscal Year 1999. The College will continue to operate the ice arena. The College plans to use funds totaling approximately \$2.5 million received from the sale to renovate, upgrade, and expand College facilities and acquire equipment.

LITIGATION

The Authority and the College are unaware of any pending or overtly threatened in writing 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 Moore, Costello & Hart, P.L.L.P., of St. Paul and Minneapolis, Minnesota; and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, St. Paul, Minnesota.

TAX EXEMPTION

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

The Loan Agreement and 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. If a Determination of Taxability occurs,

however, whether or not as a result of violation of any of the Tax Covenants, the outstanding Bonds are subject to optional redemption without premium, and the Bonds shall bear additional interest at a rate of two percent (2%) per annum from the Date Of Taxability until the respective dates on which the principal of the Bonds is paid. (See "THE LOAN AGREEMENT — Determination of Taxability" in Appendix IV). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

Under present provisions of the Code, interest on the Bonds is exempt from federal income taxes, including the alternative minimum tax imposed with respect to individuals and corporations, except that interest on the Bonds will be included in the computation of "adjusted current earnings", which may be an item of tax preference includable in alternative minimum taxable income used in calculating the alternative minimum tax that may be imposed with respect to corporations.

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

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

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

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, environmental tax or foreign branch profits tax liability, or the inclusion of social security or other retirement payments in taxable income.

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 dollar amount of the initial offering price to the public of the Series Four-Y Bonds with stated maturities in 2005-2007, 2011-2013, and the Term Bonds maturing in 2016 and 2027 (the "Discount Bonds") is less than the principal amount of Series Four-Y Bonds of such maturity.

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

Augsburg College was founded as a Lutheran seminary in Marshall, Wisconsin, in 1869 and moved to Minneapolis, Minnesota, in 1872. The first college students were enrolled in 1874 and the first graduation was in 1879. The College today is a non-profit, co-educational, liberal arts college offering undergraduate and graduate degrees.

The College is affiliated with the Evangelical Lutheran Church in America (ELCA). It is accredited by the North Central Association of Colleges and Universities and the National Council for the Accreditation of Teacher Education (Secondary and Elementary). It is a member of the Associated Colleges of the Twin Cities (ACTC) and is registered with the Minnesota Higher Education Services Office in accordance with Minnesota Statutes.

It is the policy of the College not to discriminate unlawfully on the basis of race, creed, national or ethnic origins, age, marital status, sex or handicap as required by Title IX of the 1972 Educational Amendments or Section 504 of the Rehabilitation Act of 1973, as amended, in its admission policies, educational programs, activities and employment practices. The College and its faculty subscribe to the Statement of Principles on Academic Freedom as promulgated by the American Association of University Professors and the Association of American Colleges.

Governance

The College is governed by a Board of Regents, consisting of not more than thirty-five members, each elected for a term of six years. Regents are elected by the governing members of the College, consisting of 80 members from four synods of the ELCA, ten members from the Board of Regents, five faculty members, three College administrators, and two students.

Board of Regents

Chairperson

Kathryn H. Tunheim

President, Tunheim Santrizos Company,
Minneapolis, Minnesota

Secretary

Ruth E. Johnson

Director, Mayo Breast Clinic, Mayo Clinic,
Rochester, Minnesota

Vice Chairperson

Norman R. Hagfors

President, Norsen, Inc., Minneapolis, Minnesota

Treasurer

Glen E. Person

Retired Businessman, Eden Prairie, Minnesota

The Rev. Gary E. Benson

Directing Pastor, Zumbro Lutheran Church,
Rochester, Minnesota

Kurt V. BlueDog

Attorney at BlueDog, Olson, and Small, P.L.L.P.,
Minneapolis, Minnesota

Jackie Cherryhomes

President of Minneapolis City Council,
Minneapolis, Minnesota

The Rev. Roger C. Eigenfeld

Senior Pastor, St. Andrew's Lutheran Church,
Mahtomedi, Minnesota

Tracy Lynn Elftmann	Mackall Crounse and Moore, Minneapolis, Minnesota
H. Theodore Grindal	Attorney/Partner, Lockridge, Grindal, Nouen and Holstein P.L.L.P., Minneapolis, Minnesota
James E. Haglund	President/Owner, Central Container Corporation, Minneapolis, Minnesota
Beverly Thompson Hatlen	Board Chair, Minnesota Life College, President of Hatlen Foundation, Apple Valley, Minnesota
Allen A. Housh	Business Consultant, A.A. Housh and Assoc., Edina, Minnesota
The Honorable LaJune Thomas Lange	District Court Judge, Hennepin County, Minneapolis, Minnesota
David J. Larson	Senior Vice President, Lutheran Brotherhood, Minneapolis, Minnesota
Rev. Jose Antonio Machado	Pastor, Todos Los Santos Congregation, Minneapolis, Minnesota
Julie R. Nelson	Executive Director, Dwight D. Opperman Foundation, Minneapolis, Minnesota
Ronald G. Nelson	Vice President, 3M, St. Paul, Minnesota
Ronald J. Peltier	President, Edina Realty Home Services, Edina, Minnesota
Wayne G. Popham	Senior Attorney, Hinshaw & Culbertson, Minneapolis, Minnesota
Curtis A. Sampson	President, Communications Systems, Hector, Minnesota
Glen J. Skovholt	Vice President, Honeywell, Inc., Minneapolis, Minnesota
P. Dawn Taylor	President, Iowa Group, Des Moines, Iowa
Jean Taylor	Vice President, Travel Tags, Eagan, Minnesota
Michael W. Thompson	Realtor, Edina Realty, Edina, Minnesota
Pamela L. Tibbetts	Senior Vice President, Fairview Health Systems, Minneapolis, Minnesota
Joan L. Volz	Attorney, Maplewood, Minnesota
May Ka-Yee Yue	President, Norris Education Innovations, Inc., Bloomington, Minnesota

President

William V. Frame, Ph. D. was elected President of Augsburg College in May 1997. Prior to joining Augsburg, he was vice president for finance and operations at Pacific Lutheran University in Tacoma, Washington.

Dr. Frame began his career in 1967 as a political science instructor at Kenyon College in Gambier, Ohio, becoming chair of the department in 1977. After a fellowship at the Newberry Library in Chicago, Illinois, Dr. Frame left academia in 1982 to join First National Bank of Chicago. Between 1982 and 1989 he served as officer, assistant vice president, and senior corporate banker. During this time Dr. Frame also was on the adjunct faculty of the School for New Learning at DePaul University. From 1989 to 1992, Dr. Frame was vice president and corporate treasurer with the Tonka Corporation in Minneapolis. In 1992, Dr. Frame returned to academia at Pacific Lutheran where he was the principal architect of "PLU 2000," the institution's strategic plan.

Dr. Frame earned his Bachelor's and Master's degrees in political science from the University of Hawaii where he was a teaching assistant in 1962 and 1964. In 1969, Dr. Frame earned a doctorate in political science from the University of Washington, where he was the department's head teaching assistant. His Master's thesis and doctoral dissertation both dealt with political aspects of 20th century China.

Vice President, Finance and Administration

Mr. Paul R. Carlson is Vice President, Finance and Administration, a position he has held since January 1998. He functions in that position as Chief Finance Officer of the College and contributes to overall College strategy and operations as a key member of executive management. Mr. Carlson is a Certified Public Accountant and has held various positions of financial management and accounting throughout his career, including the positions of interim vice chancellor and associate vice chancellor for business and finance at the University of Nebraska-Lincoln. He also has taught accounting at the University of Montana and the University of Nebraska-Lincoln. He graduated cum laude from the University of Nebraska and received an M.B.A. from the University of Montana in 1970.

Other officers of the College include:

Dr. Marie McNeff, Vice President for Academic and Student Affairs and Dean of the College.
Ms. Ida Simon, Vice President for Institutional Advancement and Community Relations.
Dr. Richard J. Thoni, Vice President for Institutional Advancement & Program Development.

Campus

The College's 24-acre campus is located near downtown Minneapolis, adjacent to the University of Minnesota West Bank campus and Fairview University Medical Center (Riverside Campus). Most of the campus buildings except Melby Hall, the sports and physical education center, and the Ice Arena are connected by a system of tunnels, ramps and skyways for weather protection and handicapped access. Major College buildings, including a brief description, are listed below. The year of construction is in parenthesis.

Christensen Center — center of non-academic activity, with lounges and recreational areas, dining areas, bookstore and offices for student government and student publications. (1967)

Foss, Lobeck, Miles Center — contains the Hoversten Chapel, the main campus chapel. The Tjornhom-Nelson Theater is also housed in this complex, which contains space for the campus

ministry program, drama and communication. Classrooms, the Karen Housh Tutor Center and the Evans Learning Laboratory are located in the lower level of this facility. (1988)

Ice Arena — two large skating areas for hockey, figure skating and recreational skating for the College and the metropolitan community. (1974) (See "Future Financing" on page 18 of this Official Statement regarding the sale and leaseback of this facility.)

Lindell Library — contains the library, reading rooms, seminar rooms, work rooms, Information Technology Department, art gallery, Augsburg archives, classrooms, and faculty offices. (1996)

Melby Hall — provides facilities for the health and physical education program, intercollegiate and intramural athletics and general auditorium purposes. (1961)

Music Hall — contains a 217-seat recital hall, classroom facilities, two rehearsal halls, music libraries, practice studios and offices for the music faculty. (1978)

Old Main — the oldest building on campus and home for the Modern Language and Art Departments, with classrooms used by other departments. It was extensively remodeled in 1980, and made handicap accessible in 1990. It is included on the National Register of Historic Places. (1900)

Science Hall — houses classrooms, laboratories, a medium-sized auditorium and faculty offices. (1949) In 1960 the Lisa Odland Observatory on the roof was completed.

George Sverdrup Hall — contains offices and classrooms. (1955)

Sverdrup-Oftedal Memorial Hall — provides space for administrative and faculty offices. (1938)

2222 Murphy Place — houses offices for Weekend College, Graduate and Special Programs, and Cooperative Education, as well as classroom space. (1964)

Student Housing

Anderson Hall — the newest residence hall, houses 192 students in four types of living units. (1993)

Urness Tower — houses all new students and some upper-class students. This 11-story high-rise houses 324 students. Each floor is considered a house unit providing 36 students (two to a room), with their own lounge and study areas. (1967)

Mortenson Tower — is an alternative to traditional residence hall living. It contains 104 one- and two-bedroom apartments to accommodate 312 upper-class students. Mortenson Tower is carpeted, air conditioned and contains kitchen units. It is otherwise unfurnished. (1973)

Approximately 50% of the students enrolled in the undergraduate day program live on campus.

Academic Information

Degrees Offered

The College offers the Bachelor of Arts, the Bachelor of Music and the Bachelor of Science degrees. The Bachelor of Science degree is awarded to graduates with majors in Music Therapy, Nursing (Weekend College only), Space Physics and Social Work. Students may elect a Bachelor of Science degree program for the majors of Chemistry, Computer Science,

and Physics. The Bachelor of Music degree is awarded to graduates with majors in Music Education and Music Performance. The Bachelor of Science degree is awarded to graduates of the Physician's Assistant program. Graduates with majors in other fields receive the Bachelor of Arts degree. Augsburg also offers the Master of Arts in Leadership and the Master of Social Work graduate degrees.

Academic Calendar

The College follows the 4-1-4 calendar, with fall and spring semesters of approximately 14 weeks separated by a four-week January Interim. Full-time students normally take four courses each semester and one course during Interim. A maximum of three courses can be earned in the two annual summer sessions, one of four weeks and one of six weeks.

The calendar is coordinated with those of the four other colleges and universities of the Associated Colleges of the Twin Cities (Hamline University, Macalester College, the College of St. Catherine and the University of St. Thomas), so students can take courses on another campus during the regular term. January Interim is particularly intended to be a time for both students and faculty to employ different styles of teaching and learning and to investigate questions and topics in places and ways not possible during the regular term. In addition to classes offered on campus, Augsburg offers a variety of travel opportunities within the United States and abroad. Among the many Interim, Day and Weekend College options are independent or directed study opportunities and internships.

Weekend College

Augsburg Weekend College provides an educational alternative for adult students who work or have other commitments during the week. Students enrolled in Weekend College may earn a college degree, complete a second major or pursue a personal interest or skill.

