

ADDENDUM DATED OCTOBER 27, 1998  
TO OFFICIAL STATEMENT DATED OCTOBER 9, 1998

NEW ISSUE

Moody's Rating: A3

**\$11,695,000**

**Minnesota Higher Education Facilities Authority**

**Revenue Bonds, Series Four-X  
(Gustavus Adolphus College)**

(Book Entry Only)

**Schedule of Maturity Dates, Principal Amounts and Interest Rates**

<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Maturity (October 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
2000	\$245,000	4.75%	3.40%	2008	\$350,000	4.75%	4.20%
2001	\$255,000	4.75%	3.55%	2009	\$370,000	4.75%	4.30%
2002	\$270,000	4.75%	3.65%	2010	\$390,000	4.75%	4.40%
2003	\$280,000	4.75%	3.80%	2011	\$410,000	4.75%	4.50%
2004	\$290,000	4.75%	3.90%	2012	\$430,000	4.75%	4.60%
2005	\$305,000	4.75%	4.00%	2013	\$455,000	4.75%	4.70%
2006	\$320,000	4.75%	4.10%	2014	\$480,000	4.75%	4.80%
2007	\$335,000	4.75%	4.15%	2015	\$505,000	4.75%	4.90%

\$1,680,000 4.75% Term Bond due October 1, 2018 at 4.95%.

\$1,985,000 4.80% Term Bond due October 1, 2021 at 5.00%.

\$2,340,000 4.80% Term Bond due October 1, 2024 at 5.05%.

An underwriting syndicate managed by Morgan Stanley Dean Witter Dean Witter Reynolds Inc with co-manager Cronin & Company, Incorporated; PaineWebber Incorporated; Salomon Smith Barney; CIBC Oppenheimer Corporation and EVEREN Securities, Inc. has agreed to purchase the Bonds from the Authority for an aggregate price of \$11,554,660.00, plus accrued interest to the date of delivery.

---

THIS ADDENDUM IS INCORPORATED BY REFERENCE AS OF THE DATE HEREOF INTO THE OFFICIAL STATEMENT OF THE AUTHORITY DATED OCTOBER 9, 1998, WITH RESPECT TO THE BONDS. TAKEN IN CONJUNCTION WITH SAID OFFICIAL STATEMENT, THIS ADDENDUM SHALL CONSTITUTE A "FINAL OFFICIAL STATEMENT" OF THE AUTHORITY WITH RESPECT TO THE BONDS AS THAT TERM IS DEFINED IN RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.



## Original Issue Discount

The dollar amount of the initial offering price to the public of the Bonds with the stated maturities of October 1, 2014, 2015, 2018, 2021 and 2024 (the "Discount Bonds") is less than the principal amount of Bonds of such maturity. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond.

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

## Term Bonds

### Mandatory Redemption

Bonds maturing on October 1, 2018, October 1, 2021 and October 1, 2024 (the "2018 Term Bond", the "2021 Term Bond", and the "2024 Term Bond", respectively) shall be called for redemption on October 1 in the years shown below, at the principal amount thereof to be redeemed, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account, in the amounts set forth below.

<u>2018 Term Bond</u>		<u>2021 Term Bond</u>	
<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>
October 1, 2016	\$530,000	October 1, 2019	\$625,000
October 1, 2017	\$560,000	October 1, 2020	\$660,000
October 1, 2018	\$590,000	October 1, 2021	\$700,000

  

<u>2024 Term Bond</u>	
<u>Maturity</u>	<u>Amount</u>
October 1, 2022	\$735,000
October 1, 2023	\$780,000
October 1, 2024	\$825,000





The Bonds or portions thereof to be so redeemed shall be selected by the Trustee by lot or in such other random manner as the Trustee shall determine.

Each Term Bond, to be retired pursuant to the mandatory redemption obligations set forth above, may, at the option of the College, be reduced by the principal amount of any Bonds of such term maturity which at least 45 days to prior to such redemption:

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



## NEW ISSUE

Rating: Requested from Moody's  
Investors Service

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

**\$11,695,000****Minnesota Higher Education Facilities Authority****Revenue Bonds, Series Four-X  
(Gustavus Adolphus College)****(Book Entry Only)****Dated Date: November 1, 1998****Interest Due: April 1 and October 1,  
commencing April 1, 1999**

The Bonds to mature on October 1 as follows:

2000 \$245,000	2005 \$305,000	2010 \$390,000	2015 \$505,000	2020 \$660,000
2001 \$255,000	2006 \$320,000	2011 \$410,000	2016 \$530,000	2021 \$700,000
2002 \$270,000	2007 \$335,000	2012 \$430,000	2017 \$560,000	2022 \$735,000
2003 \$280,000	2008 \$350,000	2013 \$455,000	2018 \$590,000	2023 \$780,000
2004 \$290,000	2009 \$370,000	2014 \$480,000	2019 \$625,000	2024 \$825,000

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

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

The Bonds are special obligations of the Authority payable solely from Loan Repayments made by or on behalf of the Gustavus Adolphus College, St. Peter, Minnesota (the "College") pursuant to a Loan Agreement between the Authority and the College, or out of other amounts pledged pursuant to the Indenture as described herein. The Loan Repayments will be a general obligation of the College.

