

OFFICIAL STATEMENT DATED NOVEMBER 22, 1982

NEW ISSUE

Moody's Rating: Aaa

In the opinion of Bond Counsel, the Bonds are exempt from taxation by the State of Minnesota and its subdivisions and municipalities and the interest to be paid on the Bonds is not includable in the gross income of the recipient for United States or State of Minnesota income tax purposes (other than Minnesota corporate franchise and bank excise taxes measured by income) according to present federal and Minnesota laws, regulations, rulings and decisions.

\$9,400,000

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
FIRST MORTGAGE REVENUE BONDS, SERIES TWO-E
(Carleton College)**

Dated: December 1, 1982

Due: December 1, 1987

Coupon: 7%

Reoffered at Par

(Accrued Interest to Be Added)

The Bonds shall be special obligations of the Minnesota Higher Education Facilities Authority (the "Authority"), issued under a Mortgage Trust Indenture between the Authority and Northwestern National Bank of Minneapolis (the "Trustee"), as Trustee, payable from payments made by or on behalf of

CARLETON COLLEGE

(the "College") pursuant to a Lease between the Authority and the College or out of other amounts pledged therefor under the Indenture, as described herein. The College will also guarantee payment of the principal of and interest on the Bonds by a Guaranty Agreement between the College and the Trustee.

The principal of the Bonds will be 100% collateralized by direct obligations of the United States of America.

The Bonds will be in the denomination of \$5,000 in coupon form registrable as to principal, or as to principal and interest. Interest will be payable on June 1, and December 1, commencing June 1, 1983 at the principal office of the Northwestern National Bank of Minneapolis, Minneapolis, Minnesota. The Bonds are subject to redemption at par on any interest payment date in whole but not in part in certain circumstances.

THE BONDS SHALL NOT BE LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA NOR CONSTITUTE A DEBT FOR WHICH THE FAITH AND CREDIT OR TAXING POWERS OF THE AUTHORITY OR THE STATE OF MINNESOTA ARE PLEDGED.

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of certain matters by Bond Counsel, Faegre & Benson, Minneapolis, Minnesota. Certain legal matters will be passed upon for the College by its counsel, Briggs and Morgan Professional Association, Saint Paul and Minneapolis, Minnesota and Lampe, Fossum, Jacobson, Borene & Crow, Northfield, Minnesota. It is expected that the Bonds will be available for delivery in New York, New York, on or about December 17, 1982.

Kidder, Peabody & Co.
Incorporated

Piper, Jaffray & Hopwood
Incorporated

Certain events, transactions and documents referred to herein may not have been completed as of the date of this Official Statement but will be completed on or before Bond Closing.

No dealer, broker, salesman or other person has been authorized by the Authority, the College or Kidder, Peabody & Co. Incorporated and Piper, Jaffray & Hopwood Incorporated (the "Underwriters") 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 any of the foregoing. The information contained herein, except as it relates to the Authority, has been obtained from the College or other sources but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters or 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 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. Copies of the Lease, Indenture, and Guaranty Agreement will be furnished upon request to the Authority.

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. 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.

In connection with this offering, the Underwriters may over-allot or effect transactions that 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. Although the Underwriters anticipate that they will maintain a secondary market for the Bonds, there is no assurance that such a market will develop or, if developed, will be maintained.

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DEFINITIONS OF CERTAIN TERMS

As used in this Official Statement the following words and terms when capitalized shall have the meaning stated, unless a different meaning clearly appears from the context or is stated in a separate document referred to herein:

Additional Bonds: Any parity bonds issued subsequent to the Bonds under the Indenture.

Additional Rent: The fees and expenses to be paid by or on behalf of the College to the Authority or the Trustee, for purposes other than the payment of Debt Service and amounts paid by the College for the account of the Authority for real estate taxes, special assessments and governmental charges payable with respect to the Project Facilities.

Base Rent: The rent payable by the College pursuant to the Lease for payment of Debt Service.

Bond and Interest Sinking Fund Account: The account established under the Indenture into which the Authority and Trustee shall deposit certain moneys for the payment of Debt Service.

Bond Closing: Delivery of the Bonds and payment therefor.

Bond Purchase Agreement: The Agreement dated as of November 17, 1982, among the Authority, the College and the Underwriters, pursuant to which the Bonds will be sold to the Underwriters, and pursuant to which the College agrees to pledge certain security to the Authority.

Building Equipment: The goods, equipment, furnishings, furniture, inventory, machinery or other tangible property owned by the College, located in a Project Building or elsewhere on the Leased Premises, and acquired with funds other than proceeds of the Bonds.

Construction Account: The Account established under the Indenture for deposit of certain Bond proceeds and from which Project Costs will be paid.

Debt Service: The payments due for the principal of and interest on the Bonds.

Debt Service Reserve Account: An account established under the Indenture for the security of the Bonds and any Additional Bonds.

Debt Service Reserve Requirement: The principal amount of outstanding Bonds.

General Bond Reserve Account: The General Bond Reserve Account established and maintained by the Authority under its General Bond Resolution adopted October 31, 1972 as a common security fund for certain bonds of the Authority. (The Bonds will not be secured by the General Bond Reserve Account. See "ACCOUNTS - General Bond Reserve Account.")

Guaranty Agreement: The Guaranty Agreement dated November 1, 1982 between the College and the Trustee relating to the Bonds, and any amendments thereto.

Indenture: The Mortgage Trust Indenture dated November 1, 1982 between the Authority and the Trustee relating to the Bonds, and any amendments thereto.

Lease: The Lease dated November 1, 1982 between the Authority and the College relating to the Bonds, and any amendments thereto.

Leased Equipment: The Building Equipment and the Project Equipment under the Lease.

Leased Premises: The Project Buildings and the sites thereof under the Lease.

Leased Property: The Leased Equipment and the Leased Premises.

Operation and Maintenance Account: The account established by the Indenture for payment of current expenses of the Project.

Permitted Encumbrances: As of any particular time, (i) liens for ad valorem taxes and special assessments not then delinquent, (ii) the Lease and Indenture, (iii) 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 Buildings or elsewhere on the Leased Premises, (iv) 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 and 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 Authority or the College and (v) certain other encumbrances described in the Indenture.

Project: The construction of an addition to and remodeling of the library building and remodeling Margaret Evans Residence Hall and Davis Residence Hall with necessary equipment, furnishings, utilities and site improvements on the campus of the College.

Project Building: One or more of the buildings to be constructed or improved as part of the Project.

Project Costs: The costs properly paid or payable in relation to the Project from the Construction Account.

Project Equipment: Those items of goods, equipment, furnishings, furniture, inventory, machinery, or other tangible personal property to be acquired and installed in a Project Building or elsewhere on the Leased Premises with proceeds from the sale of the Bonds.

Project Facilities: The Project Buildings and the Project Equipment under the Lease or Indenture.

Qualified Investments: Any bonds or other obligations which are direct obligations of the United States of America maturing or redeemable at the option of the holder on or before but not more than 120 days prior to the maturity date of the Bonds.

Redemption Account: The account established by the Indenture for deposit of (i) Revenues and Income and balances in the Revenue Fund Account not required to be deposited in other accounts, (ii) all funds received from the sale of Leased Property

or Project Equipment, (iii) excess insurance proceeds, and (iv) excess proceeds of any taking or condemnation by eminent domain. 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 reserve in the Debt Service Reserve Account, and (iii) to redeem Bonds at the redemption prices thereof or to purchase Bonds at prices not exceeding par and accrued interest.

Revenue Fund Account: The account established by the Indenture to which shall be credited as received Base Rent and other income and revenue arising from operation of Leased Property.

Unencumbered Quasi-Endowment Funds: Funds of the College derived from gifts or bequests, were not raised for the purpose of carrying out the Project, are not reasonably expected to be used to pay Debt Service, are held as part of the College's permanent capital, are unrestricted as to use and disposition of principal and income, and are not pledged to secure any indebtedness of the College.

**OFFICIAL STATEMENT
OF
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
INTRODUCTORY STATEMENT**

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and Carleton College (the "College") in connection with the sale of the Authority's \$9,400,000 aggregate principal amount First Mortgage Revenue Bonds, Series Two-E (the "Bonds").

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

The Bonds are issued by the Authority to provide funds which will be used for the Project. See "THE PROJECT."

At or prior to Bond Closing the College will convey to the Authority the site of the Project. By the Lease the Authority will then lease the Project to the College.

Pursuant to the Lease the payments by the College shall be in a sufficient amount to pay Debt Service as the same shall become due.

The Bonds will be issued pursuant to and secured by the Indenture between the Authority and Northwestern National Bank of Minneapolis, as Trustee (the "Trustee"). By a Guaranty Agreement between the College and the Trustee, the College unconditionally guarantees prompt and full payment of Debt Service. Under the Indenture, the Bonds are secured by a first mortgage lien on the Project Buildings and sites thereof, subject to Permitted Encumbrances, by a security interest in the Leased Equipment, and by the funds and investments on deposit in the Accounts under the Indenture, including Qualified Investments in the Construction Account and Debt Service Reserve Account of a par value at all times at least equal to the principal amount of outstanding Bonds.

The foregoing introductory statement is only a summary stated in general terms. See the following pages and Appendices of this Official Statement for more specific explanations.

THE BONDS

The Bonds will be dated December 1, 1982 and will mature December 1, 1987. The Bonds will bear interest at the basic rate per annum set forth on the cover page. The Bonds will be in coupon form, in the denomination of \$5,000 each. Interest will be payable June 1 and December 1, commencing June 1, 1983. Except as to bonds registered as to both principal and interest, principal and interest will be payable at the principal office of the Trustee.

The Bonds may be registered with the Trustee as to principal, or as to principal and interest. Interest on a Bond registered as to principal and interest shall be paid by check or draft of the Trustee mailed to the registered owner at his address set forth on the registration books maintained by the Trustee.

The Bonds are subject to redemption at par and accrued interest on any interest payment date, as a whole but not in part, in case the College exercises its option to purchase the Project in certain cases of damage, destruction, taking or change of law (see "THE LEASE - Option to Purchase Property"), or in the event interest on the Bonds shall be determined to be includable in the gross income of the holders for federal income tax purposes (see "THE LEASE - Federal Income Tax Status"), all as provided in the Indenture and the Lease.

Notice of redemption shall be given by publication at least once not less than 30 nor more than 60 days before the redemption date. A similar notice shall be mailed by the Trustee to the holders of Bonds registered as to principal or as to principal and interest.

ADDITIONAL BONDS

In addition to the Bonds the Authority may issue Additional Bonds to (i) complete the Project, (ii) refund or advance refund the Bonds, and (iii) provide funds for improvements or additions to or alterations, repairs or replacement of Project Facilities; provided that no such Additional Bonds shall be issued under the Indenture on a parity with the Bonds unless all of the conditions therefor of the Indenture are met. Additional Bonds shall not be secured by Qualified Investments pledged for the Bonds.

ESTIMATED USES OF FUNDS

Construction	\$8,300,000	
Furnishings	<u>725,000</u>	\$9,025,000
Costs of Issuance:		
Underwriter Discount	\$ 197,400	
Other Costs of Issuance	<u>177,600</u>	<u>375,000</u>
Total		<u><u>\$9,400,000</u></u>

SUMMARY OF SECURITY FOR THE BONDS

The Bonds will be special obligations of the Authority payable from payments made by or on behalf of the College as required by the Lease or out of other amounts pledged therefor under the Indenture. They will not be secured by the Authority's General Bond Reserve Account.

The Bonds shall not be legal or moral obligations of the State of Minnesota nor constitute a debt for which the faith and credit or taxing powers of the Authority or the State of Minnesota are pledged.

The College will agree pursuant to the terms of the Lease 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 Debt Service.

In addition, the College, pursuant to the Guaranty Agreement, will guarantee directly to the Trustee the full and prompt payment of Debt Service.

The Authority by the Indenture will assign its interests in the Lease (except for the Authority's annual fee and rights to reimbursement and indemnification) to the Trustee for the benefit of the holders of the Bonds.

The Bonds are secured by a first mortgage lien on and security interest in the Leased Property and Qualified Investments (as described below under the caption "Collateral").

Collateral

The principal of the Bonds will be 100% collateralized by Qualified Investments that mature on or before the date the Bonds mature. The Qualified Investments are expected to produce earnings in excess of the interest on the Bonds, which expected earnings will be available to pay interest on the Bonds. The foregoing provisions of the collateral for the Bonds are more fully described below.

At Bond Closing, except as otherwise provided in the Indenture, Bond proceeds shall be deposited in the Construction Account. The Trustee at the direction of the College shall forthwith invest moneys in the Construction Account in Qualified Investments. If necessary, at Bond Closing, the College will deposit into the Construction Account from Unencumbered Quasi-Endowment Funds an additional amount to be invested in Qualified Investments so that the aggregate principal amount of Qualified Investments in the Construction Account immediately following the Bond Closing will at least equal the cash amount of Bond proceeds deposited into the Construction Account. Except to apply investment income in the Construction Account to payment of Bond interest and Project Costs, as described below, no payment may be made from the Construction Account for Project Costs unless the College first deposits in the Construction Account cash in an amount sufficient to purchase Qualified Investments held in the Construction Account at a price of par and equal to the amount of the payment to be made from the Construction Account. Thereupon, the Trustee shall transfer to the Debt Service Reserve Account such purchased Qualified Investments. All such purchases of Qualified Investments by the College must be derived from its Unencumbered Quasi-Endowment Funds.

At Bond Closing the College shall deposit in the Debt Service Reserve Account Qualified Investments purchased from its Unencumbered Quasi-Endowment Funds in a principal amount which when added to the principal amount of Qualified Investments in the Construction Account at Bond Closing shall equal the aggregate principal amount of the Bonds.