Weekend College classes normally meet on alternate weekends. There are three trimester terms during the early September through June academic year. Students may take from one to four classes each term.

The Augsburg Weekend College program offers the following majors: Accounting, Business Administration (specializations in finance, international business, management, and marketing), Communication (concentrations in general communication, public relations, human relations, and studio art communication), Computer Science, Economics, History, Elementary and Secondary Education, English, Management Information Systems, Nursing, Psychology, Religion and Social Work.

The College also offers a Bachelor of Science degree for a nursing degree completion program in Rochester, Minnesota. The nursing degree completion program began in the fall of 1998 and is provided through the Weekend College.

Graduate Program

The College offers two graduate degree programs: the Master of Arts in Leadership and the Master of Social Work. The graduate program was implemented in 1987.

Designed for working adults, the Augsburg graduate program operates on Thursday and Friday evenings and on Saturdays. There are three trimesters during the early September through June academic year.

Student Body

The full-time equivalent (FTE) enrollment by program is:

<u>Fall Semester</u>	<u>Day Program FTE</u>	<u>Day Program Headcount</u>	<u>Weekend College FTE</u>	<u>Graduate Program FTE</u>	<u>Weekend College and Graduate Program Headcount</u>	<u>Total FTE</u>	<u>Total Headcount</u>
1994	1,543	1,617	922	134	1,341	2,599	2,958
1995	1,552	1,615	804	158	1,243	2,514	2,858
1996	1,538	1,612	855	159	1,250	2,552	2,862
1997	1,573	1,655	817	146	1,211	2,536	2,866
1998	1,606	1,677	892	142	1,292	2,640	2,969

Of the current full-time students enrolled for the fall 1998 semester, approximately 86.2% are Minnesota residents, 10.4% from other states and 3.4% from foreign countries.

Applications, Acceptances and Enrollments

Day School Freshmen:

<u>Year</u>	<u>Applicants</u>	<u>Acceptances</u>	<u>Enrolled</u>	<u>Acceptance Ratio</u>	<u>Enrollment Ratio</u>
1994	651	493	267	76%	54%
1995	677	494	258	73	52
1996	710	529	291	75	55
1997	697	574	306	82	53
1998	736	583	287	79	49

Day School Transfers:

<u>Year</u>	<u>Applicants</u>	<u>Acceptances</u>	<u>Enrolled</u>	<u>Acceptance Ratio</u>	<u>Enrollment Ratio</u>
1994	417	338	211	81%	62%
1995	333	269	167	81	62
1996	325	261	149	80	57
1997	339	282	188	83	67
1998	373	300	186	80	62

Tuition and Fees

The College meets the cost of educational programs primarily through tuition and fees. The following table lists the schedule of fees charged full-time undergraduate students from the academic years 1994/95 through 1998/99.

	<u>1994/95</u>	<u>1995/96</u>	<u>1996/97</u>	<u>1997/98</u>	<u>1998/99</u>
Tuition and Fees	\$11,902	\$12,490	\$13,140	\$13,996	\$14,470
Room	2,234	2,346	2,450	2,554	2,624
Full Board	2,138	2,245	2,344	2,432	2,510
Other Student Charges*	<u>116</u>	<u>116</u>	<u>146</u>	<u>146</u>	<u>146</u>
Total	\$16,390	\$17,197	\$18,080	\$19,128	\$19,750

* Certain other fees may be charged depending on activity or course of study.

Part-time undergraduate students (students taking less than three courses during the semester terms) are charged \$1,590 per credit for courses taken in 1998/99. The graduate program charges \$1,205 per graduate course credit and the Weekend College program charges \$1,180 per course credit for 1998/99.

1998/99 Undergraduate Rate Comparison of Minnesota Private Colleges (Ranked by Comprehensive Fees)

<u>College</u>	<u>Tuition & Fees</u>	<u>Room & Board</u>	<u>Comprehensive Fees</u>
Carleton College	\$22,611	\$4,584	\$27,195
Macalester College	19,801	5,593	25,394
St. Olaf College	17,140	4,180	21,320
Minneapolis College of Art & Design	16,934	4,366	21,300
Gustavus Adolphus College	16,740	4,150	20,890
College of St. Benedict	15,574	4,861	20,435
University of St. Thomas	15,399	4,972	20,371
St. John's University	15,574	4,740	20,314
Hamline University	15,341	4,968	20,309
Bethel College	14,720	5,180	19,900
Augsburg College	14,616	5,134	19,750
College of St. Scholastica	15,060	4,134	19,194
College of Saint Catherine	14,834	4,290	19,124
Concordia College (St. Paul)	12,658	4,726	17,384
St. Mary's University of Minnesota	13,095	4,270	17,365
Concordia College (Moorhead)	12,655	3,645	16,300
Average	\$15,797	\$4,612	\$20,409

NOTE: Charges apply to new entering students only. Several colleges have differential tuition for upperclassmen, housing cost freezes for returning students or other policies that result in variations in costs.

Source: Minnesota Private College Council.

Faculty and Staff

The teaching student-faculty ratio for 1998/99 is 14 to 1. There are no religious or denominational prerequisites or any participatory religious requirements for faculty 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 employs 130 full-time and 152 part-time teaching faculty, for a total of 282 members.

Total employment of faculty and staff is approximately 530. The total compensation for faculty and staff, including benefits, for Fiscal Year 1997/98 was approximately \$16.9 million.

Compensation of Full-Time Instructional Faculty

<u>Academic Rank</u>	<u>Number of Faculty</u>	<u>Average Total Compensation</u>
Professor	32	\$48,634
Associate Professor	38	40,026
Assistant Professor	54	34,948
Instructor	6	27,113

Of the full-time faculty, 87% hold doctoral or terminal degrees in their fields and 13% hold Master's degrees. Approximately 59.2% are tenured.

Pensions

The College has two contributory defined contribution retirement plans for academic and non-academic personnel. Contributions are based on a percentage of compensation. The cost of the retirement plans is paid currently and amounted to \$912,600 for the Fiscal Year ended May 31, 1998.

Unions

The International Union of Operating Engineers, Local 790, represents regular full-time and part-time maintenance, grounds, and custodial employees working at Augsburg College. The bargaining unit is made up of approximately 34 FTE employees. The current contract expires May 31, 2000. This is the only bargaining unit at the College.

Financial Aid

Approximately 84% of the College's students receive some form of financial aid from federal, State, College or private sources. Some of the federal and state financial aid programs apply to tuition and fees, whereas others provide for living expenses such as transportation, housing and personal expenses.

The following table sets forth a five-year summary of direct financial aid for students at the College.

	<u>1994/95</u>	<u>1995/96</u>	<u>1996/97</u>	<u>1997/98^(a)</u>	<u>1998/99^(a)</u>
Augsburg College	\$ 4,769,620	\$ 5,637,878	\$ 6,290,492	\$ 6,500,000	\$ 6,800,000
Federal Government ^(b)	13,459,641	13,733,342	14,241,098	14,950,000	15,000,000
State of Minnesota	2,763,350	2,763,682	2,628,197	2,760,000	3,850,000
Other	<u>962,618</u>	<u>1,137,720</u>	<u>718,262</u>	<u>1,000,000</u>	<u>1,100,000</u>
Total	\$21,955,229	\$23,272,622	\$23,878,049	\$25,210,000	\$26,750,000
Percent of Enrollment Aided ^(c)	84%	86%	84%	84%	84%

(a) 1997/98 and 1998/99 numbers are estimates.

(b) Includes PELL Grants, Supplemental Educational Opportunity Grants, STAFFORD and other Guaranteed Student Loans, National Direct Student Loans and College Work Study Program.

(c) For all years shown above, percent of enrollment aided excludes Weekend College students.

Year 2000 Readiness Disclosure

Computer systems, software products, and other devices and equipment which incorporate microprocessors which are coded to accept two-digit entries in the date code field may recognize a date using "00" as the year 1900 rather than the year 2000. If not corrected, such systems, products, devices, and equipment could fail or create erroneous results by, at, or after January 1, 2000 (the "Year 2000 problem").

The College is in the process of addressing the College's Year 2000 readiness, and has established a task force consisting of representatives from various areas within the College. The task force is evaluating computer systems, software, other systems, and equipment of the College that may be affected by the Year 2000 problem. Depending on the College's evaluation, computers, software and other equipment of the College may need to be modified, upgraded or replaced. The College is also engaged in discussions with its principal money managers regarding their Year 2000 readiness.

The College does significant business with entities which may have Year 2000 problems. These include the federal and state governments and their various agencies, which provide funds to the College, directly or indirectly, through financial aid programs and other payments. (See "Financial Aid" in this Appendix I). The College is unable to evaluate the extent of the Year 2000 problem for those entities or the actions they are taking to correct them. Financial aid and other payments to the College may be delayed or may not be paid if the federal or state governments or their agencies are not Year 2000 compliant.

The effect of the Year 2000 problem on the operations and financial condition of the College cannot be determined. There is no assurance that the College or other parties with which it does business will be successful in identifying or resolving Year 2000 problems or in achieving Year 2000 readiness. Because of the complexity of the Year 2000 problem, the difficulty in identifying and remedying noncompliant systems, equipment and software, and the College's lack of control over third parties, it is likely that the College will experience some level of disruption in its operations, and the effects of those disruptions could be material and adverse to the College's financial condition and results of operation. (See "RISK FACTORS – Year 2000" in this Official Statement).

The statements contained under the above caption constitute a Year 2000 Readiness Disclosure by the College, in accordance with the federal Information and Readiness Disclosure Act.

Capital Campaign

In 1988 the College began its Twenty-First Century Fund capital campaign with a goal of \$63,000,000, split between \$19,000,000 for current operations, \$17,750,000 for endowment and \$26,250,000 for capital improvements. The campaign was completed in 1998, and reached its goal of \$63,000,000, of which \$20,900,000 is uncollected. Of that \$20,900,000 uncollected amount, approximately \$7,200,000 is restricted to Lindell Library. Contributions and pledge receipts must be deposited with the Trustee for the Series Four-F Bonds and used to pay principal and interest on the Series Four-F Bonds. See also "Prior Liens" in the Official Statement.

The College has started a new capital campaign, "Augsburg 2000: Pride in Place and Purpose." This campaign has a goal of \$20,000,000, consisting of \$10,000,000 for endowment, \$8,000,000 for renovations and campus enhancements and \$2,000,000 for current operations. This campaign is anticipated to be completed by the year 2000. The campaign has received approximately \$3,000,000 in gifts and pledges through December 1, 1998.

Endowment and Deferred Gifts

Following is a three-year history of the net asset balances at Fiscal Year end of the College's endowment and deferred gifts, at market value:

<u>May 31</u>	<u>Endowment</u>	<u>Deferred Gifts</u>
1996	\$13,315,022	\$ 960,443
1997	16,739,752	1,224,524
1998	20,299,400	1,359,444

Although the earnings on and appreciation of the endowment may be expended by the College for a variety of purposes, subject to certain restrictions imposed by law, the donors of such funds or the Board of Regents, only the endowment assets categorized on the College's financial statements as unrestricted net assets could be expended for the general purposes of the College, including payment of principal and interest on indebtedness. The \$20,299,400 of endowment assets for the Fiscal Year ended May 31, 1998 consists of \$8,377,441 of unrestricted assets, \$18,632 of temporarily restricted assets and \$11,903,327 of permanently restricted assets.

College Investments

The College's investment policy, which is established by the Finance Committee of the Board of Regents, has a target mix of 60% equity securities and 40% fixed income securities for the College's invested funds. The normal annual spending rate of the College's endowment fund is at 5% of market value of the fund, as established by Board of Regents policy. For the year ended May 31, 1998, additional spending of 2% was approved by the Board and spent on deferred maintenance projects.

Gifts and Grants

Gifts and grants revenues received by net asset classification for Fiscal Years 1996, 1997 and 1998, as reported in the annual financial statements of the College, are as follows:

<u>Year Ended May 31^(a)</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
1998	\$2,816,266	\$3,840,485	\$1,101,158
1997	2,500,696	6,851,935	768,876
1996	2,809,044	3,945,217	355,450

(a) Beginning in Fiscal Year 1996, the reporting for private gifts and grants was changed to eliminate PELL Grants as revenues due to Statement of Financial Accounting Standards No. 116. See discussion below, under "Financial Statements."