Prior to the award of sale of the Bonds, the Bonds will have been registered for sale at a price not greater than 105% with the Securities Division, Department of Commerce, State of Minnesota, pursuant to Chapter 80A, Minnesota Statutes; however, the initial Purchaser of the Bonds shall be required to provide a schedule of reoffering prices and yields with respect to the Bonds and shall agree not to sell (but may offer) any of the Bonds to Minnesota buyers at a price greater than 105% until the Bonds have been re-registered for sale at such higher price by the Department of Commerce, as more fully provided in the Terms and Conditions of Contract of Sale.

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

The Bonds are offered when, as, and if issued by the Authority subject to the approval of legality by Faegre & Benson LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by MacKenzie & Gustafson, Ltd., St. Peter, Minnesota. Bonds are expected to be available for delivery on or about November 12, 1998.

**PROPOSALS RECEIVED: October 21, 1998 (Wednesday) at 11:00 A.M., Central Time****AWARD: October 21, 1998 (Wednesday) by 2:00 P.M., Central Time****SPRINGSTED**

Public Finance Advisors

Further information may be obtained from SPRINGSTED Incorporated, Financial Advisor to the Issuer, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101-2887 (651) 223-3000

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the Authority from time to time (collectively, the "Official Statement"), may be treated as an Official Statement with respect to the Bonds described herein that is deemed final as of the date hereof (or of any such supplement or correction) by the Authority, except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other information required by law, shall constitute a "Final Official Statement" of the Authority with respect to the Bonds, as that term is defined in Rule 15c2-12. Any such addendum shall, on and after the date thereof, be fully incorporated herein and made a part hereof by reference.

By awarding the Bonds to any underwriter or underwriting syndicate submitting a Proposal therefor, the Authority agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded copies of the Official Statement and the addendum or addenda described in the preceding paragraph in the amount specified in the Terms of Proposal.

The Authority designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a Proposal with respect to the Bonds agrees thereby that if its bid is accepted by the Authority (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

No dealer, broker, salesman or other person has been authorized by the Authority or the College to give any information or to make any representations with respect to the Bonds, other than as contained in the Official Statement or the Final Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. Certain information contained in the Official Statement and the Final Official Statement may have been obtained from sources other than records of the Authority and, while believed to be reliable, is not guaranteed as to completeness or accuracy. THE INFORMATION AND EXPRESSIONS OF OPINION IN THE OFFICIAL STATEMENT AND THE FINAL OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT OR THE FINAL OFFICIAL STATEMENT NOR ANY SALE MADE UNDER EITHER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY OR THE COLLEGE SINCE THE DATE THEREOF.

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

## MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

### MEMBERS

Mollie N. Thibodeau, Chair	CFRE, Fund Raising Consultant, Duluth, Minnesota
James R. Miller, Vice Chair	Owner and CEO, James Miller Investment Realty Company, St. Paul, Minnesota
Dr. John S. Hoyt, Jr., Secretary	CEO, Effective Golf Course Systems, Inc., Edina, Minnesota
Dr. Kathryn Balstad Brewer	Independent Scholar; New Brighton, Minnesota; Formerly Senior Vice President With FBS Investment Services, Inc.
Jack Amundson	CPA, Partner, Larson, Allen, Weishair & Co., LLP, St. Cloud, Minnesota
Kenneth Johnson	Principal/Corporate President, the STANIUS JOHNSON architects, inc., Duluth, Minnesota
Dr. David B. Laird, Jr. (Ex Officio)	President, Minnesota Private College Council, St. Paul, Minnesota
Timothy Medd (Ex Officio)	Audit Supervisor, Minnesota Higher Education Services Office, St. Paul, Minnesota
Tom Martinson	Principal, City Planning & Economic Development, Minneapolis, Minnesota
Christopher A. Nelson	Attorney in Private Practice, St. Louis Park, Minnesota