The College (with the consent of the Trustee) may make arrangements for the purchase of Qualified Investments from either or both Underwriters, the Trustee, or any other dealer in such securities at any time between the date of the Preliminary Official Statement and Bond Closing, and the Trustee will at Bond Closing purchase Qualified Investments at the price (and yield) set according to these arrangements.

The College covenants that it shall, so long as any Bonds are outstanding, maintain Unencumbered Quasi-Endowment Funds at least equal in market value to the sum of the following: (1) An amount to be used to purchase Qualified Investments held in the Construction Account, at a price of par, as needed from time to time to provide cash in the Construction Account to pay Project Costs; and (2) the amount (if any) by which the principal amount of outstanding Bonds (the Debt Service Reserve Requirement) exceeds the market value of Qualified Investments on deposit in the Construction Account and Debt Service Reserve Account. The College covenants that it shall not expend the principal portion of Unencumbered Quasi-Endowment Funds, nor pledge any moneys or investments of Unencumbered Quasi-Endowment Funds, if the effect thereof will be to reduce the market value below the sum of (1) and (2).

Within 31 days following the close of each fiscal half year of the College, the College shall certify to the Trustee the estimated market value of Unencumbered Quasi-Endowment Funds of the College and Qualified Investments in the Construction Account and the Debt Service Reserve Account.

If at the end of any fiscal half year the market value of Unencumbered Quasi-Endowment Funds is less than the amount that the College has covenanted to maintain, as described in (1) and (2) above, the College covenants to deposit into the Debt Service Reserve Account the amount of the deficiency within 31 days after the end of the fiscal half year.

By deposit of Qualified Investments in the Construction Account and Debt Service Account in the required amounts at Bond Closing, the payment of the principal amount of the Bonds at the stated maturity will be fully secured by direct obligations of the United States of America. If the College complies with the above covenants relating to maintenance of Unencumbered Quasi-Endowment Funds, the payment of Bond principal at a mandatory (in the event of a determination of taxability as described under "THE LEASE - Federal Income Tax Status") or optional (in certain other events as described under "THE LEASE - Option to Purchase Leased Property") redemption date prior to maturity and the payment of estimated Project Costs will also be provided for. However, no pledge or lien on Unencumbered Quasi-Endowment Funds is created or becomes effective until funds or investments are deposited with the Trustee. If at any time the College is unable or otherwise fails to comply with such covenants, a default will exist under the Lease, which may become an event of default upon notice and failure of the College to cure the default (see "THE LEASE - Events of Default"), for example, by depositing the requisite amount in the Debt Service Reserve Account, and there can be no assurance that payment of Bond principal can be provided for at a redemption date prior to the stated maturity of the Bonds.

Semi-annual interest income from Qualified Investments in the Construction Account and Debt Service Reserve Account is expected to exceed Bond interest due or to become due on the next interest payment date. This interest income may

be transferred to the Bond and Interest Sinking Fund Account and used by the Trustee to pay interest on the Bonds at the direction of the College or to the extent the College has not deposited moneys with the Trustee for the Bond and Interest Sinking Fund Account to pay Bond interest. If moneys are on deposit in the Bond and Interest Sinking Fund Account sufficient to pay any Bond interest then due and to become due on the Bonds on the next interest payment date, interest from Qualified Investments in the Construction Account may be used to pay Project costs (other than Bond interest), and interest from Qualified Investments in the Debt Service Reserve Account may be returned to the College.

ACCOUNTS

Summary

The Indenture provides for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received by the Trustee as Base Rent under the Lease or by the Trustee from operation or ownership of the Project Facilities are to be deposited. These accounts include a Construction Account, a Revenue Fund Account, a Bond and Interest Sinking Fund Account, a Debt Service Reserve Account, an Operation and Maintenance Account and a Redemption Account. From the proceeds of the Bonds, deposits will be made to the Bond and Interest Sinking Fund Account and to the Construction Account. Thereafter, amounts received by the Trustee from the College in payment of Base Rent or from operation and ownership of the Project Facilities are to be initially deposited to the Revenue Fund Account and used as hereinafter described. Earnings on all accounts are to be transferred to the Bond and Interest Sinking Fund Account to the extent needed to pay Debt Service.

Construction Account

There shall initially be deposited in the Construction Account approximately \$9,202,600 of the proceeds from the sale of the Bonds. The College will agree to make additional deposits to the Construction Account if needed to provide sufficient funds with which to pay all Project Costs. Upon receipt of proper documentation the Trustee will reimburse the College for prior expenditures in connection with the Project and will pay costs and expenses associated with completion and equipping of the Project. When the Project Buildings have been completed and equipped and opened for use and occupancy and the Project Equipment has been installed, any balance in the Construction Account shall be deposited into the Debt Service Reserve Account, or, to the extent not required to establish the necessary reserves in such account, to the Redemption Account.

The College covenants that on or prior to November 1, 1985 it shall have purchased Qualified Investments in the Construction Account in an amount at least equal to 85% of the original proceeds of the Bonds, accompanied by instructions to the Trustee to transfer such Qualified Investments into the Debt Service Reserve Account in that amount.

Debt Service Reserve Account

The College shall initially deposit to the credit of the Debt Service Reserve Account Qualified Investments in a principal amount at least equal to the amount by which the principal amount of the Bonds exceeds the par value of Qualified Investments deposited to the Construction Account at Bond Closing. Qualified Investments deposited to the Debt Service Reserve Account shall be purchased by the College from its Unencumbered Quasi-Endowment Funds. In the event there is not a sufficient amount in the Bond and Interest Sinking Fund Account to pay Debt Service when due, the Trustee shall apply the moneys in the Debt Service Reserve Account for that purpose and shall redeem or sell any investments (but not more than 120 days prior to Bond maturity or a prior redemption date) at the best price obtainable to provide money for that purpose.

Bond and Interest Sinking Fund Account

There shall initially be deposited into the Bond and Interest Sinking Fund Account accrued interest (if any) paid at Bond Closing with respect to the Bonds which is to be used to pay part of the interest on the Bonds on the first interest payment date. Additional deposits shall be made to the Bond and Interest Sinking Fund Account from earnings on other Accounts established under the Indenture and from Base Rent payments made by the College and originally deposited in the Revenue Fund Account as described below. The moneys and investments in the Bond and Interest Sinking Fund Account are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of Debt Service as and when such Debt Service shall become due and payable and for those purposes only.

Revenue Fund Account

After the initial deposits are made from Bond proceeds and at Bond Closing as hereinafter described, all funds received by the Trustee from the College (or from any other sources) as Base Rent and any amounts received by the Trustee from operation and ownership of the Project Facilities shall be deposited into the Revenue Fund Account. Amounts deposited into the Revenue Fund Account are to be expended and used, as required, in the following order of priority.

- First: To the Bond and Interest Sinking Fund Account
- Second: To the Debt Service Reserve Account
- Third: To the Redemption Account

However, in the event the Authority or Trustee takes possession of the Project Facilities by reason of the College's default under the Lease, the second priority will be to the Operation and Maintenance Account for payment of current expenses of the Project Facilities, and the Debt Service Reserve Account and the Redemption Account will have third and fourth priority, respectively.

Operation and Maintenance Account

No payments will be made to this account so long as the College shall not be in default under the Lease. But, in the event the Authority or Trustee assumes operation of the Project Facilities, revenues remaining after Debt Service will be paid into this account to meet operational costs.

Redemption Account

Any amounts received which are not otherwise committed will be paid into this 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.

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 bonds of the Authority for which a deposit is made into the General Bond Reserve Account in compliance with the General Bond Resolution ("common fund bonds"). As of October 18, 1982, the General Bond Reserve Account secured all bonds issued by the Authority, except the Series Two-C Bonds, the Series Two-D Bonds and the Refunding Series 1982-1 Bonds, and had a balance of \$2,543,793.77, par value, in investments and cash. Under the General Bond Resolution, General Bond Reserve Account moneys may be invested in direct obligations of the United States of America, certificates of deposit or time deposits secured by direct obligations of the United States of America, and such other securities as are eligible for investment of public funds of the State or municipalities of the State. Investment earnings accumulate in the General Bond Reserve Account unless they are needed to make advances to pay debt service on common fund bonds, or they are rebated to the institution as hereinafter described. Investments must be limited if necessary for compliance with the Arbitrage Regulations under Section 103(c) of the Internal Revenue Code. Under the General Bond Resolution, whenever the principal of or interest on any common fund bonds shall become due and there is not sufficient money (cash and investments) on deposit with the trustee for the bond series for payment of such principal and interest, the Authority pledges that it will advance to the trustee from the General Bond Reserve Account amounts sufficient to pay such principal and interest. The Authority is permitted to make an advance from the General Bond Reserve Account prior to a due date to prevent a default and is permitted, but not required, to pay principal due by reason of a call for redemption, acceleration upon event of default or any other reason. Advances from the General Bond Reserve Account bear interest at the rate of 8% per annum until repaid by the institution or from moneys received by the trustee as part of the trust estate. Whenever all principal of and interest on a bond series has been paid or provided for, the institution is entitled to a rebate of the principal contribution to the General Bond Reserve Account made for that series of bonds and a pro rata share of the earnings of the General Bond Reserve Account for the period of the deposit, less a pro rata share of any unreimbursed advances made to pay common fund bonds; thereafter, the institution is entitled to receive a proportionate share of any collections of advances made and charged against the subaccount of the institution. Under the General Bond Resolution, bonds of the Authority may be secured by the General Bond Reserve Account only if certain conditions are met. Among other conditions, a contribution must be made to the General Bond Reserve Account of not less than 20% of the probable average annual debt service for the bond series, and a first mortgage lien on the project facilities financed by the bond series must be granted by the Authority to the trustee for the bond series. The General Bond Resolution permits the Authority, in its discretion, to issue bonds ("special series bonds") not secured by the General Bond Reserve Account; however, it is the policy of the Authority that it shall nevertheless require a deposit to be made into the General Bond Reserve Account for all special series bonds, except those special series bonds which have a final maturity of three years

or less from the date of issue. Special series bonds for which a deposit is made shall not be secured by the General Bond Reserve Account; however, deposits made into the General Bond Reserve Account for an issue of special series bonds shall be placed in a subaccount which shall be used to pay debt service of common fund bonds pro rata with all other subaccounts for special series bonds, but only after money in the subaccounts into which deposits have been made on account of common fund bonds has been exhausted. The amount of the deposit for special series bonds shall be 20% of the probable average annual debt service of any issue having a final maturity ten years or more from the date of issue; for issues with a final principal maturity less than ten years and more than three years from the date of issue the amount of the deposit shall range from 2% to 17%, depending upon the final maturity from the date of issue. An institution may request that bonds which otherwise would be special series bonds be common fund bonds and the Authority in its discretion may grant such request, in which event, regardless of the final maturity from date of issue, the deposit to the General Bond Reserve Account will be 20% of the probable average annual debt service. In the event any bonds, whether common fund or special series, do not have mandatory annual principal payments which with interest on the bonds are expected to cause approximately equal annual debt service payments, for the purpose of determining the probable average annual debt service of such bonds the Authority shall estimate what the probable average annual debt service of the bonds would be if the bonds were amortized so as to have approximately equal annual payments of principal and interest. Special series bond subaccounts shall be invested with common fund bond subaccounts and the earnings therefrom shall be pro rated to each of the subaccounts from which investments are made (in some instances subaccounts of either common fund bonds or special series bonds may be segregated and the yield of their investment limited in order to comply with arbitrage regulations). When special series bonds have been fully paid the balance, including investment earnings, in the subaccount created therefor shall be rebated to the institution for which the subaccount was created in the same manner as rebates are made for common fund subaccounts.

The Bonds are special series bonds. At Bond Closing the College will deposit \$115,000 into the General Bond Reserve Account and a subaccount will be created for the College pursuant to the Authority's policy.

The General Bond Resolution may be amended in certain respects without the consent of the holders of common fund bonds (or the Bonds) and in certain respects only with the consent of the holders of 65% of each series of the outstanding common fund bonds (not including the Bonds).

Permitted Investments

By the provisions of the Indenture the Trustee shall, upon request of the College or, if the Lease is not in effect, of the Authority, invest moneys on deposit in the Bond and Interest Sinking Fund Account and the Redemption Account, and interest income from investment of the Construction Account and the Debt Service Reserve Account, in (i) direct obligations of or obligations fully guaranteed by the United States, or (ii) time deposits of or certificates of deposit issued by a bank or trust company (including the Trustee or any affiliate of the Trustee) having a combined capital and surplus of at least \$10 million, or (iii) securities issued by the following agencies of the United States: Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, Banks for Cooperatives and Federal National Mortgage Association. Moneys on deposit in the Construction Account and Debt Service Reserve Account shall be invested only in Qualified

Investments, except that investment earnings of the Construction Account and the Debt Service Reserve Account may be invested as described above. Substitution of investments is permitted, including substitution of Qualified Investments for other Qualified Investments in the Construction Account and the Debt Service Reserve Account. So long as no event of default exists and there is on deposit in the Bond and Interest Sinking Fund Account an amount at least equal to the interest due and to become due on the next interest payment date the College shall have the right to withdraw from the Debt Service Reserve Account any interest and income earned with respect to Qualified Investments. Investments shall be deemed at all times to be a part of the respective account. Interest and income accruing on and any profit realized from investment of moneys in the Bond and Interest Sinking Fund Account and the Redemption Account, and (to the extent of interest income needed therefore and actually transferred) the Debt Service Reserve Account, shall be credited against Base Rent and the amounts to be deposited by the College under the Lease, if the Lease is in effect, into the Bond and Interest Sinking Fund Account. All investments are limited by arbitrage provisions of the Internal Revenue Code and regulations thereunder.