Gifts and grants revenues received by fund for Fiscal Years 1994 and 1995, as reported in the annual financial statements of the College, are as follows:

<u>Year Ended May 31</u>	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Endowment Funds</u>	<u>Deferred Gift Funds</u>	<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted^(b)</u>				
1995	\$659,353	\$4,797,000	\$135,174	\$ 898,152	\$75,007	\$ 582,551
1994	711,968	4,499,984	70,462	1,209,270	97,813	1,665,094

(b) Includes PELL Grants of \$912,041 and \$948,913 for Fiscal Years 1994 and 1995, respectively. Under Statement of Financial Accounting Standards No. 116, these grants are no longer recorded as revenues for Fiscal Year 1996 and thereafter.

Financial Statements

The College's fiscal year ends May 31 of each year. Financial records have historically been maintained on the fund accounting system and financial statements are prepared on the accrual basis of accounting. Appendix V sets forth the financial statements of the College for the year ended May 31, 1998, audited by Virchow, Krause & Company, LLP, Minneapolis, Minnesota. The firm has not participated in the preparation of this Official Statement and expresses no opinion on its contents.

The presentation of financial statements prepared for the Fiscal Year ended May 31, 1996 and thereafter is significantly different from the presentation contained for prior Fiscal Years. The Financial Accounting Standard Board ("FASB") adopted two Statements of Financial Accounting Standards ("SFAS"), SFAS No. 116 and SFAS No. 117, which affected financial reporting by not-for-profit organizations. These standards affected the College's financial statements beginning with the Fiscal Year ended May 31, 1996. Changes in presentation impair the comparability between financial statements for the Fiscal Years ended prior to May 31, 1996 and financial statements for 1996 and thereafter.

SFAS No. 116 established accounting standards for contributions and applies to all entities that receive or make contributions. Generally, contributions received, including unconditional promises to give, are now recognized as revenues, at their fair values, in the period received. This is a departure from prior standards under which colleges did not recognize promises to give until the asset was in hand.

SFAS No. 117 established standards for general-purpose external financial statements that are more comparable to for-profit entities. The new statement requires classification of an

organization's net assets, as well as its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires three classes of net assets, permanently restricted, temporarily restricted and unrestricted, to be displayed in a statement of financial position. It also requires the amount of change in each of those classes of net assets to be displayed in a statement of activities. Revenues that are classified as temporarily restricted consist primarily of donor-restricted contributions and gains on endowment investments. Permanently restricted revenues consist almost entirely of donor-restricted contributions. Most other types of revenue will be accounted for in the unrestricted asset class.

Summaries of Unrestricted Revenue and Expense

The following table on page I-13 sets forth summaries of revenues, expenditures and other changes for the College's Unrestricted Current Fund for the Fiscal Years ended May 31, 1994 and 1995. The table on page I-14 sets forth the College's statements of unrestricted activities for the Fiscal Years ended May 31, 1996 through 1998. These tables should be read in conjunction with the financial statements found in Appendix VI.

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Augsburg College
Summary of Unrestricted Current Fund Revenues,
Expenditures and Other Changes

For the Years Ended May 31

	1994	1995	1996	1997	1998
REVENUES					
Tuition & Fees	\$23,121,955	\$24,644,208			
Government Grants	139,026	146,606			
Private Gifts and Grants	711,968	659,353			
Endowment Income	116,463	111,647			
Mat. Dfd. Gift & Sales Ed. Act.	39,706	64,850			
Other Sources	972,303	1,203,436			
Total Revenues Before					
Auxiliary Enterprises	\$25,101,421	\$26,830,100			
Auxiliary Enterprises	3,708,145	3,868,525			
TOTAL REVENUES	\$28,809,566	\$30,698,625			
EXPENDITURES AND MANDATORY TRANSFERS					
Educational and General					
Instruction	\$10,759,595	\$10,974,301			
Public Service	154,774	221,053			
Academic Support	1,531,793	1,521,406			
Student Services	2,804,034	2,880,870			
Institutional Support	3,444,713	3,990,936			
Operation and Maintenance	2,352,076	2,402,003			
Scholarships and Grants	3,903,808	4,260,891			
Educational and General					
Expenditures	\$24,950,793	\$26,251,460			
Mandatory Transfers for					
Principal and Interest	249,075	339,455			
Loan Fund Matching Grants	12,434	45,056			
Total Education and General	\$25,212,302	\$26,635,971			
Auxiliary Expenses					
Expenditures	2,486,929	2,642,011			
Mandatory Transfers for					
Principal and Interest	576,919	681,933			
Renewal & Replacement	30,000	10,112			
Total Auxiliary Enterprises	\$3,093,848	\$3,334,056			
TOTAL EXPENDITURES AND					
MANDATORY TRANSFERS	28,306,150	29,970,027			
Excess of Revenues over Expen-					
ditures and Mandatory Transfers	\$503,416	\$728,598			
Other Transfers & Additions (Deductions)					
NonMandatory Transfers	(\$503,416)	(\$728,598)			
Net Increase (Decrease) in					
Fund Balance	\$0	\$0			

See
"Statement
of
Unrestricted Activities"

Source: College's Audited Financial Statements

Augsburg College
Statement of Unrestricted Activities

For the Years Ended May 31

	1994	1995	1996	1997	1998
REVENUE:					
Tuition & Fees			\$25,435,602	\$26,942,054	\$28,597,417
Less: Scholarships and grants			(6,206,199)	(6,785,514)	(7,767,047)
Net tuition and fees			19,229,403	20,156,540	20,830,370
Government grants			2,313,352	1,988,697	2,139,988
Private gifts and grants			495,692	511,999	676,278
Endowment income			63,321	62,663	76,145
Investment income			363,535	312,589	308,492
Gains on endowment investments			326,655	356,946	766,460
Sales and services of educational activities			20,604	23,442	24,698
Other sources			1,192,212	1,104,719	373,058
Sales and service of auxiliary enterprises			4,013,852	4,267,402	5,475,084
Adjustment of actuarial liability			(2,420)	5,981	(135)
			28,016,206	28,790,978	30,670,438
Net assets released from restriction			5,289,068	4,533,382	5,913,235
Total Revenue, Gains and Other Support			33,305,274	33,324,360	36,583,673
EXPENSES:		See			
Program expenses					
Instruction		"Summary of	14,314,747	14,991,511	15,987,413
Academic support			1,790,445	1,883,099	2,816,956
Public service		Unrestricted	633,590	981,015	693,943
Student services			3,694,476	4,050,716	3,934,854
Auxiliary enterprises		Current Fund	4,816,073	4,435,912	4,759,972
Support expenses					
Institutional support		Revenues, Expenditures	5,238,419	5,312,654	4,831,022
Loss on advance refunding of debt			73,074		
Allocable expenses		and Other Changes"			
Operation and maintenance of plant			2,570,086	2,367,930	2,684,627
Depreciation			1,365,064	1,360,926	1,598,593
Interest			879,627	849,465	1,302,359
Less: Allocated expenses			(4,814,777)	(4,578,321)	(5,585,579)
Total Expenses and Losses			30,560,824	31,654,907	33,024,160
Excess of Revenues, Gains and Other Support over Expenses and Losses			2,744,450	1,669,453	3,559,513
Cumulative Effect of Prior Years of a Change in Accounting Principle			0	910,599	0
Increase in Net Assets			2,744,450	2,580,052	3,559,513
Net Assets – Beginning of Year as Previously Reported			10,154,528	12,908,550	15,188,898
Prior Period Adjustment			(290,132)	(299,704)	0
Net Assets – Beginning of Year as Restated			9,864,396	12,608,846	15,188,898
NET ASSETS – END OF YEAR			\$12,608,846	\$15,188,898	\$18,748,411

Source: College's Audited Financial Statements

Indebtedness of the College

Long-Term Indebtedness as of December 1, 1998

1. \$2,610,000 Dormitory and Student Union Bonds of 1966, dated April 1, 1966 and due annually April 1 through 2016 at 3% interest; \$1,410,000 outstanding. The bonds are a general obligation of the College, secured by a first mortgage on Urness Tower and the College Center, a first lien on and pledge of the net revenues derived from the operations or ownership of the mortgaged facilities, and the student union fees of not less than \$30 per year to be charged and collected from each full-time student.
2. \$2,200,000 Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds, Series A, dated December 1, 1972; interest rates range from 5.5% to 5.6%; final maturity due December 1, 2012; \$1,515,000 outstanding. The bonds are a general obligation of the College, secured by a first mortgage on Mortenson Tower and its gross revenues, a pledge of 4% of general tuition and fees, a debt service reserve fund, and the Authority's General Bond Reserve.
3. \$9,645,000 Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series Three-G, dated May 1, 1992; interest rates range from 5.3% to 6.5%; final maturity due January 1, 2017; \$8,765,000 outstanding. The bonds are a general obligation of the College, secured by a first mortgage on Anderson Hall and a debt service reserve fund. These Bonds are being advance refunded with a portion of the proceeds of the Series Four-Y Bonds.
4. Promissory note payable to the U.S. Department of Education, dated January 14, 1993, in the amount of \$168,500; interest rate is 3.0%; final maturity is January 1, 2000; \$39,236 outstanding. The note is an unsecured, general obligation of the College.
5. \$7,770,000 Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series Four-F1, dated May 1, 1996; interest rates range from 4.00% to 6.25%; final maturity due May 1, 2023; \$7,620,000 outstanding. The bonds are a general obligation of the College, secured by a first mortgage on Lindell Library, a security interest in contributions and pledge receipts restricted or allocated to Lindell Library, and a debt service reserve fund.
6. \$4,140,000 Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series Four-F2, dated May 1, 1996; interest rate is 6.00%; final maturity is May 1, 2016; \$2,245,000 outstanding. The bonds are a general obligation of the College, secured by a first mortgage on Lindell Library, a security interest in contributions and pledge receipts restricted or allocated to Lindell Library, and a debt service reserve fund.
7. \$450,000 Minnesota Higher Education Facilities Revenue Notes, Series Four-W, dated September 25, 1998; interest rate is 5.98%; final maturity is September 15, 2015; \$450,000 outstanding. The Notes are a general obligation of the College, secured by a mortgage on the property acquired with the proceeds of the Notes.

Long-term indebtedness of the College as of December 1, 1998, adjusted to include the Bonds and exclude the Series Three-G Bonds maturing in 2000 through 2017, which are to be refunded, totals \$29,374,236.

Short-Term Indebtedness

The College maintains a \$2,000,000 unsecured line of credit with a local bank, which expires on November 30, 1999. As of January 11, 1999, the College had no borrowings under the line of credit.

Pro Forma Long-Term Debt Service and Pro Forma Debt Service Coverage by Fiscal Year

The table on page I-17 shows (i) the debt service for each Fiscal Year on the Bonds; (ii) the debt service of the College for each of the listed Fiscal Years ending May 31 with respect to all existing long-term indebtedness, excluding the Series Three-G Bonds, which are to be refunded by the Bonds and including estimated debt service on the ice arena capital lease (see "Future Financing" in the Official Statement); (iii) the combined total long-term debt service for each Fiscal Year, excluding debt service on the Series Three-G Bonds and including debt service on the Bonds and estimated debt service on the ice arena capital lease; and (iv) the debt service coverage ratio for the combined annual debt service provided by "pro forma net income available for debt service" for Fiscal Year ended May 31, 1998. Actual long-term debt and annual debt service of the College may increase in the future if additional capital projects are undertaken.

The calculation of actual Fiscal Year 1998 net income available for debt service, as shown by footnote (e) on page I-17, is consistent with the financial covenants and definitions contained in the Loan Agreement. Pro forma Fiscal Year 1998 net income available for debt service, as shown by footnote (e) on page I-17 and in Column 6 on page I-17, was calculated by adding the sum of \$400,342 to actual Fiscal Year 1998 net income available for debt service. The additional sum included in pro forma Fiscal Year 1998 net income available for debt service is the additional net revenue which the College has estimated will be received from the Project in Fiscal Year ending May 31, 2000, after the Project is completed. No assurance is given that the additional net income will be available in the estimated amount from the Project.