J. Luther Anderson, Executive Director

Bond Counsel  
Faegre & Benson LLP

Financial Advisor  
Springsted Incorporated

## TABLE OF CONTENTS

	<u>Page(s)</u>
Terms of Proposal .....	i-v
Schedule of Bond Years .....	vi
 Introductory Statement .....	 1
Risk Factors.....	2-4
Continuing Disclosure.....	4
The Bonds .....	5-8
Estimated Sources and Uses Funds.....	8-9
The Project.....	9
Summary of Security for the Bonds .....	9-12
Accounts.....	12-14
The Authority .....	15
Financial Advisor .....	16
Rating.....	16
Litigation .....	16
Legality.....	16
Tax Exemption.....	17-18
Not Qualified Tax-Exempt Obligations .....	18
 The College .....	 Appendix I
Proposed Form of Legal Opinion .....	Appendix II
Information to be Provided as Continuing Disclosure.....	Appendix III
Definition of Certain Terms .....	Appendix IV
Summary of Documents .....	Appendix V
Audited Financial Statements For Fiscal Year Ended May 31, 1998 .....	Appendix VI
 Proposal Forms .....	 Inserted

**THE AUTHORITY HAS AUTHORIZED SPRINGSTED INCORPORATED TO NEGOTIATE THIS ISSUE ON ITS BEHALF. PROPOSALS WILL BE RECEIVED ON THE FOLLOWING BASIS:**

**TERMS OF PROPOSAL**

**\$11,695,000**

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**

**REVENUE BONDS, SERIES FOUR-X**

**(GUSTAVUS ADOLPHUS COLLEGE)**

**(BOOK ENTRY ONLY)**

Proposals for the Series Four-X Bonds will be received by J. Luther Anderson, Executive Director, Minnesota Higher Education Facilities Authority (the "Authority") or his duly appointed representative on Wednesday, October 21, 1998, until 11:00 A.M., Central Time, at Suite 450, Galtier Plaza, 175 East Fifth Street, Saint Paul, Minnesota 55101, telephone (651) 296-4690, after which time they will be opened and tabulated. Consideration for award of the Series Four-X Bonds will be by the Executive Director of the Authority not later than 2:00 P.M., Central Time, of the same day.

**SUBMISSION OF PROPOSALS**

Proposals may be submitted in a sealed envelope or by fax (651) 223-3002 to Springsted Incorporated ("Springsted"). Signed Proposals, without final price or coupons, may be submitted to Springsted prior to the time of sale. The prospective purchaser shall be responsible for submitting to Springsted the final Proposal price and coupons, by telephone (651) 223-3000 or fax (651) 223-3002 for inclusion in the submitted Proposal. Springsted will assume no liability for the inability of the proposer to reach Springsted prior to the time of sale specified above.

**DETAILS OF THE BONDS**

The Bonds will be dated November 1, 1998, as the date of original issue, and will bear interest payable on April 1 and October 1 of each year, commencing April 1, 1999. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds will mature October 1 in the years and amounts as follows:

2000	\$245,000	2007	\$335,000	2013	\$455,000	2019	\$625,000
2001	\$255,000	2008	\$350,000	2014	\$480,000	2020	\$660,000
2002	\$270,000	2009	\$370,000	2015	\$505,000	2021	\$700,000
2003	\$280,000	2010	\$390,000	2016	\$530,000	2022	\$735,000
2004	\$290,000	2011	\$410,000	2017	\$560,000	2023	\$780,000
2005	\$305,000	2012	\$430,000	2018	\$590,000	2024	\$825,000
2006	\$320,000						

Proposals for the Bonds may contain a maturity schedule providing for a combination of serial bonds and term bonds, provided that no serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond. All term bonds shall be subject to mandatory sinking fund redemption and must conform to the maturity schedule set forth above at a price of par plus accrued interest to the date of redemption. In order to designate term bonds, the proposal must specify "Last Date of Serial Maturities" and "Dates of Term Maturities" in the spaces provided on the Proposal Form.

## BOOK ENTRY SYSTEM

The Bonds will be issued by means of a book entry system with no physical distribution of Bonds made to the public. The Bonds will be issued in fully registered form and one Bond, representing the aggregate principal amount of the Bonds maturing in each year, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in the principal amount of \$5,000 or any multiple thereof of a single maturity through book entries made on the books and records of DTC and its participants. Principal and interest are payable by the registrar to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants will be the responsibility of such participants and other nominees of beneficial owners. The purchaser, as a condition of delivery of the Bonds, will be required to deposit the Bonds with DTC.

## TRUSTEE

Norwest Bank Minnesota, National Association, Minneapolis, Minnesota will act as trustee, registrar and paying agent.