THE PROJECT

The proceeds of the Bonds will be used primarily for constructing an addition to and remodeling the College library building and remodeling Margaret Evans Residence Hall and Davis Residence Hall, with necessary equipment, furnishings, utilities and site improvements.

The Library (built in 1956) will be expanded and remodeled by constructing approximately 45,000 square feet of new space and remodeling and reorganizing the existing 60,000 square feet into a unified facility. The resulting building, designed to meet both current and future needs, will contain 900 study and research spaces, capacity for twenty-five years' growth of the collection, new technological equipment and facilities for collection preservation, and energy conservation. The total cost is estimated at \$7,500,000. Construction has commenced and is expected to be completed in 1983.

Margaret Evans Residence Hall (built in 1928) is being remodeled for energy conservation and general improvements at an estimated cost of \$400,000; completion is planned to be in 1984. Davis Residence Hall (built in 1924) will also be remodeled for energy conservation and general improvements at an estimated cost of \$1,500,000. Construction work of the Davis Residence Hall is expected to be only during summer months; completion is anticipated to be in 1986.

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 six members appointed by the Governor with the advice and consent of the Senate and a seventh member who is the Executive Director of the Minnesota

Higher Education Coordinating Board and is designated as the Secretary of the Authority.

Dr. Joseph E. LaBelle has been the Executive Director of the Authority since its inception.

Originally the Authority was given power to issue revenue bonds in a total amount not to exceed \$45 million. The 1973 Legislature increased this limit to an aggregate of \$62 million of principal outstanding at any time. In 1978 the amount was increased to \$100 million. With the Bonds the Authority has had 34 issues totaling \$93,355,000, of which \$72,075,000, in addition to the Bonds was outstanding and not discharged as of October 2, 1982. Bonds issued by the Authority can be payable only from the rentals, revenues and other income, charges and moneys pledged for their payments. *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 include nonprofit educational institutions authorized to provide a program of education beyond the high school level. 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 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 (an "institution").

It has been the policy of the Authority that a project for which bonds are issued by the Authority becomes the property of the Authority for as long as such bonds remain outstanding. Thereafter it may be subject to repurchase options. The project is leased by the Authority to the institution for operation. The revenues which are the primary security for the bonds are provided according to the terms of the lease between the Authority and the institution. The Authority with respect to all bond issues, except the Series Two-D and the Refunding Series 1982-1, has entered into a mortgage trust indenture with a trustee who administers the funds which, together with land, buildings or other pledged properties, are security for the payment of the bonds, except the funds of the General Bond Reserve Account which are under the exclusive supervision of the Authority.

In connection with certain types of projects, the Authority has under consideration a policy allowing the institution to retain ownership of the project and to finance improvements under a loan agreement with the Authority.

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.

In Minnesota Higher Education Facilities Authority v. Hawk, filed August 8, 1975, the Minnesota Supreme Court affirmed the constitutionality of the issuance of tax-exempt bonds by the Authority to refinance debts incurred by Minnesota private colleges in the construction of facilities used solely for nonsectarian education purposes. In the opinion of bond counsel, this decision also confirms the

legality of bonds issued by the Authority to finance original construction, improvement, and remodeling projects.

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 institutions. At the time of issuance, and usually from bond proceeds, the Authority is paid a percentage, currently .35%, of the principal amount of the issue. Thereafter, commencing as of the date of issue and payable at the beginning of each year thereafter during the life of the bonds, the Authority receives an annual fee, currently .2%, of the original principal amount of the issue for its original term, regardless of whether the issue is prepaid, unless the Authority waives its rights to such payment.

Bond issuance costs, including fees of bond counsel, the financial advisor and trustee, are paid by the institution. The fees of bond counsel and the financial advisor usually are paid from bond proceeds.

As a general policy, the Authority requires that the proceeds of each issue include a sum equal to approximately one year's debt service, after deduction of any interest subsidy grants, for the creation of debt service reserves. Of this sum, 80% is deposited with the trustee in a series reserve account; the remaining 20% is deposited by the Authority in the General Bond Reserve Account pledged to the payment of all bonds issued by the Authority for which such deposit has been made. Although the College will make contributions to the General Bond Reserve Account with respect to the Bonds the Bonds will not be secured by the General Bond Reserve Account. See "ACCOUNTS - General Bond Reserve Account."

Members of the Authority

Member

Principal Activity

Maxwell O. Ramsland, Jr.,
Chairman

President, Ramsland & Vigen, Inc., Real
Estate Appraisers, Duluth

Herbert M. Stellner, Jr.,
Vice Chairman

Senior Vice President, Marquette Bank
and Trust Company, Rochester

Dr. Clyde R. Ingle, Secretary

Executive Director, Minnesota Higher
Education Coordinating Board, Saint Paul

Frederick J. Bentz

President, Bentz-Thompson & Associates,
Inc., Architects, Minneapolis

Earl R. Herring

Vice President for Administrative Affairs,
Moorhead State University, Moorhead,
Minnesota

Member

Principal Activity

Peter H. Seed

Member, Briggs and Morgan Professional Association, Lawyers, Saint Paul and Minneapolis (1)

Leonard J. Rogge

Retired, formerly Vice President for Business Affairs, College of St. Thomas, Saint Paul

- (1) Briggs and Morgan Professional Association is special counsel for the College with reference to the Bonds and from time to time is counsel to the College in other matters. Mr. Seed has not participated in Authority discussions or actions relative to the Bonds.

THE LEASE

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

Term of Lease

The Lease shall be for a term commencing November 1, 1982 and expiring December 1, 1987.

Construction of the Project

In the Lease, the Authority has authorized the College to make all contracts and do all things necessary for the construction of the Project; the College has agreed that it will, with all reasonable dispatch, cause such Project to be constructed and equipped; costs of such Project shall be paid from the Construction Account. See "ACCOUNTS - Construction Account."

Rental Payments

Until the principal of and interest on the Bonds (and any Additional Bonds) have been fully paid or provision for the payment thereof has been made in accordance with the Indenture, the College agrees to pay or provide for the payment of the following rental payments ("Base Rent"):

- (a) At least five business days prior to each June 1 and December 1, an amount equal to the interest due on such interest payment date, after crediting any accrued interest then held in the Bond and Interest Sinking Fund Account and available to make such interest payment;
- (b) At least five business days prior to December 1, 1987 an amount sufficient, together with other available funds then held by the Trustee, to pay the principal amount of the Bonds (and any Additional Bonds) maturing on such date; and

- (c) Within 31 days after the end of each fiscal half year of the College, the amount of the deficiency (if any) of market value of Unencumbered Quasi-Endowment Funds at the end of the fiscal half year of the College below the sum of amounts which the College has covenanted to maintain (see "SUMMARY OF SECURITY FOR THE BONDS - Collateral").

There is reserved to the College the right to prepay all or any part of the Base Rent payments described in (a) and (b). Such prepayments, if made, will not, however, permit the Authority to redeem Bonds prior to their maturity, except in certain events as described under "THE BONDS."

As Additional Rent, the College agrees to pay the annual fee of the Authority, fees and expenses of the Trustee and any paying agent 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. It agrees not to permit use of the Project Facilities in such manner or to such an extent as would result in a loss of the tax-exemption for interest on the Bonds under Section 103 of the Internal Revenue Code.

Net Lease

The Lease is a net lease, and the Authority is not required, except from Bond proceeds and funds made available by the College, to make any expenditures in connection with the Lease or Leased Property or to make any repairs to or maintain the Leased Property.

Maintenance of Leased Property

The College agrees that during the term of the Lease it will keep the Leased Property, including all appurtenances thereto and the equipment and machinery therein in good repair and good operating condition at its own cost, and upon the expiration or termination of the Lease, unless it shall have exercised its option to purchase the Leased Premises (see "THE LEASE - Option to Purchase Leased Property" and "THE LEASE - Option to Purchase After Bonds Paid"), it will surrender the Leased Property to the Authority in as good condition as prevailed at the time the Lease was executed, loss by fire or other casualty covered by insurance, ordinary wear and tear, obsolescence and acts of God excepted.

Alterations

The College may remodel a Project Building or make alterations to the Leased Premises, the cost of which shall be paid by the College. If the alterations cost \$60,000 or more, prior approval of the Authority and a performance bond are required. Such additions or improvements shall be included under the terms of the Lease as part of the Leased Property.

Liens

Except for Permitted Encumbrances, the College will not permit any liens to be established or remain against the Leased Property, including any mechanic 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 Leased Property and may permit the items so contested to remain undischarged and unsatisfied during the period of such contest so long as the lien of the Indenture will not be materially endangered and the Leased Property will not be subject to loss or forfeiture.

Taxes and Other Governmental Charges

The College will pay all taxes, special assessments and governmental charges of any kind that may at any time be lawfully assessed or levied against or with respect to the Leased Property or any furnishings, equipment or other property installed or brought by the College therein or thereon, and all claims for rent, royalties, labor, materials, supplies, utilities and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property.

The College may, at its expense, in good faith contest any such taxes, assessments and other charges and may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest unless the lien of the Indenture will be materially endangered thereby or the Leased Property will be subject to loss or forfeiture.

Insurance

The College is to obtain and maintain, so long as any Bonds are outstanding, the following insurance:

- (a) fire and extended coverage insurance on all buildings, structures and improvements, fixtures, equipment, furniture and furnishings constituting the Leased Property in amounts sufficient to provide for not less than full recovery whenever the loss from causes covered by such insurance does not exceed 80% of the full insurable value of the property so insured, which insurance may be provided under a blanket insurance policy;
- (b) boiler insurance covering any boilers servicing the Project, in a minimum amount of \$50,000;
- (c) public liability insurance in minimum amounts of \$10 million for bodily injury or death for each occurrence in connection with the Leased Property and \$100,000 for property damage for any occurrence in connection with the Leased Property except that provision is made for adjustments in liability insurance coverage if such coverage is not reasonably commercially available in the opinion of the Trustee or an independent insurance consultant;
- (d) worker's compensation coverage to the extent required by law.

Damages, Destruction and Loss of Title

If the Leased Property is destroyed or damaged or title to the Leased Property is taken under the exercise of the power of eminent domain, the College may, under certain conditions purchase the Leased Property (see "THE LEASE - Option to Purchase the Leased Property") and direct the Authority to call the Bonds; otherwise, the College shall use the net proceeds of the insurance or award to repair, rebuild or restore the Leased Property.

If the net proceeds are not sufficient to repair, replace or restore the Leased Property to substantially the same condition as before the damage, destruction or taking, unless certain conditions exist and the College elects to call the Bonds or purchase the Leased Property, it shall, nevertheless, repair or restore the Leased Property and pay the costs thereof in full.

Indemnification

The College agrees to hold the Authority, its members and employees, harmless against, any claim, cause or 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 Leased Property or 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 the information furnished to the Authority by the College in connection with the sale of the Bonds.

Institution to Maintain its Existence and Accreditation

The College agrees that during the term of the Lease it will maintain its existence as a nonprofit corporation and a nonprofit 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 Lease. The conditions are: if the surviving, resulting or transferee corporation, 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 Lease, and shall 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 Lease against discrimination and requiring that the institution be nonsectarian.

Assignment and Subleasing by College

The Lease may be assigned in whole or in part, and the Leased Property may be subleased as a whole or in part, by the College only upon obtaining the consent of the Authority and the Trustee, and upon such conditions and requirements as they may impose, including those necessary to the objectives of the Act, and to the security of the bondholders, which shall include certain conditions set forth specifically in the Lease.

Notwithstanding those provisions, however, the consent of the Authority or of the Trustee shall not be required for (i) rentals or other authorizations of use of the Leased Property or parts thereof to others by the College if such rental or authorization does not involve use of the Leased Property for more than 90 consecutive days, or (ii) rentals or other authorizations of use of particular rooms to students, faculty members, or student or faculty groups, provided in either case that such rentals or authorizations of use shall in all respects be subject to certain covenants contained in the Lease.

Release of Certain Land

The Lease grants to the College the option to purchase any unimproved part of the Leased Premises and permits the Authority, at the request of the College, to grant easements, licenses, rights-of-way and other rights or privileges in the nature of easements with respect to the Leased Premises or to release existing easements, licenses, rights-of-way and other rights or privileges.

Removal of Leased Equipment and Alterations

The College shall have the privilege from time to time of substituting furnishings, equipment and related property for any Leased Equipment, provided that such property so substituted shall not impair the character or significance of the Project Facilities as revenue producing educational facilities. Any such substituted property shall become the property of the Authority and be included under the terms of the Lease, and the replaced Leased Equipment shall become the property of the College.

The College may remove from a Project Building any Building Equipment which is not Project Equipment without substitution therefor provided no default exists and that the College delivers to the Trustee a certificate that its removal will not impair the character or revenue producing significance of the Project Facilities.

The College shall also have the privilege of removing any Project Equipment without substitution therefor, provided that no default exists and that the College pays to the Authority a sum equal to the then value of said Project Equipment as determined by an independent engineer selected by the College if and so long as any of the Bonds remain outstanding, provided that if the original cost of any such item of equipment was less than \$10,000, such removal without substitution 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.

College to Maintain Furnishings and Movable Equipment

The College is to provide and maintain all furnishings and movable equipment necessary to permit the full use, operation and occupancy of the Project

Facilities for use as revenue producing educational facilities. All movable personal property installed by the College shall, however, become the property of the Authority, and be included under the terms of the Lease and be subject to the lien of the Indenture.