Debt service on the Series Four-F2 Bonds is excluded from Column 2 and shown separately in Column 3 on page I-17 because the College expects all debt service on the Series Four-F2 Bonds will be met by contributions and pledge receipts restricted to Lindell Library, which are not included in actual or pro forma Fiscal Year 1998 net income available for debt service. Notwithstanding that expectation, debt service on the Series Four-F2 Bonds is included in the pro forma combined long-term debt service shown by Column 5 on page I-17 and in the calculation of pro forma coverage shown by Column 7.

The table on page I-17 is intended merely to show the relationship of pro forma Fiscal Year 1998 net income available for debt service of the College to a proforma statement of combined annual debt service of the College after giving effect to the issuance of the Bonds, based on actual debt service requirements for the Bonds and existing College debt (excluding the Series Three-G Bonds) and estimated debt service requirements for the ice arena capital lease. The table is not intended and should not be considered a projection of future net income available for debt service, debt service or debt service coverage of the College. There is no assurance that the future net income available for debt service, debt service and debt service coverage of the College or the respective relationships thereof will correspond to the pro forma Fiscal Year 1998 net income available for debt service, pro forma debt service, pro forma debt service coverage or the respective relationships thereof shown by or reflected in the following table.

Pro Forma Debt Service by Fiscal Year and Pro Forma Debt Service Coverage

This table should be read in conjunction with the explanation and assumptions appearing on Page I-16.

Fiscal Year Ending May 31,	Adjusted Existing Long Term Debt Service (a)	Debt Service on the Series Four-F2 Bonds(b)	Actual Debt Service on the Series Four-Y Bonds (c)	Pro Forma Combined Long Term Debt Service (d)	Pro Forma F.Y. 1998 Net Income Avail. for Debt Service (e)	Pro Forma Coverage (Times)(f)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1999	\$1,658,722	\$129,088	\$0	\$1,787,810	\$ 4,292,599	2.40
2000	994,282	129,088	1,297,408	2,420,777	4,692,941	1.94
2001	1,002,252	129,088	1,224,320	2,355,659	4,692,941	1.99
2002	1,004,352	129,088	1,220,258	2,353,697	4,692,941	1.99
2003	1,005,922	129,088	1,219,875	2,354,884	4,692,941	1.99
2004	1,006,982	129,088	1,222,790	2,358,859	4,692,941	1.99
2005	997,442	129,088	1,219,078	2,345,607	4,692,941	2.00
2006	1,002,852	129,088	1,219,108	2,351,047	4,692,941	2.00
2007	1,002,522	129,088	1,217,735	2,349,344	4,692,941	2.00
2008	1,006,592	129,088	1,219,676	2,355,355	4,692,941	1.99
2009	1,004,792	129,088	1,214,555	2,348,434	4,692,941	2.00
2010	1,012,432	129,088	1,217,026	2,358,545	4,692,941	1.99
2011	1,009,062	174,088	1,212,229	2,395,378	4,692,941	1.96
2012	1,010,132	516,500	1,215,160	2,741,792	4,692,941	1.71
2013	830,492	519,075	1,206,160	2,555,727	4,692,941	1.84
2014	889,979	520,213	1,210,075	2,620,267	4,692,941	1.79
2015	1,110,567	519,913	1,210,855	2,841,334	4,692,941	1.65
2016	1,095,515	518,175	1,203,795	2,817,485	4,692,941	1.67
2017	968,750		1,209,265	2,178,015	4,692,941	2.15
2018	1,395,000		461,763	1,856,763	4,692,941	2.53
2019	1,398,125		462,320	1,860,445	4,692,941	2.52
2020	1,197,813		462,083	1,659,896	4,692,941	2.83
2021	1,199,063		461,050	1,660,113	4,692,941	2.83
2022	1,196,563		464,090	1,660,653	4,692,941	2.83
2023	1,195,313		461,203	1,656,516	4,692,941	2.83
2024			462,388	462,388	4,692,941	10.15
2025			457,645	457,645	4,692,941	10.25
2026			461,843	461,843	4,692,941	10.16
2027			459,848	459,848	4,692,941	10.21
2028			456,793	456,793	4,692,941	10.27

Totals: \$27,195,508 \$4,317,013 \$27,030,394 \$58,542,915

- (a) Excludes debt service on the Series Three-G Bonds for years after Fiscal Year 1999 and the Series Four-F2 Bonds for all years. Includes estimated annual debt service on the ice arena capital lease of \$57,000 for Fiscal Year 1999 and \$200,000 for Fiscal Years 2000-2019. (See "Future Financing" in the Official Statement.)
- (b) Debt service on the Series Four-F2 Bonds is shown in Column 3 separately, because the College expects it to be paid from contributions and pledge receipts restricted to the Lindell Library, which are not included in actual or pro forma Fiscal Year 1998 net income available for debt service, as detailed in footnote (e) below.
- (c) Actual.
- (d) Includes combined debt service from Columns 2, 3 and 4.
- (e) Calculated as follows, based upon audited financial statements for the Fiscal Year ended May 31, 1998, and College estimates:

	Increase in Unrestricted Net Assets:	\$ 3,559,513
Plus:	Depreciation	1,598,593
	Net Interest expense on long term debt	1,302,359
Less:	Net Assets released from Restriction for Land, Buildings & Equipment	(594,508)
	Unrealized Investment Gains	(850,963)
	Capitalized Equipment	(722,395)

Actual Fiscal Year 1998 Net Income Available for Debt Service: \$ 4,292,599

Plus Estimated Project Net Revenue - Fiscal Year ending May 31, 2000: 400,342

Pro Forma Fiscal Year 1998 Net Income Available for Debt Service: \$ 4,692,941

- Actual and pro forma Fiscal Year 1998 net income available for debt service do not include contributions and pledge receipts restricted to Lindell Library, which is to be applied to the Series Four-F2 debt service.
- (f) Column 6 divided by Column 5. Pro forma coverage for 1999 is based upon actual Fiscal Year 1998 net income available for debt service.

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PROPOSED FORM OF LEGAL OPINION

FAEGRE & BENSON LLP

2200 NORWEST CENTER, 90 SOUTH SEVENTH STREET
 MINNEAPOLIS, MINNESOTA 55402-3901
 TELEPHONE 612-336-3000
 FACSIMILE 612-336-3026

\$ _____

Minnesota Higher Education Facilities Authority
 Mortgage Revenue Bonds, Series Four-Y
 (Augsburg College)

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) Mortgage Revenue Bonds, Series Four-Y (Augsburg College), in the aggregate principal amount of \$ _____ (the "Bonds"), dated January 1, 1999, in the denomination of \$5,000 each and integral multiples thereof, maturing on October 1 in the years and amounts and bearing interest at the basic rates per annum as follows:

<u>October 1</u> <u>of the Year</u>	<u>Amount</u>	<u>Basic</u> <u>Interest</u> <u>Rate</u>	<u>October 1</u> <u>of the Year</u>	<u>Amount</u>	<u>Basic</u> <u>Interest</u> <u>Rate</u>
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The Bonds are subject to mandatory sinking fund and optional redemption prior to the stated maturities thereof as provided in the Bonds and the Indenture. Interest on the Bonds is payable on each April 1 and October 1, commencing _____ 1, 1999. In the event of a Determination of Taxability (as defined in the Loan Agreement and Trust Indenture referred to below), the Bonds are subject to additional interest and optional redemption. Interest is payable by check or draft mailed or sent by wire transfer to the registered owner, and principal is payable at the principal corporate trust office of Norwest Bank Minnesota, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee"). The Bonds are

Minneapolis Denver Des Moines London Frankfurt

issued for the purpose of funding a loan from the Authority to Augsburg College, a Minnesota nonprofit corporation and institution of higher education located in the City of Minneapolis, Minnesota (the "College"), in order to finance acquisition, construction and equipping of student housing facilities and refund certain outstanding revenue bonds of the Authority. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College, the Combination Mortgage, Security Agreement and Fixture Financing Statement (the "Mortgage") from the College to the Authority, and assigned to the Trustee, and the Trust Indenture (the "Indenture") between the Authority and the Trustee, each dated as of January 1, 1999, one or more opinions of Moore, Costello & Hart, P.L.L.P., as counsel to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officials of the College without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of Moore, Costello & Hart, P.L.L.P. as to the Loan Agreement and the Mortgage 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 upon a title commitment issued by _____ 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 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 secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee

under the Indenture and by the pledge of funds and rights to payment held by the Trustee 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 Mortgage, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium 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, January ___, 1999.

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INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE

Annual Reporting

The Annual Report Date will be the earlier of (a) thirty days after the Board of Regents of the College approves and accepts the audited financial statements or (b) 270 days after the fiscal year-end, commencing with the fiscal year ended May 31, 1999. The Annual Report will contain:

1. Audited financial statements for the most recent complete fiscal year.
2. The following financial and operating data contained in Appendix I to the Final Official Statement:
 - a. Information as of the end of the most recent complete academic or fiscal year, as appropriate, of the matters covered by the Sections entitled:
 - Student Body
 - Applications, Acceptances and Enrollments
 - Tuition and Fees
 - Financial Aid
 - Faculty and Staff
 - b. Information as to gifts, bequests and grant support for the most recent complete fiscal year, identifying major sources.
 - c. Information as to any publicly-announced capital campaign, including stated goals and progress toward the goals.

Material Events to be Disclosed

The events enumerated in Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, which are to be disclosed, if material, are as follows:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) The giving of notice to redeem any Bonds other than for a sinking fund redemption;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities and;
- (xi) Rating changes.

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DEFINITION OF CERTAIN TERMS

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

Additional Bonds: Any Additional Bonds issued by the Authority on behalf of the College pursuant to the Indenture.

Authority: The Minnesota Higher Education Facilities Authority.

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

Authorized Institution Representative: The 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 certain officers of the College or its Board of Regents. Such certificate may designate an alternate or alternates.

Authorized Investments: Investments authorized for moneys in the accounts created under the Indenture as described in Section 5.04 thereof.

Board of Regents: The Board of Regents of the College, including any Executive Committee authorized to act for such board.

Bond and Interest Sinking Fund Account: The account established pursuant to the Indenture into which the Authority and Trustee shall deposit certain moneys for payment of principal of and interest on the Bonds.

Bond Closing: The original issuance, sale and delivery of the Bonds.

Bond Resolution: The Series Resolution of the Authority adopted on January 20, 1999, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

Bond Year: (a) The period from the Issue Date to the close of business on October 1, 1999 and (b) each succeeding 12-month period ending at the close of business on October 1 of each year in which the outstanding Series Four-Y Bonds, if paid at their stated maturity dates, shall be outstanding.

Bonds: Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series Four-Y (Augsburg College).

Building Equipment: Those items of goods, equipment, furnishings, furniture, inventory, machinery or other tangible personal property now or hereafter owned by the College and located on the Project Site and acquired from funds other than the proceeds of the Prior Bonds or the Bonds.

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

College: Augsburg College, a Minnesota nonprofit corporation, its successors and assigns.

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

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

Escrow Account: The Escrow Account created under the Escrow Agreement.

Escrow Agreement: The Escrow Agreement dated as of January 1, 1999 among the Prior Bonds Trustee as the Escrow Agent, the Trustee, the Authority and the College.

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

Financial Journal: Northwestern Financial Review, The Bond Buyer, and 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: The College's fiscal year, initially the 12-month period commencing on June 1 in each year.

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

Holder, Bondholder, or Owner: The person in whose name a Bond is registered, except, if any Bond is in book entry form, with respect to any consent or approval, the terms shall mean the beneficial owner of the Bond.

Indenture: The Trust Indenture between the Authority and Norwest Bank Minnesota, National Association, as Trustee, dated as of January 1, 1999, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

Institution: Augsburg College, a Minnesota institution of higher education located in Minneapolis, Minnesota and owned and operated by the College.

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

Issue: The Bonds.

Loan Agreement: The Loan Agreement between the Authority and the College dated as of January 1, 1999, as amended or supplemented from time to time.

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

Mortgage: The Combination Mortgage, Security Agreement and Fixture Financing Statement dated as of January 1, 1999 from the College to the Authority, and assigned by the Authority to the Trustee, as amended or supplemented from time to time.

Mortgaged Property: The land, improvements and all other tangible or intangible property which is subject to the lien of the Mortgage.