## OPTIONAL REDEMPTION

The Authority may elect on October 1, 2008, and on any day thereafter to redeem Bonds due on or after October 1, 2009. Redemption may be in whole or in part and if in part at the option of the Authority and in such manner as the Authority shall determine. If less than all Bonds of a maturity are called for redemption, the Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

The Bonds are subject to redemption in whole or in part on any date in certain events of damage, destruction, or condemnation described in a Loan Agreement between the College and the Authority and a Trust Indenture between the Authority and the Trustee, or in whole or in part on any date in the event of a Determination of Taxability as defined therein. All optional redemptions shall be at a price of par plus accrued interest.

## SECURITY AND PURPOSE

The Bonds will be special obligations of the Authority payable solely from payments made by or on behalf of the College pursuant to the Loan Agreement or from other amounts pledged thereto pursuant to the Trust Indenture. Pursuant to the Loan Agreement, Loan Repayments sufficient to pay principal, premium (if any) and interest on the Bonds when due are a general obligation of the College. **The Bonds shall not be legal or moral obligations of the State of Minnesota nor constitute a debt for which the faith and credit of the Authority, or the State of Minnesota, or the taxing powers of the State, are pledged.** The Authority has no taxing powers. The proceeds will be used, together with other funds of the College, to construct an addition to, renovate and equip the Campus Center, construct and furnish additional apartment living quarters on the campus of the College, to fund a debt service reserve and to pay certain issuance costs.



## **TYPE OF PROPOSALS**

Proposals shall be for not less than \$11,554,660 and accrued interest on the total principal amount of the Bonds. Proposals shall be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified or cashier's check or a Financial Surety Bond in the amount of \$116,950, payable to the order of the Authority. If a check is used, it must accompany such Proposal. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of Minnesota, and preapproved by the Authority. Such bond must be submitted to Springsted prior to the opening of the Proposals. The Financial Surety Bond must identify each underwriter whose Deposit is guaranteed by such Financial Surety Bond. If the Bonds are awarded to a purchaser using a Financial Surety Bond, then that purchaser is required to submit its Deposit to Springsted in the form of a certified or cashier's check or wire transfer as instructed by Springsted not later than 3:30 P.M., Central Time, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Authority to satisfy the Deposit requirement. The Authority will deposit the check of the purchaser, the amount of which will be deducted at settlement and no interest will accrue to the purchaser. In the event the purchaser fails to comply with the accepted proposal, said amount will be retained by the Authority. No proposal can be withdrawn or amended after the time set for receiving Proposals unless the Executive Director on behalf of the Authority, does not award the Bonds by 2:00 P.M., Central Time, on October 21, 1998. Rates shall be in integral multiples of 5/100 or 1/8 of 1%. Rates must be in ascending order. Bonds of the same maturity shall bear a single rate from the date of the Bonds to the date of maturity. No conditional proposals will be accepted.

## **REOFFERING OF BONDS**

The Authority represents that, prior to the award of sale of the Bonds, the Bonds will have been registered for sale at a price not greater than 105% pursuant to an Order of Registration issued by the Securities Division, Department of Commerce, State of Minnesota, pursuant to Chapter 80A, Minnesota Statutes (the "Minnesota Securities Act"). The purchaser will be required to provide a schedule of reoffering prices and yields with respect to the Bonds and shall agree not to sell any of the Bonds in Minnesota at a price or prices higher than 105% without first having obtained an amendment to the Order of Registration permitting the sale of the Bonds at such higher price or prices, provided that this provision shall not prevent the sale of Bonds at higher prices in secondary market trading to the extent permitted by the Minnesota Securities Act. Until such time as the Department enters and makes effective such an amendment to the Order of Registration, the purchaser may make an "offer" but agrees not to make a "sale" (including any contract to sell) of any Bonds to its customers, as such terms are defined in the Minnesota Securities Act, at prices greater than 105%. Without limiting the generality of the foregoing, the purchaser shall agree not to mail or deliver any confirmations to customers or request the payment of funds from customers in Minnesota with respect to any Bonds reoffered at prices greater than 105% until such time as such amendment to the Order of Registration is effective.

If the purchaser represents by letter to the Authority that it is purchasing the Bonds for investment and not with a view to redistribution thereof, the above shall not apply.

## **AWARD**

The Bonds will be awarded on the basis of the lowest interest rate to be determined on a true interest cost (TIC) basis. The Authority's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling.

The Authority reserves the right to: (i) waive non-substantive informalities of any proposal or of matters relating to the receipt of proposals and award of the Bonds, (ii) reject all proposals with or without cause and without stating any cause, and (iii) reject any proposal which the Authority determines to have failed to comply with the terms herein.