College to be Nonsectarian

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

Federal Income Tax Status

The College and the Authority agree that it is the intention of the parties that interest paid on the Bonds will not be included in the gross income of the recipients of said interest by reason of application of the provisions of the Internal Revenue Code as in effect at the date of the Lease and regulations thereunder. The College agrees to provide such certificates, opinions of counsel and other evidence as may be necessary or requested by the Authority or the Trustee to establish the exemption of the Bonds and the absence of arbitrage expectation under the Code and to file the information or statements with the Internal Revenue Service required to establish or preserve such exemption.

In the event a determination of taxability is made that the Bonds are subject to federal income taxation under the provisions of the Internal Revenue Code as in effect at the date of the Lease and regulations thereunder, the Bonds shall be subject to redemption and shall be redeemed on the next practicable interest payment date following the determination of taxability at par plus accrued interest and the College shall purchase and the Authority shall sell the Leased Property.

The determination of taxability shall be established by a ruling from the National Office of the Internal Revenue Service or a final decision of a court of competent jurisdiction obtained on the question of taxability. The College shall have no obligation to cause the Bonds to be called for prior redemption, if interest on the Bonds shall become subject to federal income taxation by reason of amendments to the Internal Revenue Code adopted after the Bonds have been issued.

Unencumbered Quasi-Endowment Funds

The College agrees that at Bond Closing it shall have, and shall continue to maintain so long as any Bonds are outstanding, Unencumbered Quasi-Endowment Funds at least equal in market value to the sum of (i) the principal amount of Qualified Investments on deposit in the Construction Account and (ii) the amount (if any) by which the market value of Qualified Investments in the Construction Account and Debt Service Reserve Account is less than the Debt Service Reserve Requirement. Within 31 days after the end of each fiscal half year of the College, the College shall certify to the Trustee the estimated market value of Unencumbered Quasi-Endowment Funds, the principal amount of all Qualified Investments in the Construction Account, and the estimated market value of Qualified Investments in the Construction Account and the Debt Service Reserve Account as of the end of the fiscal half year. In the event the market value of Unencumbered Quasi-Endowment Funds is less than the sum of (i) and (ii) above, the College shall deposit the amount of the deficiency in the Debt Service Reserve

Account within 31 days after the end of the fiscal half year. The College further agrees it will not expend or encumber Unencumbered Quasi-Endowment Funds if the effect thereof will be to reduce the market value of Unencumbered Quasi-Endowment Funds below an amount equal to the sum of (i) and (ii) above.

Capital Campaign Contributions

The College and the Authority agree that no contributions or pledges of gifts to the College in connection with the College's current capital gifts campaign are pledged to the payment of the Base Rent or the Bonds. The College nevertheless agrees that if, in the opinion of the Authority's bond counsel or of counsel of the Trustee, capital fund contributions in connection with the current capital fund campaign shall or may be deemed to constitute a "sinking fund" within the meaning of the Income Tax Regulations under Section 103(c) of the Internal Revenue Code of 1954, as amended, the College shall limit the yield on investments of capital fund contributions in such manner that the Bonds shall not be "arbitrage bonds" under said Income Tax Regulations and said Section 103(c).

Other Covenants

The College further agrees to provide financial statements and other information to the Authority and the Trustee; to comply with all applicable laws and regulations against discrimination, and not to discriminate on account of religion, race, color or creed in the use of the Project Facilities; to maintain for the Authority and Trustee a list of names and addresses of last known bondholders; and to observe all applicable State and federal regulations, including those of the Authority and the Minnesota Higher Education Coordinating Board, subject to the right of contest.

Events of Default

Following are events of default under the Lease:

- (a) failure of the College to make timely payment of any rental payment and as a result the Bond and Interest Sinking Fund Account contains insufficient funds to pay principal of or interest on the Bonds (and any Additional Bonds) then due or to become due within five days;
- (b) failure of the College to make timely payment, after two days notice, of Base Rent or Additional Rent, or of Project operational expenses or other obligations of the College, or of any insurance premium pursuant to the Lease;
- (c) discontinuance or unreasonable delays in the construction and acquisition of the Project;
- (d) failure promptly to repair, replace or reconstruct the Project Facilities if such facilities are damaged or destroyed;
- (e) failure of the College, after 30 days notice, punctually to perform any of the other covenants, conditions, agreements and provisions contained in the Lease; and
- (f) certain events of insolvency or bankruptcy relating to the College.

The provisions of subparagraphs (c) and (d) above are subject to force majeure and the provisions of subparagraphs (d) and (e) are subject to the further limitation that if the default can be remedied but not within a period of 30 days after notice and if the College has taken all action reasonably possible to remedy such default within such 30-day period, the default shall not become an event of default for so long as the College shall diligently proceed to remedy the default and in accordance with any directions or limitations of time made by the Authority.

Remedies on Default

Whenever any event of default shall have happened, the Lease provides that any one or more of the following steps may be taken:

- (a) the Authority or the Trustee may declare all of any installments of rent payable for the remainder of the term of the Lease to be immediately due and payable;
- (b) the Authority, the Trustee or a receiver may reenter and take possession of the Leased Property without terminating the Lease, holding the College liable for the difference in the net income derived from such possession and the rents and other amounts payable by the College under the Lease;
- (c) the Authority, the Trustee or a receiver may terminate the Lease, exclude the College from possession of the Leased Property and use its best efforts to again lease or sell the Leased Property in accordance with applicable law, but holding the College liable for all rent and other payments otherwise due under the Lease up to the effective date of such new leasing or sale; and
- (d) the Authority or Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the College under the Lease.

Any amounts collected pursuant to action taken as described above shall be applied first to advances, expenses and payment of the Bonds of the series (principal, interest and premium, if any) as provided in the Indenture and then to any Additional Rent payable to the Authority under the Lease, and any excess to the College. (The Indenture does not permit acceleration of the Bonds in the event of a default.)

Option to Terminate

The College shall have the option to cancel or terminate the Lease when all the Bonds (and any Additional Bonds) shall have been paid and discharged under the provisions of the Indenture.

Option to Purchase Leased Property

The College has the option to purchase the Leased Property prior to the expiration of the term of the Lease and prior to the full payment of the Bonds (and any Additional Bonds), if any of the following have occurred:

- (a) the Project Facilities have been damaged or destroyed (i) to such extent that they cannot be reasonably restored within a period of six months, or (ii) to such extent that the College is prevented from carrying on its normal use and operations for a period of six months, or (iii) to such extent that the cost of restoration would exceed by more than \$100,000 the net proceeds of insurance carried thereon;
- (b) title to, or the temporary use for more than six months of all or substantially all of the Leased Property shall have been taken under the exercise of the power of eminent domain;
- (c) as a result of any changes in the Minnesota or United States Constitutions or of legislative or administrative action or by final decree, judgment or order of any court or administrative body, the Lease becomes void or unenforceable, or if unreasonable burdens or excessive liabilities shall have been imposed upon the Authority or the College, with respect to the Leased Property; or
- (d) a determination of taxability is made that interest on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code presently in effect and regulations thereunder. (See "THE LEASE - Federal Income Tax Status.")

The purchase price payable by the College, upon its exercise of the option, shall be the sum of the following:

- (1) An amount which, when added to the moneys held in the Bond and Interest Sinking Fund Account and Redemption Account, will be sufficient to pay all outstanding Bonds of the series (and any Additional Bonds), plus
- (2) An amount equal to any Additional Rent, payable to the Authority and Trustee and any paying agent's fees and expenses under the Indenture, plus
- (3) The sum of \$250.00 to the Authority.

Option to Purchase After Bonds Paid

In addition, the College has an option to purchase the Leased Property for \$500.00 at the expiration of the term of the Lease or at any prior time that full payment of the Bonds of the series (and any Additional Bonds) has been made.

Amendments

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

THE GUARANTY AGREEMENT

The following constitutes a summary of the Guaranty Agreement for the Bonds. This summary does not purport to be complete and reference is made to the full text of the Guaranty Agreement for a complete recital of its terms. Certain words and terms used in this summary are defined in "DEFINITIONS OF CERTAIN TERMS."

Guaranty to Trustee

Pursuant to the Guaranty Agreement, the College unconditionally guarantees to the Trustee for the benefit of the holders of the Bonds and of the interest coupons appertaining thereto (a) the full and prompt payment of the principal of the Bonds when due, and (b) the full and prompt payment of the interest on the Bonds when due.

Unconditional Agreement

The obligations of the College under the Guaranty Agreement are absolute and unconditional and are to remain in full force and effect until the entire principal of and interest on the Bonds has been paid or funds sufficient for such payment shall have been deposited with the Trustee in trust for such purpose.

No Set-Offs

The Guaranty Agreement states that no set-off, counter-claim, reduction, or diminution of any obligation, or any defense of any kind or nature which the College has or may have against the Authority or Trustee shall be available under the Guaranty Agreement to the College against 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."

Granting Clauses

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

- (1) the tract of land upon which the Project Facilities are or are to be located with all buildings, additions, improvements and appurtenances;
- (2) the Leased Equipment;
- (3) all right, title and interest of the Authority as Lessor under the Lease including all Base Rent and all other sums due under the Lease

(except the Authority's annual fee and rights to indemnity and reimbursement) and the security interest granted to the Authority by the College pursuant to the Bond Purchase Agreement to secure payment of Base Rent;

- (4) a first lien on and pledge of (i) the moneys and investments in the accounts covenanted to be paid and maintained under the Indenture, (ii) the net revenues and income of the Project, 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
- (5) any and all other property of every name and nature from time to time conveyed, mortgaged, assigned or transferred, or in which a security interest is granted, by the Authority or the College or by anyone in behalf of them or with their written consent, to the Trustee.

Accounts

Bond proceeds and revenues derived under the Lease or Indenture shall be deposited into accounts held by the Trustee as described in "ACCOUNTS."

Repairs and Reconstruction

In the event of any loss or damage to or destruction of any Project Building or Leased Equipment, or of any taking of less than all or substantially all the Leased Property under the power of eminent domain, the Authority is to cause to be repaired, reconstructed or restored the damaged or destroyed portion thereof, and apply the net proceeds of the fire and extended coverage insurance or of any condemnation award solely for that purpose.

In the event the net proceeds of insurance or condemnation received by the Trustee, together with all other moneys legally available for such purpose, are insufficient to complete the repair, reconstruction or restoration of the damaged or destroyed property, such proceeds shall be deposited with and held by the Trustee as security for the Bonds (and any Additional Bonds) and for the ratable benefit of the holders thereof; provided, however, that if the Authority and the College shall request and the holders of not less than 51% of the then outstanding Bonds and any Additional Bonds under the Indenture shall so agree in writing, the Trustee shall permit to be applied to such repair, reconstruction or restoration all securities or moneys in the Bond and Interest Sinking Fund Account and Redemption Account held by it under the Indenture.

Any amounts held by the Trustee or by the Authority and remaining at the completion of, and payment for, such repair, reconstruction or restoration shall be deposited in the Bond and Interest Sinking Fund Account, Debt Service Reserve Account, or Redemption Account, as appropriate.

In the event the College pursuant to its rights under the Lease, or the Authority, shall elect not to repair, reconstruct, or restore the damaged or destroyed property, or in the event title to all or substantially all the Leased Property shall be taken under the power of eminent domain, all of the outstanding Bonds shall forthwith be retired and the insurance or condemnation proceeds shall be applied for that purpose. In such event all of such Bonds shall be subject to redemption on the next interest payment date.

Trustee's Right to Payment

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

Covenants of the Authority

Under the Indenture the Authority covenants, among other things, to perform its various undertakings and agreements; not to extend the maturity of any of the Bonds or the time of payment of any of the coupons or claims for interest; that it will cause the Project Facilities to be maintained, kept in good repair and insured against fire and extended coverage and boiler perils; that except for the Lease or pursuant to the Lease and the Agreement, that it will not sell or encumber any Project Building or the site thereof, except for Permitted Encumbrances; that it will establish and maintain necessary regulations, rental rates and charges for the use of the Project Facilities; that it will keep proper books of account and records; and that it will not discriminate in operating the Project Facilities because of race, creed or national origin.

Events of Default and Remedies

Events of Default

The following are events of default under the Indenture:

- (a) failure to make payment of principal on the Bonds (and any Additional Bonds) outstanding under the particular Indenture when due and payable;
- (b) failure to make payment of interest on any Bond (or Additional Bond) when due and payable, or within 30 days thereafter;
- (c) damage to or destruction of a Project Building included in the Indenture which shall not be promptly repaired, replaced or reconstructed;
- (d) failure by the Authority to punctually perform any of its covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, and continuance of such default for a period of 60 days after written notice, specifying such default and requiring the same to be remedied, has been given to the Authority and, if the Lease is in effect, to the College;
- (e) any event of default on the part of the College as that term is defined under the Lease; and
- (f) certain events of insolvency or bankruptcy relating to the Authority.

Remedies

Upon the occurrence of an event of default, there is no provision permitting the acceleration of the Bonds. Moreover, Qualified Investments held in the Construction Account and the Debt Service Reserve Account may not be redeemed or sold in advance of 120 days prior to the stated maturity date of the Bonds (or redemption date if the Bonds have been called for redemption pursuant to the Indenture) except that Qualified Investments may be substituted at any time for other Qualified Investments on deposit in the Construction Account and the Debt Service Reserve Account.

In the case of the breach of any of the covenants or conditions of the Indenture or the Lease, the Trustee 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 Lease as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care, subject to its first being indemnified.

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the written request of the holder of not less than 25% in aggregate principal amount of the outstanding Bonds and any Additional Bonds under the Indenture, 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 such payment of the funds, investments, revenues and income appropriated thereto by the Indenture and the Bonds, to foreclose the Indenture and sell the mortgaged property, and 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 is not required to proceed upon any such written request of the bondholders unless the bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expense and liabilities to be incurred therein or thereby.