Net Proceeds: When used with respect to proceeds of insurance or a condemnation award, moneys received or receivable by the College as owner or lessee and the Trustee as secured party pursuant to the Mortgage, less the cost of recovery (including attorneys' fees) of such moneys from the insuring company or the condemning authority plus investment earnings thereon.

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

Prior Bonds: The Series Three-G Bonds.

Prior Bonds Project: The Series Three-G Project.

Project: The acquisition, construction, furnishing and equipping of a student residence hall, which will be approximately 60,800 square feet when completed, and related site improvements, to be owned and operated by the College and located on the Project Site.

Project Buildings: The facilities to be acquired, improved or constructed with proceeds of the Bonds, including investment earnings, and any other building constructed or improved with proceeds of the Prior Bonds, including investment earnings.

Project Costs: Costs properly payable from the Construction Account in relation to the Project.

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

Project Facilities: The Project Site, the Project Buildings, and the Project Equipment.

Project Site: The land on which any Project Building is or is to be located or otherwise improved as part of the Project.

Redemption Account: The Redemption Account created under the Indenture for deposit of any moneys received which are not otherwise committed. Moneys in the Redemption Account shall be used (i) to create and maintain the required balance in the Bond and Interest Sinking Fund Account, (ii) to create and maintain the required balance in the Reserve Account, and (iii) to redeem or prepay outstanding Bonds or to purchase outstanding Bonds for redemption and cancellation. Moneys in the Redemption Account may be used in the discretion of the Trustee to pay rebate due to the United States under Section 148 of the Internal Revenue Code if the College or the Authority fails to provide for payment of any rebate.

Regular Record Date: The 15th day (whether or not a Business Day) of the calendar month next preceding an interest payment date.

Reserve Account: The Reserve Account established under the Indenture, into which at Bond Closing will be deposited the amount equal to the Reserve Requirement from proceeds of the sale of the Bonds. Moneys in the Reserve Account shall be used to pay principal of and interest on the Bonds if moneys in the Bond and Interest Sinking Fund Account or Redemption Account are not sufficient thereof and may be used in the discretion of the Trustee to pay rebate due to the United States under Section 148 of the Internal Revenue Code if the College or the Authority fails to provide for payment of any rebate.

Reserve Requirement: (i) If no Additional Bonds are outstanding, the maximum amount of principal of and interest on the Bonds payable in any remaining Bond Year or (if less) 10% of the proceeds (par value less original issue discount, if any, according to the reoffering scale) received from the issuance and sale of the Bonds or (if less) 125% of the average annual debt service of the Bonds or (ii) if Additional Bonds are outstanding, the sum of (A) the amount set forth in subsection (i) plus (B) the maximum amount of principal of and interest on Additional Bonds payable in any remaining Bond Year or (if less) 10% of the proceeds (par value less original issue discount, if any, according to the reoffering scale) received from the issuance and sale of the Additional Bonds or (if less) 125% of the average annual debt service of the Additional Bonds.

Series Three-G Bonds: The Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds, Series Three-G (Augsburg College), dated May 1, 1992 in the original principal amount of \$9,645,000.

Series Three-G Indenture: The Trust Indenture dated as of May 1, 1992, between the Authority and the Series Three-G Trustee.

Series Three-G Loan Agreement: The Loan Agreement dated as of May 1, 1992, between the Authority and the College.

Series Three-G Project: (a) The acquisition, construction, furnishing and equipping of Oscar Anderson Hall; and (b) the acquisition, construction, furnishing and equipping of Foss, Lobeck, Miles Center (excluding the Chapel Portion as defined in the Series Three-G Documents) originally financed by a mortgage loan from a commercial lender to the College.

Series Three-G Reserve Account: The Reserve Account created under the Series Three-G Indenture.

Series Three-G Trustee: U.S. Bank Trust, National Association, or any successor Trustee under the Series Three-G Indenture.

Sinking Fund Subaccount: The Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account created under the Indenture into which the Authority shall deposit certain moneys for mandatory redemption prior to maturity of Bonds as specified in the Indenture.

Special Record Date: The record date set by the Trustee for the purpose of paying defaulted interest.

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

Trustee, Registrar, Paying Agent: Norwest Bank Minnesota, National Association.

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, 2000 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, including investment earnings 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 immediately available funds the following amounts:

- (a) At least 2 business days prior to each April 1 and October 1, commencing October 1, 1999, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest, or as principal and interest, on the Series Four-Y Bonds on such interest payment date, provided however, that there shall be credited against such obligations (i) the net amount of funds and investments then on deposit to the credit of the Bond and Interest Sinking Fund Account, and (ii) any credits permitted by Sections 5.02, 5.03 or 5.04 of the Indenture (relating to the transfer to the Bond and Interest Sinking Fund Account of certain investment earnings and certain excess funds); and
- (b) On or prior to a date established for the optional redemption or mandatory redemption and prepayment of the Bonds, into the Redemption Account such amount, if any, as shall be necessary and sufficient to provide for the redemption of any Series Four-Y Bonds called for redemption from the Redemption Account; and

- (c) forthwith into the Bond and Interest Sinking Fund Account or Redemption Account, as appropriate, the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account or Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal, premium (if any) and interest on the Series Four-Y Bonds then due or then to become due (whether at maturity, or by call for redemption, or by acceleration of maturity); and
- (d) into the Reserve Account forthwith any amounts then required to be deposited therein by the Indenture; and
- (e) into any fund or account designated by the Trustee funds in the amount determined by the Trustee to be necessary to comply with the provisions of Section 6.09(f) of the Loan Agreement and Section 5.05 of the Indenture (relating to arbitrage rebate); and
- (f) at least 2 business days prior to each October 1, commencing October 1, 2014 into the Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account, the amount, if any, as shall be necessary and sufficient to redeem on such October 1, at par plus accrued interest, the amount of the Series Four-Y Bonds specified in the Indenture.

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 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, such lease, sublease or use agreement shall not be inconsistent with the Loan Agreement, the Indenture, the Mortgage, or the Act, and the College shall remain fully obligated under the Loan Agreement and the Mortgage as if such lease, sublease or use agreement had not been made.

Operating Expenses 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 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 brought 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 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 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 \$50,000.
- (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 not more than \$50,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of \$100,000.
- (c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College.

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, 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.

Damage or Destruction

If any part of the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than \$1,000,000, the College will promptly repair, rebuild or restore the property with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss exceeds \$1,000,000, the College shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

If the Bonds are redeemed, the available Net Proceeds or (if less) the prorata portion in respect of any Project Building shall be used for redemption or purchase of outstanding Bonds. For purposes of the provision, "prorata portion" shall mean the following percentages of the principal amount of outstanding Bonds: 31% of the principal amount of outstanding Bonds in the case of the Oscar Anderson Hall; 25% of the principal amount of outstanding Bonds in the case of the Foss, Lobeck, Miles Center; and 38% of the principal amount of outstanding Bonds in the case of the student residence building to be constructed as part of the Project.

Condemnation

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

If the Bonds are to be redeemed, the available Net Proceeds (or if less, the prorata portion) in respect to any Project Building and site thereof which the College elects not to repair, rebuild, or restore shall be used for redemption or purchase of outstanding Bonds. For purposes of this provision, "prorata portion" shall be defined as set forth above under "Damage or Destruction."

Removal of Project Equipment and Building Equipment

The College may remove from the Project Facilities or release Project Equipment and Building Equipment from the lien of the Mortgage 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 of the Project Facilities and the substituted property becomes subject to the lien of the Mortgage;

- (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; provided that if the depreciated book value of the equipment so released was less than \$25,000, such release 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;
- (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 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, if 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 of such equipment will not materially impair the character or revenue producing significance of the Project Facilities.

Release of Real Property

The College may release any part of the Land from the Mortgage not containing any permanent structure only upon receipt by the Trustee of a certificate of an Authorized Institution Representative stating, among other things, that no Default exists under the Loan Agreement and that the property to be released is not necessary for the operating unity and efficiency of the Project Facilities and that such release will not impair the structural integrity of the Project Facilities for their intended purposes nor inhibit ingress to or egress from the Project Facilities and provided further that the College pays to the Trustee for deposit in the Redemption Account cash equal to the value of the Land as determined by an independent appraiser and obtain an opinion of bond counsel to the effect, among other things, that all conditions precedent to the Loan Agreement relating to such release have been complied with.

The College may also release Land not containing any permanent structure necessary for operating unity and efficiency of the Project Facilities from the Mortgage without depositing cash in the Redemption Account upon a showing that the fair market value of the land and the Project Building remaining subject to the Mortgage after such release is at least 125% of the then outstanding principal amount of the Bonds and upon receipt of the certificate of the Authorized Institution Representative and the opinion of bond counsel and a survey described in the foregoing sentence.

The College may grant to itself or others easements, licenses, rights of way, shared use agreements, party wall agreements and other rights or privileges in the nature of easements with respect to the Land, free from the lien of the Mortgage, or may release existing easements, licenses, rights of way and other rights or privileges with or without consideration; provided, however, that prior to any such grant or release, there shall have been supplied to the Trustee a Certificate of an Authorized Institution Representative and, if requested by the Trustee, of an Independent Engineer to the effect that (i) such grant or release is not detrimental to the proper operation of the Project Facilities and (ii) such grant or release will not impair the operating unity or the efficiency of the Project Facilities on such Land and a certificate of a qualified appraiser that such grant or release will not materially and adversely affect the fair market value thereof.

Indemnification

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

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

College to Maintain its Existence and Accreditation

The College agrees that during the term of the Loan Agreement it will maintain its existence as a nonprofit corporation and maintain the Institution as an institution of higher education under the laws of Minnesota and its accreditation as an institution of higher education by recognized accrediting agencies and that it will not consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, or transfer all or substantially all of its assets to another institution except upon the conditions provided in the Loan Agreement. The conditions are the following: (a) if the surviving, resulting or transferee institution, as the case may be, is other than the College, such surviving, resulting or transferee corporation shall assume in writing all of the obligations of the College in the Loan Agreement and the Mortgage, and be either a state university or college or a nonprofit corporation and a nonprofit 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 non-hospital 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 tax-exempt bonds issued after August 5, 1997 which proceeds have been or will be applied to capital expenditures incurred after August 5, 1997), within the meaning of Section 145 of the Internal Revenue Code, does not exceed \$150,000,000. Under the Loan Agreement, unless the College obtains an opinion of nationally recognized bond counsel that the tax-exempt status of the Bonds will not be affected, 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 as an entirety if the effect of any such transaction would adversely affect the tax-exempt status of the Bonds, such as by exceeding limitations on the outstanding aggregate principal amounts of all tax-exempt bonds issued by or on behalf of the College or such other resulting entity, and all organizations under common management or control with the College or such resulting entity within the meaning of Section 145 of the Internal Revenue Code.

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.

Institution to be Nonsectarian

The College agrees that the Institution will continue to be nonsectarian; will not require or forbid attendance by students or any other persons at religious worship or acceptance of any religious creed; and will not promulgate the distinctive doctrines, creeds or tenets of any particular religious sect.

Determination of Taxability

In the event a Determination of Taxability is made that interest payable on the Bonds is includable in gross income for purposes of federal income taxation under the provisions of the Internal Revenue Code and regulations thereunder as in effect at the date of issuance of the Bonds, the affected Bonds shall bear additional interest at the rate of two percent (2.00%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. In addition, in the event of such Determination of Taxability, the Bonds shall be subject to optional redemption as a whole or in part on the next date for which due notice can be given or any date thereafter and the redemption price shall be equal to par plus accrued interest (including additional interest from the Date of Taxability). If a Determination of Taxability should occur, any monetary damage or loss resulting from or incident thereto shall be limited to the additional interest, as more fully set forth in the Loan Agreement.

Financial Covenants

The College covenants and agrees, so long as the Bonds shall remain outstanding, to comply with the financial covenants described under the heading "Summary of Security for the Bonds" in this Official Statement. In addition, the Loan Agreement includes provisions governing the calculation of Maximum Annual Debt Service covering, among other things, variable rate indebtedness, guarantees, balloon indebtedness, put indebtedness, refunded debt and subordinated debt.