## **BOND INSURANCE AT PURCHASER'S OPTION**

If the Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the purchaser, the purchase of any such insurance policy or the issuance of any such commitment shall be at the sole option and expense of the purchaser of the Bonds. Any increased costs of issuance of the Bonds resulting from such purchase of insurance shall be paid by the purchaser, except that, if the Authority has requested and received a rating on the Bonds from a rating agency, the Authority will pay that rating fee. Any other rating agency fees shall be the responsibility of the purchaser.

Failure of the municipal bond insurer to issue the policy after Bonds have been awarded to the purchaser shall not constitute cause for failure or refusal by the purchaser to accept delivery on the Bonds.

## **CUSIP NUMBERS**

If the Bonds qualify for assignment of CUSIP numbers such numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for failure or refusal by the purchaser to accept delivery of the Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP identification numbers shall be paid by the purchaser.

## **CONTINUING DISCLOSURE**

The College and Trustee will enter into a Continuing Disclosure Agreement to provide, or cause to be provided, annual financial information, including audited financial statements of the College, and notices of certain material events, as required by SEC Rule 15c2-12.

## **SETTLEMENT**

The Bonds will be delivered on or about November 12, 1998 without cost to the purchaser at a place mutually satisfactory to the Authority and the purchaser. Delivery will be subject to receipt by the purchaser of an approving legal opinion of Faegre & Benson LLP of Minneapolis, Minnesota, and of customary closing papers, including a no-litigation certificate and a certificate pertaining to information in the Official Statement. Certain legal matters will be passed on for the College by its counsel, MacKenzie & Gustafson, St. Peter, Minnesota. On the date of settlement payment for the Bonds shall be made in federal, or equivalent, funds which shall be received at the offices of the Authority or its designee not later than 12:00 Noon, Central Time. Except as compliance with the terms of payment for the Bonds shall have been made impossible by action of the Authority or the College, or their respective agents, the purchaser shall be liable to the Authority and the College for any loss suffered by the Authority or the College by reason of the purchaser's non-compliance with said terms for payment.

## **OFFICIAL STATEMENT**

The Authority has authorized the preparation of an Official Statement containing pertinent information relative to the Bonds, and said Official Statement will serve as a nearly-final Official Statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. For copies of the Official Statement or for any additional information prior to sale, any prospective purchaser is referred to the Financial Advisor to the Authority, Springsted Incorporated, 85 East Seventh Place, Suite 100, Saint Paul, Minnesota 55101, telephone (651) 223-3000.

The Official Statement, when further supplemented by an addendum or addenda specifying the maturity dates, principal amounts and interest rates of the Bonds, together with any other

information required by law, shall constitute a "Final Official Statement" of the Authority with respect to the Bonds, as that term is defined in Rule 15c2-12. By awarding the Bonds to any underwriter or underwriting syndicate submitting a proposal therefor, the Authority agrees that, no more than seven business days after the date of such award, it shall provide without cost to the senior managing underwriter of the syndicate to which the Bonds are awarded up to 450 copies of the Official Statement and the addendum or addenda described above. The Authority designates the senior managing underwriter of the syndicate to which the Bonds are awarded as its agent for purposes of distributing copies of the Final Official Statement to each Participating Underwriter. Any underwriter delivering a proposal with respect to the Bonds agrees thereby that if its proposal is accepted by the Authority (i) it shall accept such designation and (ii) it shall enter into a contractual relationship with all Participating Underwriters of the Bonds for purposes of assuring the receipt by each such Participating Underwriter of the Final Official Statement.

Dated September 15, 1998

BY ORDER OF THE MINNESOTA HIGHER  
EDUCATION FACILITIES AUTHORITY

/s/ J. Luther Anderson  
Executive Director

## SCHEDULE OF BOND YEARS

\$11,695,000

### MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

#### REVENUE BONDS, SERIES FOUR-X

#### (GUSTAVUS ADOLPHUS COLLEGE)

<u>Year</u>	<u>Principal</u>	<u>Bond Years</u>	<u>Cumulative Bond Years</u>
2000	\$245,000	469.5833	469.5833
2001	\$255,000	743.7500	1,213.3333
2002	\$270,000	1,057.5000	2,270.8333
2003	\$280,000	1,376.6667	3,647.5000
2004	\$290,000	1,715.8333	5,363.3333
2005	\$305,000	2,109.5833	7,472.9166
2006	\$320,000	2,533.3333	10,006.2499
2007	\$335,000	2,987.0833	12,993.3332
2008	\$350,000	3,470.8333	16,464.1665
2009	\$370,000 c	4,039.1667	20,503.3332
2010	\$390,000 c	4,647.5000	25,150.8332
2011	\$410,000 c	5,295.8333	30,446.6665
2012	\$430,000 c	5,984.1667	36,430.8332
2013	\$455,000 c	6,787.0833	43,217.9165
2014	\$480,000 c	7,640.0000	50,857.9165
2015	\$505,000 c	8,542.9167	59,400.8332
2016	\$530,000 c	9,495.8333	68,896.6665
2017	\$560,000 c	10,593.3333	79,489.9998
2018	\$590,000 c	11,750.8333	91,240.8331
2019	\$625,000 c	13,072.9167	104,313.7498
2020	\$660,000 c	14,465.0000	118,778.7498
2021	\$700,000 c	16,041.6667	134,820.4165
2022	\$735,000 c	17,578.7500	152,399.1665
2023	\$780,000 c	19,435.0000	171,834.1665
2024	\$825,000 c	21,381.2500	193,215.4165