If one or more of the events of default shall happen and be continuing, the Trustee may, with the consent of the Authority, pursuant to the request in writing by the owners of at least 25% of the aggregate principal amount of the Bonds and any Additional Bonds outstanding under the Indenture, enter and take and hold possession of the mortgaged property, or appoint a receiver therefor to use, manage and control the mortgaged property and conduct the business of the Authority with respect thereto in such manner as in its discretion it shall deem to be to the best advantage of the holders of such bonds.

Provisions are made with respect to mortgage foreclosure sales, including application to a court for a judgment of foreclosure, the manner of foreclosure sale, the Trustee's bidding in the property, and application of funds received. The Trustee is permitted to file proofs of claim and otherwise act for the bondholders without having possession of the Bonds.

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 8% per annum, which advances are given priority of payment. The Trustee also has a first lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses 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 addition of an individual co-trustee if necessary or convenient and 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 of outstanding bonds, or in the event of disability, by the Authority or a court.

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 Lease or the Guaranty 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 25% 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 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 holder of 51% 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 or 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 shall:

- (a) pay or cause to be paid the principal of and interest on the Bonds and Additional Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal and interest thereon by depositing with the Trustee at, or at any time before, maturity an amount

either in cash or direct obligations of the United States 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 thereon for principal and interest to maturity of all said 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 Authority under its official seal 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 and coupons, if any, thereto appertaining for which payment is not so provided, and shall also pay all other sums due and payable under the Indenture by the Authority,

then, at the request of the Authority, the entire estate, right, title and interest of the Trustee, and of the bearers and registered owners of such Bonds and coupons in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all such Bonds and coupons for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent, and at its cost and expense, execute to the Authority, or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds and coupons), which shall then be held thereunder.

When the Authority 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 Additional Bonds) when the same become due, either at maturity or otherwise, or 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 and appurtenant coupons 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 and coupons 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:

- (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 of the series and any Additional Bonds under the Indenture;
- (b) To add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority;
- (c) To evidence the succession of any other department, agency, body or corporation to the Authority;
- (d) To cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or to make such other provisions in regard to matters or questions arising under the Indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture and which shall not impair the security of the same; and
- (e) To provide for Additional Bonds.

In addition and subject to the provisions set forth below, the holders of not less than 65% in aggregate principal amount of the Bonds and any Additional 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 and Additional Bonds outstanding (a) an extension of the maturity of any Bond or Additional Bond, or (b) a reduction in the principal amount of any Bond or Additional Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of property, funds, investments or revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (d) a preference or priority of any Bond or Additional Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds and Additional Bonds the holders of which are required to consent to such supplemental indenture.

ABSENCE OF LITIGATION

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

ARBITRAGE

The Authority has covenanted to comply in all respects with the requirements of Section 103(c) of the Internal Revenue Code of 1954, as amended, and all applicable Department of Treasury regulations relating to arbitrage.

FINANCIAL STATEMENTS

The College's audited financial statement for the year ended June 30, 1982 and comparative totals for June 30, 1981 are Appendix II.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Faegre & Benson, Minneapolis, Minnesota, Bond Counsel, whose approving opinion will be printed on the Bonds. Certain legal matters will be passed upon for the College by Briggs and Morgan Professional Association of Saint Paul and Minneapolis, Minnesota. At Bond Closing Lampe, Fossum, Jacobson, Borene & Crow, Northfield, Minnesota will deliver a title opinion as to the Authority's title to the Project Buildings and sites thereof being subject only to Permitted Encumbrances.

Peter H. Seed, a member of the Authority, is a member of Briggs and Morgan Professional Association but did not participate in the discussions or actions of the Authority relative to the Bonds. Mr. Frank Hammond, a member of the Board of Trustees of the College, is also a member of Briggs and Morgan Professional Association which represents the College in other matters from time to time.

TAX EXEMPTION

In the opinion of Faegre & Benson, Bond Counsel, the Bonds are exempt from taxation by the State of Minnesota and its subdivisions and municipalities and the interest to be paid on said Bonds is not includable in the gross income of the recipient for United States or State of Minnesota income tax purposes (other than Minnesota corporate franchise and bank excise taxes measured by income) according to present federal and Minnesota laws, regulations, rulings and decisions. Under the provisions of Section 136A.39, Minnesota Statutes, any bonds issued by the Authority under the provisions of Section 136A.25 to 136A.42, Minnesota Statutes, their transfer and the income therefrom, including any profit made on the sale thereof, shall be exempt from taxation of every kind by the State and its municipalities and other political subdivisions of the State. Under some interpretations of this provision, interest income from the Bonds received by corporations and banks may be exempt from State of Minnesota corporation franchise taxes measured by income, including bank excise taxes, but no opinion is being expressed nor is any representation being made in that respect.

RATING

Application has been made to Moody's Investors Service, Inc. ("Moody's") for a rating of the Bonds. A rating if given will reflect only the view of Moody's and any explanation of the significance of the rating may only be obtained from Moody's. There is no assurance that such rating if given will be maintained for any given period of time or that it may not be changed by Moody's if, in its judgment, circumstances so warrant. Any downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriters, Kidder, Peabody & Co. Incorporated and Piper, Jaffray & Hopwood Incorporated, have agreed to purchase the Bonds at an aggregate purchase price of \$9,202,600 plus accrued interest to the date of delivery, pursuant to a Bond Purchase Agreement entered into among the Authority, the College, and the Underwriters. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriters and any other dealers or other underwriters who are parties to the Bond Purchase Agreement are collectively referred to as the "Underwriters."

The College has agreed to indemnify the Underwriters and the Authority against certain liabilities relating to the Official Statement, including liabilities under the Securities Act of 1933 and the Securities Exchange Act of 1934, or contribute to payments the Underwriters may be required to make with respect thereof. The obligations of the Underwriters to accept delivery of the Bonds are subject to various conditions of the Bond Purchase Agreement, but the Underwriters are obligated to purchase all of the Bonds if they purchase any of the Bonds.

CARLETON COLLEGEGeneral Information

Carleton College is located in Northfield, Minnesota (population approximately 13,000), 40 miles south of the Minneapolis-Saint Paul, Minnesota Metropolitan Area. The College has a 90-acre main campus which is part of its total grounds of over 900 acres including a 400-acre arboretum.

Chartered by the State of Minnesota in 1866, Carleton is a private, non-sectarian, coeducational, residential, liberal arts, four-year college. The College is accredited by the North Central Association of Colleges and Secondary Schools and the National Council for Accreditation of Teacher Education. Carleton is a member of the Associated Colleges of the Midwest and other national and regional associations. Carleton is registered with the Minnesota Higher Education Coordinating Board in accordance with Minnesota statutes.

Governance

The College is governed by a 45 member Board of Trustees elected by its membership. Each member serves a four year term with no limit on the number of terms. The Board is advised with respect to policy by a College Council composed of trustees, alumni, faculty, students and administrators and chaired by the College President.

Following is a list of the members of the Board of Trustees of the College and their principal business or professional activities as of September 1, 1982:

<u>Trustee</u>	<u>Principal Activity</u>
Robert M. Adams	Senior Vice President, 3M
Judd H. Alexander*	Executive Vice President, James River Corporation
Atherton Bean*,**	Chairman of the Executive Committee, International Multifoods Corp.
Richard B. Berryman*	Attorney, Fried, Frank, Harris Shriver and Kempelman
Alexander M. Bracken	Chairman Emeritus of the Board, Merchants National Bank

* Alumnus(a)

** Member of the Executive Committee of the Board of Trustees, which is empowered to the extent determined by the Trustees and as permitted by law to act on behalf of the Board between full Board meetings.

<u>Trustee</u>	<u>Principal Activity</u>
William M. Bracken*,**	President, Northern Plains Management Company
Conley Brooks**	President, Brooks Associates, Inc.
Russell C. Brown*	Attorney, Stolpestad, Brown & Smith, Professional Association
Margaret Bell Cameron (Mrs. George G.)	
Patricia Donnell Cassat* (Mrs. George L.)	
David D. Chomeau*	President, Reliable Life Insurance Company
Thomas M. Crosby** (Chairman of Board)	Retired Chairman and President, Northwest Growth Fund, Inc.
George H. Dixon** (Vice-Chairman of Board)	President and Chief Executive Officer, First Bank System, Inc.
Charles A. Donnell, Jr.*	Director, Human Resources, American Can Company
Robert H. Edwards**	President, Carleton College
Robert L. Gale*	President, Association of Governing Boards of Universities and Colleges
Mary Garst*	Cattle Manager, The Garst Company
Dr. Richard Green	Superintendent, Minneapolis Public Schools
Frank Hammond(1)*,**	Attorney, Briggs and Morgan
Ronald M. Hubbs	Chairman of the Board, Retired, The St. Paul Companies, Inc.

(1) Briggs and Morgan is legal counsel for the College and represents the College in this matter.

* Alumnus(a)

** Member of the Executive Committee of the Board of Trustees, which is empowered to the extent determined by the Trustees and as permitted by law to act on behalf of the Board between full Board meetings.

<u>Trustee</u>	<u>Principal Activity</u>
Joyce Anne Hughes*	Professor of Law, Northwestern University School of Law, and Senior Attorney, Continental Illinois National Bank (1982-83)
A.D. Hulings*	Chairman of Executive Committee, Andersen Corporation
Charles W. Johnson	Vice President & General Manager Test Instruments Division, Honeywell Inc.
Lloyd P. Johnson*	Vice Chairman, Security Pacific National Bank
Geri M. Joseph (Mrs. Burton M.)	Former Ambassador to the Netherlands
John D. Levine*,**	Attorney, Dorsey, Windhorst, Hannaford, Whitney & Halladay
Ward B. Lewis*,**	Attorney, Best & Flanagan
David M. Lilly**	Dean, University of Minnesota School of Management
Richard McAuliffe*	Senior Vice President, Harris Trust and Savings Bank
Lloyd M. McBride*	Attorney, McBride & Baker
Thomas B. Morgan*	Author and Editor
The Rev. Earl A. Neil*	Staff Officer, Coalition for Human Needs, Episcopal Church Center
Constance Shepard Otis (Mrs. James C.)	
Raymond Plank**	Chairman and Chief Executive Officer, Apache Corporation

* Alumnus(a)

** Member of the Executive Committee of the Board of Trustees, which is empowered to the extent determined by the Trustees and as permitted by law to act on behalf of the Board between full Board meetings.

TrusteePrincipal Activity

Edward C. Rosenow, Jr.,*	Executive Vice President Emeritus, American College of Physicians
Norman Ross	Senior Vice President, Community Affairs, First National Bank of Chicago
Arthur R. Schulze, Jr.,**	Executive Vice President, Consumer Foods, General Mills, Inc.
G. Slade Schuster*,**	Chairman, Retired, Board of Trustees, Mayo Foundation
Charles L. Smith, Jr.	Managing Partner, State Street Research & Management Co.
Waverly G. Smith	Vice Chairman, Home Insurance Company
Marjorie Clarkson Spannaus* (Mrs. Warren R.)	Director, Children's Work, Lake Harriet United Methodist Church
Martin A. Trow	Director, Center for Studies in Higher Education, University of California
C. Garrick Utley*	NBC News Correspondent, NBC News
Irene Hixon Whitney** (Mrs. Wheelock)	President, Copeland Trust

* Alumnus(a)

** Member of the Executive Committee of the Board of Trustees,
which is empowered to the extent determined by the Trustees
and as permitted by law to act on behalf of the Board
between full Board meetings.

Administration

The principal administrative officers of the College are as follows:

President

Robert H. Edwards is the seventh president of Carleton, having assumed this position in 1977. He received his B.A. degree at Princeton University, read law at Corpus Christi College, Cambridge, earned the LLB degree from Harvard and was admitted to the Federal Bar in 1961. Prior to coming to Carleton, he headed the Ford Foundation's Middle East and Africa Program.

Dean of the College

Peter W. Stanley has been Dean of the College since 1979. Before that, he was Lecturer on History and Research Associate of the John King Fairbank Center for East Asian Research at Harvard University. He graduated from Harvard, spent a year as Frank Knox Memorial Fellow at Jesus College, Cambridge, and took both his M.A. and Ph.D. degrees in history at Harvard.

Vice President for Planning and Development

Daniel Sullivan has been Vice President for Planning and Development since January of 1981. He joined the Carleton faculty in 1971 as a member of the Sociology Department, and in 1979 was made Dean of Academic Development and Planning. He earned his B.S. degree from St. Lawrence University in mathematics and English, and his Ph.D. degree in sociology from Columbia University. Mr. Sullivan is also Secretary of the College's Board of Trustees.

Vice President and Treasurer

Frank I. Wright is a 1950 graduate of Carleton, and returned to work in the Business Office in 1955. In 1960 he became Secretary-Treasurer and in 1963 was given the title of Vice President and Treasurer. Mr. Wright is also Treasurer of the College's Board of Trustees.

Academic Information

Carleton offers the Bachelor of Arts degree with eighteen departmental majors available. A number of special programs and concentrations are also available. The basic norm for graduation is four years with a minimum of 204 credits. Over one-half of the graduates attend graduate or professional schools after graduation. The College has a Phi Beta Kappa chapter (established in 1914), as well as Mortar Board, Sigma Xi (science honor society), Pi Mu Epsilon (mathematics) and Pi Delta Epsilon (journalism).

The College has a student to faculty ratio of 11.3 to 1. The average class size is 21 and 27% of classes have under ten students. Of the full-time faculty, 85% have the highest possible degree (Ph.D., MFA, MMus, etc.). Average faculty compensation for 1981-82 was rated 1* in Category IIB by the American Association of University Professors. This rating indicates average compensation in the 95th percentile for colleges and universities offering only the baccalaureate or equivalent degree.