Other Covenants

The College further agrees to comply with all applicable laws and regulations against unlawful discrimination, and not to discriminate unlawfully on account of religion, 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 Authority or Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds and to comply with the applicable rebate requirements under Section 148 of the Code and regulations thereunder; and to observe all applicable State laws and regulations, including those of the Authority and the Minnesota Higher Education Services Office, subject to the right of contest. The College agrees to indemnify the Authority from losses arising from certain representations made by the College regarding the absence of hazardous waste on the Project Facilities.

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

Events of Default

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

- (a) If the College shall fail to make any Loan Repayment when due and either (i) the moneys on deposit in the Bond and Interest Sinking Fund Account, Reserve Account, or Redemption Account, as the case may be, on a Bond principal or interest payment date or redemption date are insufficient to pay when due principal, premium, if any, and interest on the Bonds, or (ii) such failure shall continue for 5 Business Days after notice from the Trustee or the Authority to the College that such payment has not been made; or
- (b) If the College shall fail to comply with the provisions of Section 6.09(f) of the Loan Agreement (relating to arbitrage calculation and rebate requirements); or
- (c) If the College shall fail to maintain the balance in the Reserve Account in the amount of the Reserve Requirement, 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) If the College shall fail to observe and perform for reasons other than force majeure any other covenant, condition or agreement on its part under the Loan Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied; or
- (e) If the College files a petition in voluntary bankruptcy, or for the composition of its affairs or for its corporate reorganization under any state or Federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the property of the College; or
- (f) If a court of competent jurisdiction shall enter an order, judgment or decree against the College in any insolvency, bankruptcy, or reorganization proceeding, or appointing a trustee or receiver of the College or of the whole or any substantial part of the property of the College, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof; or
- (g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the College or of the whole or any substantial part of its property, and such custody or control shall not be terminated within ninety days from the date of assumption of such custody or control; or
- (h) If there shall occur an event of default (as defined therein) under the Mortgage.

The term "force majeure" as used above includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; orders, regulations or laws of any kind of the government of the United States of America or of the State of Minnesota or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil

disturbances; explosions, breakage or accident to machinery, transmission pipes or canals, partial or entire failure of utilities; or any other cause or event not reasonably within the control of the College. The provisions of paragraph (d) above, are subject to the further limitation that if the Default can be remedied but not within a period of thirty days after notice and if the College has taken all action reasonably possible to remedy such default within such thirty-day period, the default shall not become an Event of Default for so long as the College shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The College agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the College from carrying out its agreements.

Remedies on Default

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

- (a) The Trustee may declare all or any amount of Loan Repayments thereafter to become due 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.
- (c) The Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture or to foreclose the Mortgage in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to the actions set forth above shall be applied first to advances and expenses, and then to payment of interest, principal and premium, if any, on the Bonds as provided in Section 7.04 of the Indenture, and any excess to the College.

Amendments

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

THE INDENTURE

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

Granting Clauses

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

- (1) 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;
- (2) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be paid and maintained under the Indenture (but not the Escrow Account), (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
- (3) 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, including, but not limited to, the Mortgage.

Accounts

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

Trustee's Right to Payment

The Trustee shall have a first lien, with right of payment prior to payment of interest on or principal of the Bonds for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created by the Indenture and exercise and performance of the powers and duties of the Trustee under the Indenture, and the cost and expenses incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence, or willful default of the Trustee).

Additional Bonds

In addition to the Series Four-Y Bonds, the Indenture permits the issuance of one or more series of Additional Bonds by the Authority, acting at the request of the College, equally and ratably secured on a parity with the Series Four-Y Bonds to provide funds for the following purposes: (i) completion of the Project, (ii) refunding of all or any series or portion of series of then outstanding Series Four-Y Bonds or Additional Bonds, (iii) improvements or alterations, repairs or replacement of the Project Facilities, or (iv) other project or projects as authorized by the Act.

The issuance of Additional Bonds requires, among other things, evidence satisfactory to the Authority of the College's ability to meet debt service on the Additional Bonds and comply with certain financial covenants set forth in the Loan Agreement. Furthermore, to the extent required by the Authority, the College shall make additional deposits to the Reserve Account and execute supplements to the Mortgage, the Loan Agreement and the Indenture. Additional Bonds may not be issued unless in the opinion of bond counsel the exclusion of interest on the outstanding Bonds from gross income of the holders for federal income tax purposes shall not be jeopardized.

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 rebate requirements under Section 148 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 money in the Accounts.

Events of Default

The following are Events of Default under the Indenture:

- (a) If payment of the principal of any of the Bonds, when the same shall become due and payable (whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise), shall not be made; or
- (b) If payment of any interest on the Bonds when the same shall become due and payable (in which case interest shall be payable to the extent permitted by law on any overdue installments of interest, in each case at the interest rate borne by the Bonds in respect of which such interest is overdue) shall not be made; or
- (c) If the Authority shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, or in any supplemental indenture on the part of the Authority to be performed, and such default shall have continued for a period of sixty days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Authority and to the College (giving the College the privilege of curing such default in the name of the Authority, if permitted by law) by the Trustee, which may give such notice in its discretion and shall give such notice upon written request of the Holders of not less than a majority in principal amount of the Bonds then outstanding; or
- (d) If any "event of default" on the part of the College, as that term is defined in the Loan Agreement or the Mortgage, shall occur and be continuing.

Remedies

If an Event of Default exists, the Trustee may, and upon written request of the Holders of a majority in aggregate principal amount of Bonds outstanding shall, by notice in writing delivered to the Authority, declare the principal of all Bonds then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable subject, however, to the right of the Holders of a majority in aggregate principal amount of Bonds then outstanding, by written notice to the Authority and to the Trustee, to annul such declaration and destroy its effect at any time if all covenants with respect to which default shall have been made shall be fully performed or made good, and all arrears of interest upon all Bonds outstanding and the reasonable expenses and charges of the Trustee, its agents and attorneys, and all other indebtedness secured by the Indenture (except the principal of any Bonds which have not then attained their stated maturity and interest accrued on such Bonds since the last interest payment date) shall be paid, or the amount thereof shall be paid to the Trustee for the benefit of those entitled thereo.

In the case of an Event of Default under the Indenture, the Loan Agreement or the Mortgage, the Trustee, anything therein contained to the contrary notwithstanding and without any request from any Bondholder (subject, however to its rights to indemnity and notice provided in the Indenture), shall be obligated to take such action or actions for the enforcement of its rights and the rights of the Bondholders and the rights of the Authority under the Loan Agreement and the Mortgage as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, to enforce the Mortgage, to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Concerning the Trustee

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to its reference or prime rate, 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, provided that the Authority may, but is not required to remove the Trustee with or without the request of the College if an Event of Default has occurred and is continuing or a default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

Concerning the Bondholders

No Bondholder shall have any right to institute any proceeding in equity or at law for the enforcement of the Indenture or for any remedy under the Loan Agreement unless a default has occurred of which the Trustee has been notified or of which it is deemed to have notice; nor unless also such default shall have become an Event of Default and the Holders of a majority in aggregate principal amount of Bonds outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name; nor unless also they shall have offered to the Trustee indemnity as provided in the Indenture; and no one or more Bondholders shall have the right to affect, disturb, or prejudice the lien of the Indenture by his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity shall be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all Bonds outstanding.

The Trustee, upon the written request of the Holders of a majority in principal amount of the Bonds at the time outstanding, shall waive any default under the Indenture and its consequences, except a default in the payment of the principal of the Bonds at the date of maturity specified therein; provided, however, that a default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest, and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Trustee and the Holders of the Bonds shall be restored to their former positions and rights respectively. No waiver of any default or Event of Default, whether by the Trustee or by the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

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

Defeasance

If the Authority and the College shall:

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

for the payment of the redemption price on the date such Bonds are to be redeemed and on any interest payment dates, or

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

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

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

Supplemental Indentures

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

- (a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;
- (b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority or any successor;
- (c) to evidence the succession of any other department, agency, body or corporation to the Authority;
- (d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and 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 create a series of and authorize Additional Bonds; and
- (f) to modify the Indenture as authorized by the Bondholders pursuant to Section 11.04 of the Indenture.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds under the Indenture 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 (a) an extension of the maturity of any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture (except as provided in Section 2.09 of the Indenture), or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or to amendments to the Loan Agreement or Mortgage.

Amendments to the Loan Agreement and the Mortgage

The Authority and the Trustee may, without the consent of or notice to any of the Bondholders, consent to and (if requested) execute any amendment, change or modification of the Loan Agreement or the Mortgage as may be required (a) by the provisions of the Loan Agreement, the Mortgage, or Indenture, or (b) for the purpose of curing any ambiguity or formal defect or omission, or (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement or the Mortgage or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds.

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

Registration

The Bonds shall be fully registered as to principal and interest at the 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 basic interest rate of any authorized denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at his address as shown on the registration books of the Trustee subject to applicable procedures while in book entry form.

THE MORTGAGE

At or prior to the closing, the College will execute and deliver to the Authority, and the Authority will assign to the Trustee, a Combination Mortgage, Security Agreement and Fixture Financing Statement (the "Mortgage"), to be dated as of January 1, 1999, to secure the Bonds. The following is a summary of certain provisions of the Mortgage.

Under the Mortgage, in order to secure its obligations under the Loan Agreement, including payment of Loan Repayments in amounts and at times sufficient to pay the principal of, premium, if any, and interest on the Bonds, the College grants to the Authority a first mortgage lien on its right, title and interest in and to the land described in Exhibit A to the Mortgage (the "Land"), and any buildings now standing or hereafter constructed or placed upon the Land, including the Project and equipment purchased with proceeds of the Bonds located therein, constituting the Project Facilities (collectively, the "Mortgaged Property"). The Authority is also granted a security interest in all of the general intangibles, rents, issues, condemnation awards, insurance proceeds and similar revenues and income (the "Revenues and Income") arising from the ownership of the Mortgaged Property.

The Loan Agreement provides that the College may release land and equipment from the lien of the Mortgage upon certain conditions more fully described under the captions "THE LOAN AGREEMENT – Removal of Project Equipment and Building Equipment" and "THE LOAN AGREEMENT — Release of Real Property" in this Appendix.

Events of Default

The following are Events of Default under the Mortgage:

- (a) If an event of default (as defined therein) under the Loan Agreement has occurred and is continuing; or
- (b) If an event of default (as defined therein) under the Indenture has occurred and is continuing; or
- (c) If the College violates or fails to perform any covenants under the Loan Agreement or the Mortgage for a reason other than force majeure (as defined in the Loan Agreement) for a period of thirty days after written notice from the Authority or the Trustee specifying the default and requesting that it be remedied or for such further period of time as the Trustee shall permit; or
- (d) If any representation of the College in the Mortgage or the Loan Agreement is incorrect in any material respect.

**AUDITED FINANCIAL STATEMENTS
FISCAL YEARS ENDED MAY 31, 1998 AND 1997**



Virchow, Krause & Company, LLP

Certified Public Accountants & Consultants

1100 TCF Tower • 121 S. Eighth Street
Minneapolis, MN 55402-2848

INDEPENDENT AUDITORS' REPORT

To the Board of Regents
Augsburg College
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of Augsburg College as of May 31, 1998 and 1997 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Augsburg College at May 31, 1998 and 1997 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in note 14 to the financial statements, in 1997, Augsburg College changed its method of accounting for investments.