Average Maturity: 16.52 Years

Bonds Dated: November 1, 1998

Interest Due: April 1, 1999 and each April 1 and October 1 to maturity.

Principal Due: October 1, 2000-2024 inclusive.

Optional Call: Bonds maturing on or after October 1, 2009 are callable commencing October 1, 2008 and any date thereafter at par.  
(See Terms of Proposal.)

c: subject to optional call

## **OFFICIAL STATEMENT**

**\$11,695,000**

### **MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**

#### **REVENUE BONDS, SERIES FOUR-X (Gustavus Adolphus College)**

**(BOOK ENTRY ONLY)**

### **INTRODUCTORY STATEMENT**

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and the Gustavus Adolphus College (the "College"), an institution of higher education located in St. Peter, Minnesota, in connection with the issuance of the Authority's \$11,695,000 Revenue Bonds, Series Four-X (Gustavus Adolphus College) (the "Bonds" or the "Issue").

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

The Bonds are also issued pursuant to the Trust Indenture between the Authority and Norwest Bank Minnesota, National Association, Minneapolis, Minnesota, as trustee (the "Trustee").

Pursuant to a Loan Agreement between the College and the Authority, the College will covenant as a general obligation of the College to make Loan Repayments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. The proceeds of the Issue will be loaned to the College by the Authority to be used for the construction, furnishing, and equipping of a new Campus Center for dining and other student services by expanding and remodeling the existing dining service building and the construction of a 24 unit student housing facility (the "Project"), as more fully described in "THE PROJECT". The proceeds will also fund a debt service reserve and pay certain issuance costs.

The Bonds are secured by a pledge of the Loan Repayments, which are a general obligation of the College. See "SUMMARY OF SECURITY FOR THE BONDS" herein.

The Reserve Account will be funded in the amount of the lesser of the maximum annual debt service payable in any remaining Bond Year, 125% of the average annual debt service or 10% of the proceeds (par value less original issue discount according to the reoffering scale) (the "Reserve Requirement"). See "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 of the Authority or the State of Minnesota or the taxing powers of the State are pledged. The Authority has no taxing powers.**

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

## **RISK FACTORS**

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

### **Risk of Insufficient Collateral**

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

### **Construction Risks**

The College View Apartments are completed and occupied. The Campus Center portion of the Project is in the planning and construction phase. Presently, the College does not have a guaranteed maximum price contract for the Campus Center portion of the Project. It is subject to ordinary risks associated with new construction, such as risk of cost overruns, noncompletion and delays due to a variety of factors, including, among other things, site difficulties, necessary design changes or final detailing, labor strife, delays in and shortages of materials, adverse weather conditions, fire or casualty. The College does not believe that the occurrence of any such events would have a material adverse effect on the ability of the College to complete the Campus Center or to make payments on the Loan.

### **Adequacy of Revenues**

Payment of principal of and interest on the Bonds is intended to be made from Loan Repayments of the College. The College's ability to make Loan Repayments will be dependent on its ability to generate sufficient unrestricted revenues in excess of expenditures. Such revenues and expenditures are subject to many conditions and factors, some of which may be beyond the control of the College and may change in the future to an extent that cannot be presently determined.

### **Reliance on Tuition**

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

### **Financial Aid**

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

## **Damage or Destruction**

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

## **Nature of Pro Forma Debt Service Coverage**

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

## **Limited Obligation**

No entity or person other than the College is, or shall be, in any way liable or responsible for any payments to be made under the Loan Agreement, the Trust Indenture, or the Bonds or the other obligations of the College. Accordingly, for payment of principal and interest on the Bonds, holders of the Bonds must look solely to the Loan Repayments to be made by the College under the Loan Agreement and the Reserve Account.

## **Bankruptcy**

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

## **Year 2000**

Many currently installed computer systems and software products are coded to accept two digit entries in the date code field. These programs were designed and developed without considering the impact of the upcoming change in the century. Any computer programs that have time sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. If not corrected, these programs could fail or create erroneous results by or at the Year 2000.