Student Body and Enrollments

In the fall term of 1982-83 academic year, the College has a total enrollment of 1,877 students. All students are full-time students. Carleton students come from 49 states and 16 foreign countries. Approximately 30% are Minnesota residents. Of the current total enrollment approximately, 51% are men and 49% women. 66% of the freshmen entering the College for the 1982 fall term ranked in the top 10% of their high school classes and 84% ranked in the top 20%. In the last three freshman classes, 52% of the verbal and 62% of the mathematics S.A.T. scores were 600 or higher. In the 1981-82 academic year 257 Carleton students were national Merit Scholars, placing Carleton 14th in the nation and the only small undergraduate liberal arts college in the top 20 (1982-83 data is not yet available).

Approximately 95% of the students live in College residences. The College has no fraternities or sororities.

The following table sets forth fall term enrollment figures for on and off-campus programs for 1978 to 1982 and projected figures for 1983 to 1988.

Fall Term Total Enrollment Figures

<u>Year</u>	<u>In Northfield</u>	<u>Off Campus Programs</u>	<u>Total</u>
1978	1708	123	1831
1979	1709	140	1849
1980	1726	128	1854
1981	1710	140	1850
1982	1732	145	1877
<u>Projected</u>			
1983-88	1720	140	1860

The College plans to limit enrollment at its present level. It does not plan to add postgraduate studies.

The following table shows applications, acceptances, percentage of applicants accepted, freshman fall-term enrollment, percentage of accepted freshmen who enrolled, and average S.A.T. scores for the last five academic years. At the present time Carleton receives approximately 4 applications for each available space in the freshman class. Applications have increased 44% in the last four years.

Freshman Applications and Enrollments

	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>
Applicants	1470	1654	1780	2003	2112
Accepted	1155	1285	1066	1021	1159
Accepted as % of Applicants	79%	78%	60%	51%	55%
Enrolled	514	549	479	480	512
Enrolled as % of Accepted	45%	43%	45%	47%	44%
Enrolled Average SAT scores	1228	1223	1245	1234	1240

The College's Comprehensive Fee

The College meets the costs of its educational program primarily through tuition and fees. 95% of the students live in College residences, and residence costs are met by room and board charges. The following table shows tuition and fees and room-and-board charges for the last five academic years.

Carleton's Comprehensive Fee

	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>
Tuition and fees	\$4,037	\$4,375	\$4,903	\$5,755	\$6,951
Room and Board	<u>1,688</u>	<u>1,800</u>	<u>2,007</u>	<u>2,225</u>	<u>2,309</u>
Total	\$5,725	\$6,175	\$6,910	\$7,980	\$9,260

The College has been able to increase its comprehensive fee significantly without adversely affecting applications and enrollment. As the data above indicates, applications actually increased as the comprehensive fee increased. The College has also been able to maintain its limited enrollment policy. The College intends to continue increasing the comprehensive fee to maintain its high standards of quality. The College does not anticipate that this will adversely affect applications or enrollment but there can be no assurance of this.

Financial Aid

Student financial aid comes from College funds and from outside sources (principally federal and state programs). Approximately 55% of the College's students received scholarship or grant aid for the fall 1982 term; approximately 55% received loans from various sources and 65% have work contracts with the College.

The following table details the sources of student financial aid for fiscal years ending 1981 and 1982.

STUDENT FINANCIAL AID BY SOURCE (\$ in 000's)

<u>Source:</u>	<u>Type of Aid</u>			<u>Totals</u>	
	<u>Scholarship</u>	<u>Loan</u>	<u>Work</u>	<u>1981-82</u>	<u>1980-81</u>
College funds:					
Unrestricted	986		345	1,331	973
Restricted	609	27		636	584
Total	<u>1,595</u>	<u>27</u>	<u>345</u>	<u>1,967</u>	<u>1,557</u>
U.S. Government	451	418	317	1,186	1,158
State of Minnesota	233	457*	55	745	709
Other	512	1,642*		2,154	1,758
Total 1981-82	<u>2,791</u>	<u>2,544</u>	<u>717</u>	<u>6,052</u>	
1980-81	2,408	2,126	648		5,182

*Guaranteed by U.S. Government

Budgetary Matters

As a matter of practice, the College prepares a balanced annual operating budget for income and expenses. For each of the past 12 years, the College has had positive operating results with income exceeding expenses. The College expects to end the present fiscal year on June 30, 1983 with positive results.

Statement of Income and Expenses

The following table sets forth summary statements of the College's income and expenses for the fiscal years ending June 30, 1978 through 1982, and budget data for fiscal 1983. These statements are prepared for the College's internal purposes only and have not been audited by the College's auditors. The following table should be read in conjunction with the financial statements of the College set forth in Appendix II.

INCOME AND EXPENSES (UNAUDITED)
Actual Fiscal 1979 to 1982 and Budgeted 1983
(\$ in 000's)

	Budget	Actual			
	1982-83	1981-82	1980-81	1979-80	1978-79
Income:					
Student Fees	\$16,556	\$14,384	\$12,343	\$10,993	\$ 9,948
Less Scholarships	-2,577	-2,292	-1,961	-1,768	-1,594
Net Fees	13,979	12,092	10,382	9,225	8,354
Endowment	3,015	2,671	2,451	2,331	2,072
Private Gifts	1,729	1,598	1,364	1,233	1,196
Government Grants and Appropriations	982	1,115	1,265	1,408	909
Other	1,699	1,722	1,617	1,309	1,079
Total Income	<u>\$21,404</u>	<u>\$19,198</u>	<u>\$17,079</u>	<u>\$15,506</u>	<u>\$13,610</u>
Expense:					
Salaries	\$ 9,358	8,319	\$ 7,177	\$ 6,651	\$ 5,882
Staff Benefits	1,652	1,395	1,222	1,105	918
Student Work	728	608	550	460	367
Supplies	973	910	830	747	596
Books and Equipment	1,074	939	939	969	851
Building Expense	2,341	2,002	1,700	1,527	1,449
Debt Service	961	952	965	980	1,002
Food Service	1,968	1,789	1,626	1,350	1,230
Cost of Sales	1,987	1,711	1,479	1,311	1,180
Other	1,727	1,518	1,480	1,278	1,154
Subtotal	\$22,769	\$20,141	\$17,968	\$16,378	\$14,629
Less Interdepart- ment Transfers	-2,619	-2,203	-1,838	-1,765	-1,653
	<u>20,150</u>	<u>17,938</u>	<u>16,130</u>	<u>14,613</u>	<u>12,976</u>
Organized Research and Special Projects	250	274	319	291	214
Other Educational Operations	960	910	629	582	411
	<u>\$21,360</u>	<u>\$19,122</u>	<u>\$17,078</u>	<u>\$15,486</u>	<u>\$13,601</u>
	\$ 44	\$ 76	\$ 1	\$ 20	\$ 9

Gifts, Grants and Bequests, Including Capital Fund Drive

The College actively solicits and receives gifts and bequests from a variety of private donors and also receives various grants from private foundations and from agencies of the federal and state government.

The following table sets forth the gifts, grants, and bequests received by the College for the fiscal years ended June 30, 1978 through 1982.

Fiscal Year Ended June 30, (in \$ Thousands)					
	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
<u>Purpose</u>					
Current Funds-Unrestricted	\$1,156	\$1,039	\$ 905	\$ 826	\$ 667
Current Funds-Restricted	1,104	1,426	1,191	848	993
Endowment and Similar Funds	2,977	2,232	1,053	955	2,537
Annuity and Life Income	58	44	5	4	91
Plant Funds	<u>475</u>	<u>326</u>	<u>38</u>	<u>31</u>	<u>219</u>
TOTAL	\$5,771	\$5,066	\$3,191	\$2,664	\$4,507
<u>Source</u>					
Individuals	2,608	2,821	1,287	\$1,128	\$1,077
Bequests	151	208	336	357	206
Foundations and Charitable Institutions	1,806	989	301	279	2,169
Business Corporations and Groups	486	396	394	327	334
Government Agencies	<u>721</u>	<u>653</u>	<u>873</u>	<u>573</u>	<u>721</u>
TOTAL*	\$5,771	\$5,066	\$3,191	\$2,664	\$4,507

*Totals may not compute due to rounding.

The College will shortly announce a general capital fund drive called "The Campaign for Carleton". The College seeks to raise \$37 million in capital funds over the next five years through this campaign. As of August 31, the College has received over \$16 million in gifts and pledges for the Campaign of which \$5.5 million has been paid to the College.

The College anticipates campaign gift cash flow as set forth in the following table:

Campaign for Carleton

Projected Cash Flow from Gifts and Pledges
(in \$ 000's)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>TOTAL</u>
Gifts and Pledges in Hand	\$2,032	\$3,313	\$1,917	\$2,526	\$5,095	\$ 310	\$ 270	\$ 260	\$ 321	\$16,044
Gifts and Pledges under Active Cultivation			2,705	4,550	2,950	2,575	2,200			14,980
Gifts and Pledges for Future Cultivation					1,000	2,000	2,000	976		5,976
Annual Total	^① \$2,032	\$3,313	\$4,622	\$7,076	\$9,045	\$4,885	\$4,470	\$1,236	\$ 321	\$37,000
Cumulative Total	\$2,032	\$5,345	\$9,967	\$17,043	\$26,088	\$30,973	\$35,443	\$36,679	\$37,000	

Endowment Funds

As of June 30, 1982, the College had total endowment funds of a market value of \$60.0 million. Of this, approximately \$21.6 million of market value (or 36%) is quasi-endowment (not restricted as to use and disposition of principal and income); of which \$7.8 million is pledged as collateral for two prior Authority bond issues, leaving \$13.8 million of market value of quasi-endowment not pledged to other debt of the College and available for payment of these Bonds.

The market value of the endowment and the "Historic Dollar Value" of gifts* for fiscal years 1978 through 1982 is set forth below:

<u>Total Endowment</u> <u>(in \$ millions)</u>		
<u>Fiscal Year</u> <u>Ending June 30th</u>	<u>Market Value</u>	<u>Historic</u> <u>Dollar Value*</u>
1982	\$60.0	\$42.8
1981	62.0	39.4
1980	54.0	36.9
1979	48.9	35.9
1978	45.0	34.9

Approximately \$40.4 million (or 67%) of Carleton's endowment funds are invested on a discretionary basis by two outside money managers - Alliance Capital Management Corporation and Essex Investment Management Company. The remaining \$19.6 million (or 33%) is invested in long-term bonds that serve as collateral for the College's bond indebtedness through the Authority (\$7.8 million), in the College's physical plant (\$7.7 million) and in other investments held at the College (\$4.1 million). Total return (yield plus appreciation) results for fiscal 1980-81** are provided on the following page with comparative equity and bond indices. Since roughly half of Carleton's investments were in common stocks, the average of the S&P and Salomon bond indices is probably the fairest measure of the College's relative performance for 1980-81. (1981-82 data is not yet available.)

*The "Historic Dollar Value" of gifts is the original dollar value of all gifts to the College that has been allocated to endowment. The difference between the historic dollar value and market value is realized and unrealized appreciation on investments.

**1981-82 data not yet available.

Carleton

--managers only	+21.2%
--total fund	+14.8%

Benchmarks

--S&P 500 equity index	+20.9%
--Salomon Brothers bond index	-14.1
--average of two	+ 3.4%

~~Carleton has not used all of its endowment income for operating purposes in recent years. Some income has been added to principal, as shown below:~~

Amount of Endowment Income Added to Endowment
(in \$ thousands)

Fiscal Year Ending June 30

<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
\$1,505	\$763	\$877	\$381	\$480	\$120

Long-Term Debt

The College had long-term debt payable at June 30, 1982 and 1981 as follows:

	<u>1982</u>	<u>1981</u>
<u>Dormitory Bonds</u>		
2 7/8% Series A	\$ 421,000	\$ 443,000
3 1/2% Series B	850,000	880,000
3% Series C	755,000	775,000
	<u>\$2,026,000</u>	<u>\$2,098,000</u>
<u>Minnesota Higher Education Facilities Authority</u>		
First Mortgage Revenue Bonds-Series O	\$4,000,000	\$4,000,000
First Mortgage Revenue Bonds-Series T	2,385,000	2,385,000
	<u>\$6,385,000</u>	<u>\$6,385,000</u>
Less unamortized discount and premium	(54,219)	(57,199)
	<u>\$6,330,781</u>	<u>\$6,327,801</u>
Total Long-Term Debt	<u>\$8,356,781</u>	<u>\$8,425,801</u>

The Dormitory Bonds mature serially on April 1 of each year to 2006 in amounts ranging from \$73,000 to \$119,000. Interest is payable semiannually. The bonds are secured by the general obligation of the College and additionally secured by a first mortgage on Musser, Myers, Goodhue and Watson Halls and a first lien on and a pledge of the net revenues derived from the operations of these facilities.

The College has financed certain buildings with the proceeds of the Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds. The Series O bonds bear interest at 7% per annum payable semiannually, and mature November 1, 2000, while the Series T bears interest at 5.625% per annum payable semiannually, and mature March 1, 2007. The financing was structured through leases with MHEFA under the terms of which the College has an option to purchase the facilities at the termination of the leases. The transactions have been accounted for as a lease/purchase with the related assets and liabilities being reflected in the balance sheet. The College has deposited \$80,000 and \$30,000 for the Series O and Series T Bonds, respectively, in the General Bond Reserve Account of the MHEFA for the purpose of securing both the College's First Mortgage Revenue Bonds and other bonds issued by MHEFA. In addition, the Series O Bond contains a sinking fund requirement of \$200,000 per year commencing in 1990 and continuing through 1999, while the Series T Bond contains a sinking fund requirement of \$120,000 per year commencing in 1997 and continuing through 2006. The College must also maintain a debt service reserve account with qualified reserve investment having market values equal to 110% of the principal amount of the bonds outstanding less any balances in the sinking funds. As of July 31, 1982, the latest valuation date, the investments held in this reserve have a book value of \$10,058,191 and a market value of \$7,775,209. They are included in the pooled endowment investments of the College. The bonds are secured by a first mortgage on the facilities for which the funds were used and first liens and pledges of the net revenues derived from the operations of these facilities.