Minneapolis, Minnesota
August 6, 1998

VIRCHOW, KRAUSE & COMPANY, LLP

Virchow, Krause & Company, LLP

AUGSBURG COLLEGE**STATEMENTS OF FINANCIAL POSITION**
May 31, 1998 and 1997

ASSETS		
	1998	1997
Cash and cash equivalents	\$ 1,852,798	\$ 4,396,368
Student accounts receivable, net of allowance for doubtful accounts of \$358,000 and \$300,000	1,377,100	1,278,296
Government grants receivable	58,510	294,218
Accrued interest	126,172	106,205
Contributions receivable (Note 4)	4,481,000	5,402,000
Other receivables	621,695	562,695
Deposits held by trustee (Note 7)	4,215,980	2,675,210
Inventories	312,626	73,534
Cash surrender value of life insurance	366,640	345,676
Prepaid expense and other assets	53,969	43,376
Endowment investments (Note 5)	20,807,222	16,803,383
Other investments (Notes 6 and 15)	3,435,698	3,289,527
Funds held by others	48,769	
Student notes receivable, net of allowance for doubtful notes of \$350,400 each year	5,669,200	5,582,070
Construction in progress (Note 8)	291,445	11,876,456
Property, plant and equipment, net (Note 9)	40,126,064	26,765,758
TOTAL ASSETS	\$ 83,844,888	\$ 79,494,772
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 512,179	\$ 1,302,502
Accrued liabilities	2,442,136	2,378,710
Student deposits	1,576,870	1,659,101
Long-term debt		
Bonds payable to U. S. government (Note 10)	1,410,000	1,470,000
Notes and leases payable to Minnesota Higher Education Facilities Authority (Note 11)	22,100,000	22,435,000
Other notes payable (Note 12)	503,219	565,730
Annuities payable (Note 15)	1,651,817	1,557,341
Funds held in custody for others	484,952	487,362
U. S. government grants - Federal Perkins Loan Program	5,156,387	5,129,260
Total Liabilities	35,837,560	36,985,006
NET ASSETS (Note 2)		
Unrestricted	18,748,411	15,188,898
Temporarily restricted	16,903,184	16,143,518
Permanently restricted	12,355,733	11,177,350
Total Net Assets	48,007,328	42,509,766
TOTAL LIABILITIES AND NET ASSETS	\$ 83,844,888	\$ 79,494,772

AUGSBURG COLLEGE

STATEMENT OF ACTIVITIES
Year Ended May 31, 1998
With Comparative Totals for 1997

	1998			1997 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	\$28,597,417			\$ 26,942,054
Less: Scholarships and grants	(7,767,047)			(6,785,514)
Net tuition and fees	20,830,370			20,156,540
Government grants	2,139,988			1,988,697
Private gifts and grants	676,278	\$ 3,840,485	\$ 1,101,158	8,132,810
Endowment income	76,145	395,069	7,791	372,928
Investment income	308,492	8,527		603,291
Gains on endowment investments	766,460	2,336,248	35,544	1,965,288
Sales and services of educational activities	24,698			23,442
Other sources	373,058			410,349
Sales and services of auxiliary enterprises	5,475,084			4,961,772
Adjustment of actuarial liability	(135)	92,572	33,890	125,416
	30,670,438	6,672,901	1,178,383	38,521,722
Net assets released from restrictions (Note 3)	5,913,235	(5,913,235)		
Total Revenues, Gains and Other Support	36,583,673	759,666	1,178,383	38,740,533
EXPENSES AND LOSSES				
Program expenses				
Instruction	15,987,413			14,991,511
Academic support	2,816,956			1,883,099
Public service	693,943			981,015
Student services	3,934,854			4,050,716
Auxiliary enterprises	4,759,972			5,014,432
Support expenses				
Institutional support	4,831,022			4,734,134
Allocable expenses				
Operation and maintenance of plant	2,684,627			2,367,930
Depreciation	1,598,593			1,360,926
Interest	1,302,359			849,465
Less: Allocated expenses	(5,585,579)			(4,578,321)
Total Expenses and Losses	33,024,160			31,654,907
Excess of Revenues, Gains and Other Support over Expenses and Losses	3,559,513	759,666	1,178,383	7,085,626
Cumulative Effect on Prior Years of a Change in Accounting Principle (Note 14)				1,107,169
Increase in Net Assets	3,559,513	759,666	1,178,383	8,192,795
Net Assets - Beginning of Year	15,188,898	16,143,518	11,177,350	34,316,971
NET ASSETS - END OF YEAR	<u>\$18,748,411</u>	<u>\$16,903,184</u>	<u>\$12,355,733</u>	<u>\$ 42,509,766</u>

See accompanying notes to financial statements.

AUGSBURG COLLEGE

STATEMENT OF ACTIVITIES

Year Ended May 31, 1997

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	\$ 26,942,054			\$ 26,942,054
Less: Scholarships and grants	(6,785,514)			(6,785,514)
Net tuition and fees	20,156,540			20,156,540
Government grants	1,988,697			1,988,697
Private gifts and grants	511,999	\$ 6,851,935	\$ 768,876	8,132,810
Endowment income	62,663	310,265		372,928
Investment income	312,589	290,702		603,291
Gains on endowment investments	356,946	1,608,342		1,965,288
Sales and services of educational activities	23,442			23,442
Other sources	410,349			410,349
Sales and services of auxiliary enterprises	4,961,772			4,961,772
Adjustment of actuarial liability	5,981	141,086	(21,651)	125,416
	28,790,978	9,202,330	747,225	38,740,533
Net assets released from restrictions (Note 3)	4,533,382	(4,533,382)		
Total Revenues, Gains and Other Support	33,324,360	4,668,948	747,225	38,740,533
EXPENSES AND LOSSES				
Program expenses				
Instruction	14,991,511			14,991,511
Academic support	1,883,099			1,883,099
Public service	981,015			981,015
Student services	4,050,716			4,050,716
Auxiliary enterprises	5,014,432			5,014,432
Support expenses				
Institutional support	4,734,134			4,734,134
Allocable expenses				
Operation and maintenance of plant	2,367,930			2,367,930
Depreciation	1,360,926			1,360,926
Interest	849,465			849,465
Less: Allocated expenses	(4,578,321)			(4,578,321)
Total Expenses and Losses	31,654,907			31,654,907
Excess of Revenues, Gains and Other Support over Expenses and Losses	1,669,453	4,668,948	747,225	7,085,626
Cumulative Effect on Prior Years of a				
Change in Accounting Principle (Note 14)	910,599	57,719	138,851	1,107,169
Increase in Net Assets	2,580,052	4,726,667	886,076	8,192,795
Net Assets - Beginning of Year	12,608,846	11,416,851	10,291,274	34,316,971
NET ASSETS - END OF YEAR	\$ 15,188,898	\$ 16,143,518	\$ 11,177,350	\$ 42,509,766

See accompanying notes to financial statements.

AUGSBURG COLLEGE

STATEMENTS OF CASH FLOWS
Years Ended May 31, 1998 and 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,497,562	\$ 8,192,795
Cumulative effect of a change in accounting principle		(1,107,169)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,598,593	1,360,926
Gain on disposal of property		(55,931)
Gains on endowment investments	(3,138,252)	(1,965,288)
(Gains) losses on other investments	(266,831)	44,160
Actuarial adjustment of annuities payable	265,735	166,986
Loan cancellations and assignments	86,071	36,958
Increase in allowance for student accounts receivable	58,000	
Changes in assets and liabilities		
Student accounts receivable	(156,804)	(138,791)
Government grants receivable	235,708	155,622
Accrued interest receivable	(19,967)	(17,374)
Other receivables	(59,000)	(16,168)
Inventories	(239,092)	20,747
Prepaid expense and other assets	(10,593)	135,653
Accounts payable	(790,323)	445,305
Accrued liabilities	63,426	(15,712)
Deposit accounts	(82,231)	382,771
Funds held in custody for others	(2,410)	352,249
Contributions restricted for plant and long-term investment	(2,548,829)	(5,720,199)
Contributions receivable available for operations	15,231	(5,600)
Investment income restricted for reinvestment	(7,791)	
Net Cash Provided by Operating Activities	<u>498,203</u>	<u>2,251,940</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of endowment investments, net	(796,626)	(492,314)
Sales (purchases) of other investments, net	120,660	(141,124)
Purchases of property, plant and equipment	(3,373,888)	(11,476,367)
Proceeds from sale of plant assets		20,916
(Increase) decrease in deposits held by trustee	(1,540,770)	8,705,582
Disbursements of loans to students	(906,921)	(947,000)
Repayments of loans from students	733,720	700,035
Increase in cash surrender value of life insurance	(89,925)	(63,379)
Net Cash Used for Investing Activities	<u>(5,853,750)</u>	<u>(3,693,651)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal on indebtedness	(457,511)	(432,678)
Proceeds from issuance of debt		90,000
Investment income received restricted for reinvestment	7,791	
Contributions received restricted for plant and long-term investment	3,405,829	2,675,799
Increase in refundable U.S. government grants	27,127	38,350
Payments to annuitants	(171,259)	(174,126)
Net Cash Provided by Financing Activities	<u>2,811,977</u>	<u>2,197,345</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,543,570)</u>	<u>755,634</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>4,396,368</u>	<u>3,640,734</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,852,798</u>	<u>\$ 4,396,368</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 1,446,163	\$ 1,512,051
Noncash investing and financing activities		
Plant assets sold on contract for deed		170,317

See accompanying notes to financial statements.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Augsburg College is a four-year liberal arts college affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to colleges and universities and conform to generally accepted accounting principles. The more significant accounting policies are summarized below:

General - The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets—permanently restricted, temporarily restricted or unrestricted, as follows:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the College and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions of assets other than cash are recorded at their estimated fair value.

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

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

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the College has adopted the following accounting policies:

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 1998 and 1997

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets (Continued)

Reporting as Temporarily Restricted Revenues - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment - Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets.

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

Inventories - Inventories of supplies are valued at the lower of cost or market, determined on a first-in, first-out basis.

Investments - Investments in marketable equity and debt securities are recorded at fair value. Other investments are recorded at cost, except those items received as gifts, which are valued at fair value at the date of gift. Fair value approximates cost for all investments recorded on the cost basis.

Deposits Held by Trustee - Cash, short-term investments and government securities held by trustee include proceeds of long-term financing to be expended for plant facilities and amounts restricted for debt service and renewal and replacement as required by the trust indentures.

Physical Plant and Equipment - Physical plant assets are stated at cost at the date of acquisition less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings - 50 years; equipment - 5 years; and library books - 15 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant and equipment expenditures in excess of \$2,000.

Retirement Plans - The College has two contributory defined contribution retirement plans for academic and nonacademic personnel. Contributions are based on a percentage of compensation. The cost of the retirement plans is paid currently and amounted to approximately \$912,600 and \$859,800 for the years ended May 31, 1998 and 1997, respectively.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amounts of such grants were \$1,915,122 and \$1,043,962, respectively, during the year ended May 31, 1998 and \$1,999,263 and \$976,612, respectively, during the year ended May 31, 1997.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status - The College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Currently, the College has no obligation for any unrelated business income tax.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund-Raising and Advertising Expenses - Fund-raising expenses approximated \$1,194,000 and \$1,113,000 for the years ended May 31, 1998 and 1997, respectively. Advertising expenses approximated \$311,000 and \$298,000 for the years ended May 31, 1998 and 1997, respectively. Advertising costs are expensed when incurred.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

At May 31, 1998 and 1997, the College's unrestricted net assets were allocated as follows:

	1998	1997
Operations	\$ 711,926	\$ 455,896
Long-term investments (quasi-endowment funds)	8,377,441	5,960,030
Loans to students	646,448	629,549
Gift annuities	28,237	24,499
Replacement of plant facilities	(510,773)	(944,693)
Net investment in plant	7,394,160	7,009,323
Debt service reserve	2,100,972	2,054,294
	<u>\$ 18,748,411</u>	<u>\$ 15,188,898</u>

Temporarily restricted net assets consist of the following at May 31, 1998 and 1997:

	1998	1997
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 1,199,939	\$ 870,235
Acquisition of buildings and equipment	918,133	5,855,580
	<u>2,118,072</u>	<u>6,725,815</u>
Contributions receivable	4,227,000	5,132,000
Annuity, life income and similar funds	897,346	804,774
Unamortized gifts for capital assets	9,660,766	3,480,929
	<u>\$ 16,903,184</u>	<u>\$ 16,143,518</u>

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (CONTINUED)

Permanently restricted net assets consist of the following at May 31, 1998 and 1997:

	1998	1997
Endowment funds	\$ 11,649,327	\$ 10,493,554
Annuity, life income and similar funds	433,861	395,251
Student loan fund	18,545	18,545
Contributions receivable	254,000	270,000
	<u>\$ 12,355,733</u>	<u>\$ 11,177,350</u>

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended May 31, 1998 and 1997 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	1998	1997
Amortization of contributions expended for long-lived assets	\$ 267,023	\$ 92,414
Scholarships, instruction and other departmental support	4,769,923	3,818,116
Acquisition of equipment and debt service payments	876,289	622,852
	<u>\$ 5,913,235</u>	<u>\$ 4,533,382</u>

These assets were reclassified to unrestricted net assets.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31, 1998 and 1997:

	1998	1997
Temporarily restricted - operations	\$ 2,300	\$ 59,600
Temporarily restricted - plant projects	5,347,800	6,629,800
Permanently restricted - endowment	272,000	287,000
Gross unconditional promises to give	5,622,100	6,976,400
Less: Unamortized discount	(1,141,100)	(1,574,400)
Net unconditional promises to give	<u>\$ 4,481,000</u>	<u>\$ 5,402,000</u>
Amounts due in:		
Less than one year	\$ 971,000	
One to five years	2,818,600	
More than five years	1,832,500	
	<u>\$ 5,622,100</u>	

Promises due in one to five years and more than five years were discounted at an interest rate of 6.0% for each of the years ended May 31, 1998 and 1997. Promises due in less than one year were not discounted.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 5 - ENDOWMENT INVESTMENTS

The following summarizes the College's endowment investments at May 31, 1998 and 1997.