The College has addressed the Year 2000 computer problems within its computer systems. All systems have either been up-graded or are in the process of being up-graded. The College believes it will be Year 2000 compliant prior to 2000. However, there can be no assurance that unforeseen problems will not occur in the future.

In addition, the College does business with significant entities which themselves may have Year 2000 problems. The College can make no evaluation of the extent of the Year 2000 problem for these entities or the actions they are taking to correct them. There can be no assurance that the Year 2000 problem with respect to entities with which the College does business will not have a material adverse effect on, or a significant cost to, the College.

## **Other Possible Risk Factors**

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

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

## **CONTINUING DISCLOSURE**

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the College will enter into an undertaking (the "Undertaking") with the Trustee for the benefit of beneficial owners of the Bonds to provide certain financial information and operating data relating to the College to certain information repositories annually, and to provide notices of the occurrence of the eleven events enumerated in the Rule to such repositories or the Municipal Securities Rulemaking Board and to the Minnesota state information depository, if any. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Agreement to be executed by the College at the time the Bonds are delivered, a copy of which is available from the College or the Trustee. Appendix III contains a summary of the financial information and operating data to be provided annually, as well as the list of material events. The Continuing Disclosure Agreement may be amended under certain circumstances as permitted by the Rule. Furthermore, the College has reserved its right to discontinue providing information required by the Continuing Disclosure Agreement or the Rule, if a final determination is made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful, and to modify the terms of the Continuing Disclosure Agreement if a court of competent jurisdiction or the College determines that such modification is required by the Rule. The College has never failed to comply in any material respect with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the College to comply with the Undertaking will not constitute an event of default on the Bonds (although holders will have other remedies at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by the College pursuant to the Undertaking, may adversely affect the transferability and liquidity of the Bonds and their market price.



## THE BONDS

The Bonds are issued in book entry form. The Bonds are dated November 1, 1998 and will mature annually as set forth on the cover of this Official Statement. Interest will be payable to the holder (initially Cede & Co.) registered on the books of the trustee as of the fifteenth day of the calendar month next preceding such interest payment date. Principal of and interest on the Bonds will be paid as described in the section herein entitled "Book Entry System."

### Book Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered security certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc.; the American Stock Exchange, Inc.; and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

## **Prior Redemption**

### **Optional Redemption**

The Authority may elect on October 1, 2008, and on any day thereafter to redeem Bonds due on or after October 1, 2009. Redemption may be in whole or in part and if in part at the option of the Authority and in such manner as the Authority shall determine. All prepayments shall be at a price of par plus accrued interest.

The Bonds will also be subject to optional redemption in whole or in part on any date, in integral multiples of \$5,000, at par and accrued interest in certain cases of damage to or destruction or condemnation of the Project Facilities, as provided in the Loan Agreement (see "SUMMARY OF DOCUMENTS - The Loan Agreement").

### Partial Redemption

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

In the case of Bonds of denominations greater than \$5,000, if less than all of such Bonds then outstanding are to be called for redemption, then for all purposes in connection with redemption, each \$5,000 of principal amount shall be treated as though it was a separate Bond of the denomination of \$5,000 bearing the number borne by such fully registered Bond and a subnumber assigned by the Trustee. If it is determined that one or more, but not all of the \$5,000 units of principal amount represented by any such Bond is to be called for redemption, then upon notice of intention to redeem such \$5,000 unit or units, the Owner of such fully registered Bond shall forthwith surrender such Bond to the Trustee for (1) payment of the redemption price of the \$5,000 unit or units of principal amount called for redemption and (2) exchange for a new Bond or Bonds of the aggregate principal amount of the unredeemed balance of the principal amount of such Bond which shall be issued to the registered Owner thereof, without charge therefor. If the Owner of any such Bond of a denomination greater than \$5,000 shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall nevertheless become due and payable on the date fixed for redemption to the extent of the \$5,000 unit or units of principal amount called for redemption (and to that extent only). Interest shall cease to accrue on the portion of the principal amount of such Bond represented by such \$5,000 unit or units of principal amount on and after the date fixed for redemption provided that funds sufficient for payment of the redemption price shall have been deposited with the Trustee and shall be available for the redemption of said \$5,000 unit or units on the date fixed for redemption, and in such event, such Bond shall not be entitled to the benefit or security of the Indenture or the Loan Agreement to the extent of the portion of its principal amount (and accrued interest to the date fixed for redemption and applicable premium, if any) represented by such \$5,000 unit or units of principal amount, nor shall new Bonds be thereafter issued corresponding to said unit or units.