The aggregate amount of maturities of bonds for the next five fiscal years is as follows:

1983	\$ 73,000
1984	83,000
1985	84,000
1986	85,000
1987	86,000

Retirement Plan

Employees of the College may elect to participate in an arrangement whereby the individuals and the College contribute to the purchase of individual annuities equivalent to retirement benefits earned.

The College's share of the cost of these annuities was \$389,213 in fiscal year 1982 and \$349,863 in 1981.

Commitments

Certain structural and other types of defects have been discovered in the Music and Drama Center. The College believes that the defects were caused by deficiencies in design and construction. The estimated cost to repair the Center will be approximately \$3,000,000. At June 30, 1982, \$2,901,790 of this amount has been expended of which \$58,573 has been charged to the repair and maintenance reserve and \$2,843,217 has been advanced from endowment funds. The College has commenced an action which is in arbitration against the architect and the contractor to recover the costs to repair this structure. The College believes it will recover a substantial portion of the costs incurred.

HISTORICAL COMPARISONS

Financial Comparisons:

	<u>1958-59</u>	<u>1968-69</u>	<u>1978-79</u>	<u>1981-82</u>
Total Assets (in \$ millions) - book*	19.7	47.3	86.7	101.0
Endowment (in \$ millions) - market	13.1	27.9	48.9	60.0
Operating expense (in \$ millions)	3.0	7.2	15.2	21.4
Ratios per student:				
Total Assets - book* (in \$ thousands)	18.8	33.2	50.3	58.9
Endowment - market (in \$ thousands)	12.5	19.6	28.4	35.0
Operating expense (in \$ thousands)	2.9	5.1	8.8	12.5
Comprehensive student fee (in \$ thousands)	1.7	2.95	5.725	7.98
Per capita disposable income (in \$ thousands)	1.8	2.9	7.4	8.8
Total gifts for 10-year period:				3 Yrs.
Current (in \$ millions)	.9	6.8	14.1	6.8
Capital (in \$ millions)	6.0	17.3	21.3	7.2
Total (in \$ millions)	6.9	24.1	35.4	14.0

Personnel Comparisons:

Number-full time equivalent:

Students (in Northfield)	1,048	1,424	1,724	1,716
Academic	104	162	190	197
Administrative	62	95	99	107
Service (excluding food service)	102	100	101	106
Total	268	357	390	410

Student ratios per employee:

Academic	10.1	8.8	9.1	8.7
Administrative	16.9	15.0	17.4	16.0
Service	10.3	14.2	17.1	16.2
Total	3.9	4.0	4.4	4.2

Facilities:

Book value (in \$ millions)	8.9	18.0	32.8	35.3
Replacement value (in \$ millions)	14.0	27.0	75.0	95.0
Gross area (in thousand sq. ft.)	828	1,016	1,140	1,140
Ratios per student:				
Book value (in \$ thousands)	8.5	12.6	19.0	20.6
Replacement value (in \$ thousands)	13.4	19.0	43.5	55.4
Area (in sq. ft.)	790	713	661	664

Debt financing (in \$ millions):

Loan from endowment	3.7	4.5	5.2	4.8
Government loans	.8	2.8	8.6	8.4

*market for securities

Facilities

As of June 30, 1982 the College had the facilities listed on the following page all of which are located on the 90-acre main campus in Northfield, Minnesota.

EXISTING FACILITIES

<u>Facility</u>	<u>Use</u>	<u>Age (years)</u>	<u>Dormitory Capacity</u>	<u>Original Cost</u>	<u>Replacement Cost*</u>
Willis Memorial Union	Classroom, offices	108		428,502	1,400,059
Goodsell Observatory	Observatory	93		34,432	1,051,913
Scoville Memorial Hall	Classroom, offices	84		103,801	734,141
Laird Hall	Classroom, offices	75		65,630	1,133,575
Sayles Hill	Student union, health service, offices	71		79,519	1,677,259
Music Hall	Classroom, practice room	66		48,052	944,585
Skinner Memorial Chapel	Chapel, offices	64		131,195	3,029,401
Leighton Hall	Classroom, offices	61		296,242	2,852,241
Laird Stadium	Dormitory		17	92,162	
	Stadium	53		202,960	1,412,664
Faculty Club	Dormitory, apartments	52	22	86,660	444,354
Faculty Club Annex	Dormitory, apartment		6	9,088	20,057
Laird Annex	Offices	33		1	61,380
Boliou Memorial Hall	Art studios, workshop, classrooms	31		329,978	1,411,481
Library	Library	24		1,175,334	3,690,782
Olin Hall of Science	Classrooms, labs	19		1,749,874	5,261,108
West Gymnasium	Gymnasium, pool	16		1,089,199	3,241,792
Cowling Recreation Center	Gymnasium, pool	15		727,867	2,097,364
Music and Drama Center	Concert hall, theater	9		2,501,378	5,212,449
Seeley G. Mudd Hall of Science	Classroom, lab	6		2,924,578	3,793,280
Service and Stores Building	Shops	29		76,673	
Utilities Plant	Power plant, airconditioning	71		727,065	3,818,441
Alumni House	Dormitory, meeting room	71 est.	5	35,337	77,903
Williams House	Student lounge	64 est.	2	13,683	47,734
Allen House	Dormitory	59	16	19,796	126,411
Benton House	Dormitory	96 est.	14	34,085	77,903
Berg House	Dormitory	31	10	23,238	84,316
Burton Hall	Dormitory, dining hall	64	182	2,367,808	4,643,667
Chaney House	Dormitory	96 est.	16	12,780	143,623
Davis Hall	Dormitory	57	143	195,197	1,645,113
Evans Hall	Dormitory, dining hall	53	124	627,315	2,742,323
Facultyville (6 houses)	Dormitory	37	24	43,490	215,365
Furber House	Dormitory	86 est.	8	7,524	50,395
Goodhue Hall	Dormitory, dining hall	18	211	1,392,779	4,333,445
Hall House	Dormitory	52	12	17,138	120,292

EXISTING FACILITIES (continued)

<u>Facility</u>	<u>Use</u>	<u>Age (years)</u>	<u>Dormitory Capacity</u>	<u>Original Cost</u>	<u>Replacement Cost*</u>
Hill House	Dormitory	90	26	26,421	205,186
Huntington House	Dormitory	64	18	16,593	138,856
Language House	Dormitory	66 est.	47	213,571	1,073,862
Main House	Dormitory	66	14	36,016	97,157
Musser Hall	Dormitory	22	144	701,963	2,205,294
Myers Hall	Dormitory	22	142	800,393	2,388,726
Nourse Hall	Dormitory	63	106	146,988	1,879,808
Parr House	Dormitory	66	6	10,500	58,644
Prentice House	Dormitory	60	10	9,462	97,379
Rice House	Dormitory	37	22	19,127	181,551
Severance Hall	Dormitory, dining hall	52	78	335,146	3,444,494
Stimson House	Dormitory	32	14	17,276	58,329
Watson Hall	Dormitory	14	156	1,482,770	4,351,541
Wilson House	Dormitory	51 est.	8	15,355	63,161
Reynolds House	Dormitory	64 est.	5	13,801	68,097
Total				21,515,742	73,908,901
Equipment and books				6,038,209	14,203,567
Total				27,553,951	88,112,468

*Provided to the College by Alexander & Alexander, Inc., insurance brokers, for insurance purposes

Employees

For fiscal year 1982-83, the College has employees (on a full-time equivalent basis) in the following capacities.

Faculty	157
Academic Support Staff	45
Administrative	110
Service (housekeeping, maintenance, etc.)	<u>106</u>
Total	418

In addition the Saga Corporation, an independent contractor who supplies food service for the College, employs 48 full-time equivalent employees.

Unions

75 housekeeping and maintenance employees of the College and 45 employees of Saga, Inc., the College's food service caterer, are represented by the International Union of Operating Engineers, Local 34. The current two-year contract expires June 30, 1983. A strike by this Union in the fall of 1980 lasted 6 1/2 weeks. The College continued to operate without interruption throughout the strike.

APPENDIX II

The Board of Trustees
Carleton College

We have examined the balance sheet of Carleton College as of June 30, 1982, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported on the financial statements of the College for the year ended June 30, 1981, totals of which are included for comparative purposes only.

In our opinion, the aforementioned financial statements present fairly the financial position of Carleton College at June 30, 1982, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Main Hurdman

September 7, 1982

CARLETON COLLEGE

BALANCE SHEET

June 30, 1982 with Comparative
Figures for June 30, 1981

	Current Funds		Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds		
	Unrestricted	Restricted				Unexpended	Investment in Plant	
ASSETS								
Cash	\$ 95,925	\$ 24,756	\$ 9,247			\$ 343,429	\$ 473,357	\$ 509,417
Short-term investments	1,197,543	1,314,315	400,062			603,454	2,911,920	2,619,418
Deposits with bond trustee							603,454	757,127
Accounts and grants receivable	157,813	4,280					162,093	326,090
Inventories	653,365						653,365	572,492
Prepaid expenses and deferred charges	519,572						519,572	239,227
Loans to students			2,905,436	\$58,614,166	\$2,245,374		2,905,436	2,704,709
Investments				7,689,331			60,859,540	57,913,540
Loans to plant fund	110,705						7,800,036	6,715,728
Property, plant and equipment								
Reconstruction in progress							\$35,349,698	34,565,802
Interfund balances						(169,683)	2,843,217	1,591,882
Total assets	\$2,734,923	\$1,343,351	\$3,314,745	\$66,303,497	\$2,245,374	\$ 777,200	\$107,281,652*	\$101,799,704*
LIABILITIES AND FUND BALANCES								
Accounts payable	\$ 652,121						\$ 652,121	\$ 499,290
Accrued expenses	707,969						707,969	633,060
Deferred income and deposits	924,449						924,449	775,262
Annuities payable					\$ 274,365		274,365	254,689
Loans from other funds							\$ 7,800,036	6,715,728
Bonds payable							8,356,781	8,425,801
Total liabilities	2,284,539				274,365		16,156,817	17,303,830
Fund balances	450,384	1,343,351	3,314,745	66,303,497	1,971,009	777,200	96,365,967	91,211,602
	\$2,734,923	\$1,343,351	\$3,314,745	\$66,303,497	\$2,245,374	\$ 777,200	\$107,281,652*	\$101,799,704*

*Totals after elimination of interfund loans

The accompanying notes are an integral part of these financial statements.

CARLETON COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES

Year Ended June 30, 1982 with
Comparative Figures for June 30, 1981

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment & Similar Funds	Annuity & Life Income Funds	Plant Funds Unexpended	Investment in Plant	1982	1981
REVENUES AND OTHER ADDITIONS:									
Student fees	\$14,120,666							\$14,120,666	\$12,746,855
Auxiliary enterprises	1,533,763							1,533,763	734,782
Investment income:									
Endowment	1,614,899	\$2,608,710	\$ 2,280					4,225,889	3,201,764
Other	283,904	51,996	79,733		\$ 177,503	\$ 166,046		759,182	594,316
Private gifts	1,091,914	491,263	10,000	\$ 2,977,238	58,018	475,388		5,103,821	4,423,356
Government grants	64,349	1,083,766	131,827					1,279,942	1,399,329
Net gain on sale of investments					9,837			9,837	7,438,474
Expended for plant facilities:									
Current funds						918,436	\$ 474,353	1,392,789	1,317,336
Unexpended plant funds							397,087	397,087	240,113
Retirement of indebtedness						1,275,225	215,137	215,137	239,027
Loan proceeds used								1,275,225	1,591,882
Other	167,743		23,047					190,790	233,700
Total	18,877,238	4,235,735	246,887	2,977,238	245,358	2,835,095	1,086,577	30,504,128	34,160,934
EXPENDITURES AND OTHER DEDUCTIONS:									
Operating expenditures	17,276,677	3,185,402						20,462,079	18,074,252
Allowance for doubtful loans			21,194	845,098				21,194	38,068
Net loss on sale of investments								845,098	
Plant expenditures:									
Repairs and replacement						1,068,104		1,068,104	1,328,444
Reconstruction						1,251,335		1,251,335	1,285,695
Debt service						990,392		990,392	1,002,780
Land, buildings, equipment						397,087		397,087	240,113
Payments to beneficiaries					147,672			147,672	126,671
Other		8,448	48,890		19,676	2,243	87,545	166,802	145,017
Total	17,276,677	3,193,850	70,084	845,098	167,348	3,709,161	87,545	25,349,763	22,241,040
TRANSFERS BETWEEN FUNDS:									
Net realized appreciation	(572,090)	(933,409)		1,505,499					
Gifts		(331,835)		363,473	(21,463)	(10,175)			
Debt service	(952,459)					952,459			
Total	(1,524,549)	(1,265,244)		1,868,972	(21,463)	942,284			
Net increase (decrease) for year	76,012	(223,359)	176,803	4,001,112	56,547	68,218	999,032	5,154,365	11,919,894
Fund balance at beginning of year	374,372	1,566,710	3,137,942	62,302,385	1,914,462	708,982	21,206,749	91,211,602	79,291,708
Fund balance at end of year	\$ 450,384	\$1,343,351	\$3,314,745	\$66,303,497	\$1,971,009	\$ 777,200	\$22,205,781	\$96,365,967	\$91,211,602

The accompanying notes are an integral part of these financial statements.