	1998		1997	
	Fair Value	Cost	Fair Value	Cost
Cash and short-term investments	\$ 1,601,020	\$ 1,601,020	\$ 1,202,488	\$ 1,202,488
Marketable securities				
U. S. government securities	2,945,179	2,870,756	2,229,907	2,275,279
Other fixed income securities	4,127,149	3,984,893	3,394,230	3,361,491
Stocks	11,472,753	9,379,089	9,384,598	7,912,585
Cash surrender value of life insurance policies and contracts	661,121	661,121	592,160	592,160
	<u>\$ 20,807,222</u>	<u>\$ 18,496,879</u>	<u>\$ 16,803,383</u>	<u>\$ 15,344,003</u>

Endowment income shown in the statements of activities for 1998 and 1997 is net of custodian and investment advisory fees approximating \$224,000 and \$161,000, respectively.

NOTE 6 - OTHER INVESTMENTS

The following summarizes the College's investments in deferred gift and other funds at May 31, 1998 and 1997 whose use is limited for specific purposes:

	1998		1997	
	Fair Value	Cost	Fair Value	Cost
Cash and short-term investments	\$ 118,957	\$ 118,957	\$ 246,305	\$ 246,305
U. S. government securities	518,502	508,172	584,805	591,613
Other fixed income securities	1,076,311	998,705	1,020,534	938,917
Stocks	1,037,914	672,962	710,423	489,564
Mutual funds	429,000	367,101	431,109	391,655
Contracts for deed	255,014	255,014	296,351	296,351
	<u>\$ 3,435,698</u>	<u>\$ 2,920,911</u>	<u>\$ 3,289,527</u>	<u>\$ 2,954,405</u>

NOTE 7 - DEPOSITS HELD BY TRUSTEE

The following summarizes debt service reserve and other deposits held by trustee related to outstanding debt at May 31, 1998 and 1997:

	1998		1997	
	Fair Value	Cost	Fair Value	Cost
Cash and short-term investments	\$ 2,562,942	\$ 2,562,942	\$ 1,001,381	\$ 1,001,381
U. S. government and agency securities	1,653,038	1,671,806	1,673,829	1,701,169
	<u>\$ 4,215,980</u>	<u>\$ 4,234,748</u>	<u>\$ 2,675,210</u>	<u>\$ 2,702,550</u>

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 8 - CONSTRUCTION IN PROGRESS

At May 31, 1998, the College had incurred costs related to the following building and renovation projects:

	Construction in Progress	Total Estimated Costs
Science hall first floor renovation	\$ 136,299	\$ 950,000
President's house	10,737	500,000
Dorm renovation - Phase I	48,922	350,000
Student service center	39,968	150,000
Other miscellaneous projects	55,519	62,000
	<u>\$ 291,445</u>	<u>\$ 2,012,000</u>

These construction projects will be financed through a combination of debt, private gifts, grants and operations. The library and Honeywell projects which were in progress at May 31, 1997 were completed and capitalized during the year ended May 31, 1998.

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at May 31, 1998 and 1997:

	1998	1997
Land	\$ 3,079,225	\$ 2,861,318
Buildings	40,840,586	27,940,030
Improvements other than buildings	6,989,802	6,096,777
Equipment and library books	8,443,268	8,112,022
	<u>59,352,881</u>	<u>45,010,147</u>
Less: Accumulated depreciation	<u>19,226,817</u>	<u>18,244,389</u>
	<u>\$ 40,126,064</u>	<u>\$ 26,765,758</u>

NOTE 10 - BONDS PAYABLE TO U.S. GOVERNMENT

The bonds payable to U.S. Government were issued by the College on April 1, 1966 to finance Urness Tower Dormitory and the College Center. The bonds bear interest at the rate of 3% and mature in amounts from \$60,000 to \$100,000 annually on April 1, 1999 to 2016. The outstanding balance at May 31, 1998 and 1997 was \$1,410,000 and \$1,470,000, respectively.

The bonds are secured by the general obligation of the College and additionally by (1) a first mortgage on Urness Tower and the College Center; (2) a first lien on and pledge of the net revenues derived from the operations or ownership of the mortgaged facilities; and (3) the student un on fees of not less than \$30 per year to be charged and collected from each full-time student.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 11 - NOTES AND LEASES PAYABLE TO MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

The following is a summary of the notes and leases payable to the Minnesota Higher Education Facilities Authority for the following bonds issued by the Authority:

	Original Balance	Balance as of May 31, 1998	Balance as of May 31, 1997
Series A bonds of 1972	\$ 2,200,000	\$ 1,575,000	\$ 1,630,000
Series Three-G bonds of 1992	9,645,000	8,765,000	9,005,000
Series Four bonds of 1996			
F-1	7,700,000	7,620,000	7,660,000
F-2	4,140,000	4,140,000	4,140,000
		<u>\$ 22,100,000</u>	<u>\$ 22,435,000</u>

Series A Bonds of 1972 - Under a trust indenture dated December 1, 1972, the Minnesota Higher Education Facilities Authority sold First Mortgage Revenue Bonds totaling \$2,200,000 and leased the project (Mortensen Hall) to the College. The bonds bear interest at rates varying from 5.5% to 5.6% and mature in amounts from \$60,000 to \$165,000 annually on December 1, 1998 to 2012.

Series Three-G Bonds of 1992 - On May 1, 1992, the Minnesota Higher Education Facilities Authority issued \$9,645,000 of Mortgage Revenue Bonds and entered into a note agreement with the College. The bonds mature annually on January 1, 1999 through January 1, 2004 in amounts ranging from \$255,000 to \$340,000. Term bonds in the amount of \$3,055,000 and \$3,940,000 mature on January 1, 2011 and January 1, 2017, respectively. The term bonds are subject to annual mandatory sinking fund redemption in installments ranging from \$360,000 to \$765,000, at the option of the Minnesota Higher Education Authority. All bonds maturing on or after January 1, 2001 may be redeemed prior to maturity on any interest payment date. The interest rate varies from 5.70% to 6.50% with interest payable semiannually each July 1 and January 1. The loan repayments are a general obligation of the College and are secured by a mortgage lien on certain of the College campus facilities and a security interest in the net revenues and income from these facilities. In addition, payment of the principal and interest on the bonds when due is guaranteed by a municipal bond insurance policy issued by Connie Lee Insurance Company.

Series Four F Bonds of 1996 - On May 28, 1996, the Minnesota Higher Education Facilities Authority issued \$11,840,000 of Mortgage Revenue Bonds and entered into a note agreement with the College. Series Four F-1 bonds totaling \$7,700,000 mature on various dates through May 1, 2023. The term bonds are subject to annual mandatory sinking fund redemption in installments ranging from \$30,000 to \$1,125,000, at the option of the Minnesota Higher Education Facilities Authority. The interest rate varies from 4.50% to 6.25% with interest payable each November 1 and May 1. Series Four F-2 bonds totaling \$4,140,000 mature on May 1, 2016. The term bonds are subject to mandatory sinking fund redemption in annual installments ranging from \$280,000 to \$490,000, at the option of the Minnesota Higher Education Facilities Authority, beginning May 1, 2006. The interest rate is 5.75% with interest payable each November 1 and May 1. The loan repayments are a general obligation of the College and are secured by a mortgage on and security interest in the land, building, equipment and certain personal property associated with the Library and Information Technology Center.

The College has approximately \$1,800,000 in deposits held by trustee at May 31, 1998 which management intends to use for the redemption of series Four F-2 Bonds on November 1, 1998.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS
May 31, 1998 and 1997

NOTE 11 - NOTES AND LEASES PAYABLE TO MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY (CONTINUED)

Series Four F Bonds of 1996 (Continued)

Most of the proceeds of the Series Four F-1 Bonds and the Series Four F-2 Bonds have been used to finance the construction, furnishing and equipping of a Library and Information Technology Center located on the campus of the College and to purchase and install energy management equipment in College-owned buildings. The remainder of the proceeds of these bonds were used for an early extinguishment of other debt.

NOTE 12 - OTHER NOTES PAYABLE

The following summarizes other notes payable at May 31, 1998 and 1997:

	1998	1997
U. S. Department of Education	\$ 51,930	\$ 76,759
Contracts and mortgages	211,800	222,019
Loan certificates	12,597	15,765
Marriott Corporation	226,892	251,187
	<u>\$ 503,219</u>	<u>\$ 565,730</u>

On January 14, 1993, Augsburg College entered into a promissory note agreement with the United States Department of Education. The note, with an original amount of \$168,500, carries a 3% annual interest rate. The note agreement provides for semiannual payments of \$13,473, including principal and interest, from July 1, 1998 through January 1, 2000. The loan proceeds were used to fund energy-efficient equipment for the College and a security interest was granted in this equipment to the lender.

Contracts and mortgages payable consists of two agreements which mature in 1999 and 2000. These balances relate to the acquisition of residential real estate properties which have been pledged on the loans. Interest rates are 6% and 9.25%, respectively, on the contracts.

The College is indebted to various individuals on loan certificates payable. The majority of the certificates are due on demand and bear interest at 6% per annum.

During 1995, the College received interest-free loans from Marriot Corporation amounting to \$100,000. During the years ended May 31, 1997 and 1996, additional interest-free advances of \$90,000 and \$110,000, respectively, were received. The advances funded a portion of the dining hall improvements and are payable in monthly installments of \$3,472.

NOTE 13 - FUTURE MATURITIES OF LONG-TERM DEBT AND INTEREST EXPENSE

Annual maturities of all long-term debt, including lease obligations, for each of the five years subsequent to May 31, 1998 are \$592,000, \$608,000, \$492,000, \$527,000, and \$553,000, respectively. Total interest expense incurred during the year ended May 31, 1998 by the College on all obligations amounted to \$1,438,851, including interest of \$136,492 which was capitalized to construction projects. Interest expense during the year ended May 31, 1997 totaled \$1,454,837, including interest of \$605,372 capitalized to construction projects.

AUGSBURG COLLEGE

NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

Effective June 1, 1996, the College adopted Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Statement No. 124, requires, among other things, that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of activities. The cumulative effect of the change in accounting on each class of net assets has been presented in the statement of activities for the year ended May 31, 1997.

NOTE 15 - DEFERRED GIFT AGREEMENTS

The College has arrangements with donors classified as charitable remainder trusts, charitable annuity trusts, charitable gift annuities and pooled life income funds. In general, under these arrangements the College receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The College invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the College as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used an interest rate of 8% at May 31, 1998 and 1997 in making the calculation.

Investment assets held by the College under deferred gift agreements totaled \$2,889,853 and \$2,668,100 at May 31, 1998 and 1997, respectively, and are included in other investments on the balance sheet.

NOTE 16 - COMMITMENTS

The College had a steam purchase agreement with the University of Minnesota under which the University furnished all of the College's steam requirements through 1996. The College now has an agreement with NRG Energy Center, Inc. under which NRG furnishes all of the College's steam requirements commencing January 1, 1997. The agreement calls for a fixed monthly steam demand charge of \$16,240 and a variable demand charge based on steam consumption. This agreement is for a 25-year period ending December 31, 2021.

NOTE 17 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, receivables and notes, mortgages and contracts for deed. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes, mortgages and contracts for deed are limited due to the College holding a secured position in these agreements. Notes and other receivables are due from a variety of sources concentrated primarily in the midwestern United States. As of May 31, 1998, management considers the College to have no significant concentration of credit risk.