CARLETON COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

Year Ended June 30, 1982 with
Comparative Figures for June 30, 1981

	1982		1981	
	Unrestricted	Restricted	Combined	Combined
Revenues:				
Student fees	\$14,120,666		\$14,120,666	\$12,746,855
Endowment income	1,614,899	\$ 2,561,835	4,176,734	3,214,328
Private gifts	1,091,914	550,293	1,642,207	1,364,300
Government grants and appropriations	64,349	1,006,683	1,071,032	1,264,833
Other sources	451,647		451,647	478,128
	<u>17,343,475</u>	<u>4,118,811</u>	<u>21,462,286</u>	<u>19,068,444</u>
Auxiliary enterprises	<u>1,533,763</u>		<u>1,533,763</u>	<u>734,782</u>
Total revenues	<u>18,877,238</u>	<u>4,118,811</u>	<u>22,996,049</u>	<u>19,803,226</u>
Expenditures:				
Educational and general:				
Instruction	4,299,737	1,257,615	5,557,352	4,867,001
Organized research		274,257	274,257	319,127
Academic support:				
Library	684,860	206,766	891,626	821,334
Other	338,778	52,467	391,245	330,343
Student services	1,828,322	54,929	1,883,251	1,690,149
Institutional support:				
Administration	728,900	8,347	737,247	651,030
Development	1,033,865		1,033,865	880,314
General	639,156		639,156	666,437
Plant operations	1,787,768	4,515	1,792,283	1,631,171
Student aid	989,831	1,302,969	2,292,800	2,084,834
Other educational operations	886,948	23,537	910,485	629,255
	<u>13,218,165</u>	<u>3,185,402</u>	<u>16,403,567</u>	<u>14,570,995</u>
Total education and general expenditures	<u>13,218,165</u>	<u>3,185,402</u>	<u>16,403,567</u>	<u>14,570,995</u>
Auxiliary enterprises	<u>4,058,511</u>		<u>4,058,511</u>	<u>3,503,257</u>
Total expenditures	<u>17,276,676</u>	<u>3,185,402</u>	<u>20,462,078</u>	<u>18,074,252</u>
Transfers and deductions:				
Endowment income transferred under total return formula	(572,090)	(933,410)	(1,505,500)	(763,024)
Debt service	(952,460)		(952,460)	(965,332)
Refunded to grantors		(2,861)	(2,861)	(12,035)
Excess of restricted receipts (disbursements) over transfers to revenues		(220,497)	(220,497)	340,695
	<u>(1,524,550)</u>	<u>(1,156,768)</u>	<u>(2,681,318)</u>	<u>(1,399,696)</u>
Total transfers and deductions	<u>(1,524,550)</u>	<u>(1,156,768)</u>	<u>(2,681,318)</u>	<u>(1,399,696)</u>
Increase (decrease) for year	<u>\$ 76,012</u>	<u>\$ (223,359)</u>	<u>\$ (147,347)</u>	<u>\$ 329,278</u>

The accompanying notes are an integral part of these financial statements.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by Carleton College are described below to enhance the usefulness of the financial statements to the reader.

Fund accounting:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Endowment funds include "pure" endowments subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowments are similar to pure endowments except that all or part of the principal may be expended upon the passage of a stated period of time or occurrence of a particular event. While quasi-endowment funds have been established by the Board of Trustees for the same purposes as endowment funds, any portion is expendable at the Board's discretion.

Restricted gifts, grants, endowment income and other restricted resources are reported as revenue when expended for current operating purposes. All unrestricted resources, including gifts, are reported as revenues when earned or received. A portion of realized and unrealized gains and losses of endowment and quasi-endowment funds is transferred to or from the current fund under the "total return concept" described in a following note.

Accrual Basis:

The financial statements of the College have been prepared on the accrual basis except for depreciation accounting as explained under property, plant and equipment. The statement of current funds, revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income for the period as would a statement of income or a statement of revenues and expenses.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS
(continued)

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books and also in the case of annual provisions for certain major types of plant renewals, repairs and replacements; and (2) transfers in the case of required provisions for debt service.

Investments:

Investments are stated at cost; investments received by gift are carried at market value at date of gift adjusted for amortization of premiums and discounts.

Property, Plant and Equipment:

Plant facilities are stated at cost or fair value at date of gift. Depreciation is not provided.

Pledges:

Gifts pledged in connection with the Campaign for Carleton and other pledges as of June 30, 1982, aggregating approximately \$7,535,998, are not reported in the financial statements because it is impracticable to estimate the net realizable value of such pledges or the year in which payments will be received.

Short-term Investments:

Short-term investments are carried at cost, which approximates market.

Inventories:

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Student Loans:

Loans to students are reflected net of allowance for doubtful loans of \$129,131 in 1982 and \$82,284 in 1981.

CARLETON COLLEGE
NOTES TO FINANCIAL STATEMENTS
(continued)

INVESTMENTS IN ENDOWMENT, ANNUITY
AND SIMILAR FUNDS

Investments at June 30, 1982 and 1981 were as follows:

	<u>Market Value</u> June 30, 1982	<u>Book Value</u> June 30, 1982	<u>June 30, 1981</u>
Pooled assets:			
Consolidated investment funds:			
Cash and short-term securities	\$ 6,590,671	\$ 6,590,293	\$ 4,385,643
Bonds	20,449,139	25,288,825	24,493,828
Stocks	24,850,476	26,237,223	26,165,766
Loan to plant fund	7,689,331*	7,689,331	6,557,996
Real estate mortgages	482,112*	482,112	632,510
Investment in life income pool	<u>170,042</u>	<u>236,676</u>	<u>267,049</u>
	<u>60,231,771</u>	<u>66,524,460</u>	<u>62,502,792</u>
Life income pools:			
Cash and short-term securities	16,823	16,823	16,605
Bonds	226,363	321,779	321,988
Stocks	<u>77,937</u>	<u>93,707</u>	<u>94,236</u>
	321,123	432,309	432,829
(Less) investment of consoli- dated investment pool	<u>(170,042)</u>	<u>(236,676)</u>	<u>(267,049)</u>
	<u>151,081</u>	<u>195,633</u>	<u>165,780</u>
Separately invested assets:			
Cash and short-term securities	179,124	178,576	114,558
Bonds	499,895	594,985	605,612
Stocks	<u>1,580,575</u>	<u>1,055,217</u>	<u>1,082,795</u>
	<u>2,259,594</u>	<u>1,828,778</u>	<u>1,802,965</u>
Total investments	<u>\$62,642,446</u>	<u>\$68,548,871</u>	<u>\$64,471,537</u>

*Listed at book value

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS (continued)

Investments are included in the following funds:

Endowment and similar funds	\$60,034,966	\$66,303,497
Annuity and life income funds	<u>2,607,480</u>	<u>2,245,374</u>
	<u>\$62,642,446</u>	<u>\$68,548,871</u>

Assets of the consolidated investment pool are pooled on a market value basis with each individual fund subscribing to or disposing of shares on the basis of the value per share at market value at the beginning of the calendar quarter within which the transaction takes place. Of the total shares, each having a market value of \$2.53, 23,739,951 shares were owned by Endowment and Similar Funds, and 81,078 shares by Annuity and Life Income Funds at June 30, 1982.

The following tabulation summarizes changes in relationships between the book value and market value of the assets in the pool:

	Assets		Net Gains (Loss)	Market Value Per Share
	<u>Consolidated Investment Pool Market Value</u>	<u>Book Value</u>		
End of year	\$60,231,771	\$66,524,460	\$(6,292,689)	\$2.53
Less:				
Beginning of year	62,170,268	62,502,792	<u>(332,524)</u>	<u>2.76</u>
Unrealized net loss for year			(5,960,165)	
Realized net loss for year			<u>(845,099)</u>	
Total net loss for year			<u>\$(6,805,264)</u>	<u>\$(.23)</u>

ENDOWMENT INCOME

The College utilizes the "total return" method of accounting for income from its investments of endowment and quasi-endowment funds. Under this method, a 6.0% interest factor is applied to a five-year average quarterly market value of pooled endowment investments. The 6.0% factor is considered to be a prudent return on the investments, consisting of both yield (dividends and interest) and realized and unrealized gains. The actual yield in the form of dividends and interest is adjusted to the 6.0% interest factor by a transfer to or from realized net appreciation depending on whether the actual yield is greater or lesser than the total return method.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS
(continued)

For the year ended June 30, 1982, the actual yield on the endowment fund investments exceeded the 6.0% interest factor applied under the total return formula by \$1,505,499. Consequently, that amount of endowment income was transferred from current funds to net realized appreciation. For the year ended June 30, 1981, the actual yield on the endowment investments exceeded the amount provided under the total return formula by \$763,024 and, as a result, such amount was also transferred from current funds to net realized appreciation.

PROPERTY, PLANT AND EQUIPMENT

Plant facilities as of June 30, 1982 and 1981 were as follows:

	<u>1982</u>	<u>1981</u>
Land and real estate improvements	\$ 850,286	\$ 850,286
Buildings	25,789,323	25,393,237
Equipment and books	<u>8,710,089</u>	<u>8,322,279</u>
	<u>\$35,349,698</u>	<u>\$34,565,802</u>

PROVISION FOR REPAIR AND REPLACEMENT

In accordance with the financial policy of the College, unrestricted current funds are transferred to Unexpended Plant Funds to provide a reserve for repair and replacement of buildings and equipment. Transfers to such reserve amounted to \$918,436 and \$845,898 for the years ended June 30, 1982 and 1981, respectively. The fund is charged with the actual cost of repairs and replacements as made.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS
(continued)

BONDS PAYABLE

Bonds payable at June 30, 1982 and 1981 were as follows:

	<u>1982</u>	<u>1981</u>
Dormitory Bonds		
2-7/8% Series A	\$ 421,000	\$ 443,000
3-1/2% Series B	850,000	880,000
3% Series C	<u>755,000</u>	<u>775,000</u>
	<u>2,026,000</u>	<u>2,098,000</u>
Minnesota Higher Education Facilities Authority		
First Mortgage Revenue Bonds - Series O	4,000,000	4,000,000
First Mortgage Revenue Bonds - Series T	<u>2,385,000</u>	<u>2,385,000</u>
	6,385,000	6,385,000
Less unamortized discount and premium	<u>(54,219)</u>	<u>(57,199)</u>
	<u>6,330,781</u>	<u>6,327,801</u>
	<u>\$8,356,781</u>	<u>\$8,425,801</u>

The Dormitory Bonds mature serially on April 1 of each year to 2006 in amounts ranging from \$73,000 to \$119,000. Interest is payable semiannually. The bonds are secured by the general obligation of the College and additionally secured by a first mortgage on Musser, Myers, Goodhue and Watson Halls and a first lien on and a pledge of the net revenues derived from the operations of these facilities.

The College has financed certain buildings with the proceeds of the Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds. The Series O bonds bear interest at 7% per annum payable semiannually, and mature November 1, 2000, while the Series T bears interest at 5.625% per annum payable semiannually, and mature March 1, 2007. The financing was structured through leases with MHEFA under the terms of which the College has an option to purchase the facilities at the termination of the leases. The transactions have been accounted for as a capitalized lease with the related assets and liabilities being reflected in the balance sheet.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS
(continued)

The College has deposited \$80,000 and \$30,000 for the Series O and Series T Bonds, respectively, in general bond reserve accounts of the MHEFA for the purpose of securing both the College's First Mortgage Revenue Bonds and other bonds issued by MHEFA. In addition, the Series O Bond contains a sinking fund requirement of \$200,000 per year commencing in 1990 and continuing through 1999, while the Series T Bond contains a sinking fund requirement of \$120,000 per year commencing in 1997 and continuing through 2006. The College must also maintain a debt service reserve account with qualified reserve investments having market values equal to 110% of the principal amount of the bonds outstanding less any balances in the sinking funds. As of June 30, 1982, the investments held in this reserve have a book value of \$10,058,191 and a market value of \$7,775,209. They are included in the pooled endowment investments of the College.

The bonds are secured by a first mortgage on the facilities for which the funds were used and first liens and pledges of the net revenues derived from the operations of these facilities.

The aggregate amount of maturities of bonds for the next five years is as follows:

1983	\$73,000
1984	\$83,000
1985	\$84,000
1986	\$85,000
1987	\$86,000

RETIREMENT PLAN

Employees of the College may elect to participate in an arrangement whereby the individuals and the College contribute to the purchase of individual annuities equivalent to retirement benefits earned.

The College's share of the cost of these annuities was \$389,213 in 1982 and \$349,863 in 1981.

CARLETON COLLEGE

NOTES TO FINANCIAL STATEMENTS (continued)

COMMITMENTS

Certain structural and other types of defects have been discovered in the Music and Drama Center. The College believes that the defects were caused by deficiencies in the design and construction. The estimated cost to repair the Center may approach \$3,000,000. At June 30, 1982, \$2,901,790 of this amount has been expended of which \$58,573 has been charged to the repair and maintenance reserve and \$2,843,217 has been advanced from endowment funds. The College has commenced an action which is in arbitration against the architect and the contractor to recover the costs to repair this structure. The College believes it will recover a substantial portion of the costs incurred.

RECLASSIFICATIONS

Certain amounts reported in the previous year have been reclassified to conform to classifications used in the current year.

SUBSEQUENT EVENTS

Subsequent to June 30, 1982, the College signed a contract for construction of the Library. The College intends to finance the \$7,500,000 project cost through the issuance of Minnesota Higher Education Facilities Authority Bonds.