### Notice of Redemption

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

### Determination of Taxability

If a Determination of Taxability is made that the interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of issuance, the Bonds shall bear additional interest equal to two percent (2.00%) per annum above the basic interest rate from the Date of Taxability effective until the respective dates on which the principal of the Bonds is paid.

The Bonds shall also be subject to optional redemption in whole or in part on the next date for which due notice can be given and any date thereafter at a price of par and accrued interest without premium. See "TAX EXEMPTION" on pages 17 through 18 and Appendix IV, "DEFINITION OF CERTAIN TERMS."

**If a determination of taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the additional interest on the Bonds.**

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

### **Additional Bonds**

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

1. The exclusion of interest on the outstanding Bonds from gross income of the holders of the Bonds for purposes of federal income taxation under the Code shall not be jeopardized by the issuance of the Additional Bonds.
2. Supplements to the Loan Agreement and the Indenture are executed and delivered describing the Additional Bonds as additional indebtedness secured thereby.
3. No Default or Event of Default on the part of the College exists under the Loan Agreement.
4. The College furnishes evidence satisfactory to the Authority of the College's ability to meet debt service on the Additional Bonds and comply with certain financial covenants as further provided in Section 6.14 of the Loan Agreement and deposits additional monies or investments in the Reserve Account, to be held by the Trustee under the Indenture in such amount and value as shall bring the amount on deposit in the Reserve Account to the Reserve Requirement, calculated after giving effect to the issuance of the Additional Bonds.

### **ESTIMATED SOURCES AND USES OF FUNDS**

Sources of Funds	
Series Four-X Bond Principal	\$11,695,000
College Funds	<u>11,900,000</u>
Total Sources	<u>\$23,595,000</u>
Uses of Funds	
Campus Center	\$18,600,000
Collegeview Apartments	3,900,000
Underwriter's Discount Allowance	140,340
Costs of Issuance	83,872
Reserve Account	<u>870,788</u>
Total Uses	<u>\$23,595,000</u>

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

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

## **THE PROJECT**

Net proceeds of the Bonds will finance the construction, furnishing and equipping of the expansion and remodeling of the College's Campus Center and the construction of the 96-bed College View Apartments for student housing.

The construction of the Campus Center, which will add approximately 51,200 square feet to the building, is underway and is expected to be completed by September 1, 1999. After completion of the expansion, the College will begin renovation and remodeling of the existing dining service building, consisting of approximately 55,000 square feet, which is expected to be completed in February, 2000. The College is constructing and remodeling the Campus Center as a design/build project. Therefore, not all construction bids have been taken. The entire Campus Center project will cost approximately \$18.6 million.

The College View Apartments were completed in time for the 1998 fall term. The cost of the apartment building was approximately \$3.9 million. The College will reimburse itself for this cost from proceeds of the Bonds.

## **SUMMARY OF SECURITY FOR THE BONDS**

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

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

The College covenants and agrees to charge tuition fees, other fees, rentals and charges which, together with the general funds or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement; to meet current operation and maintenance expenses of the Project Facilities; and to pay all other obligations of the College as they become due.

The College will also covenant that so long as the Bonds shall remain outstanding:

- a. For at least two of the preceding three complete Fiscal Years, the Revenue/Expenditure Test must be met.
- b. At May 31, 1998 and at the end of each Fiscal Year thereafter, the Net Assets - Unrestricted, as reported in the College's audited financial report, shall be not less than \$1,500,000. Within 120 days after the end of each Fiscal Year, the College shall furnish to the Trustee a certificate of an Authorized Institution Representative showing the Net Assets - Unrestricted, and the amount thereof (if any), which is pledged to secure obligations of the College, or is otherwise encumbered, all as of the end of the Fiscal Year. If at the end of any Fiscal Year, the Net Assets - Unrestricted does not equal or exceed \$1,500,000, the College shall obtain (from gifts, removal of encumbrance or restriction, sale of tangible property or otherwise) and cause to be credited to Net Assets - Unrestricted additional unencumbered moneys or investments at least equal to the amount of the deficiency as promptly as possible, but in any event within 180 days after the close of the Fiscal Year, and shall report the same to the Trustee, but proceeds of borrowed funds or from the sale of tangible property leased back by the College for a term of more than two years or with a repurchase option shall not be included in computation of amounts eligible to cure the deficiency.
- c. The College shall incur no Funded Debt with a maturity in excess of two years (except for a refunding or refinancing of Funded Debt which does not increase the amount of the Maximum Annual Debt Service and further excepting indebtedness for capital projects for which the College has secured funds on hand or written and signed pledges of gifts in an amount equal to 80% of the estimated cost of such project), unless the average Debt Service Coverage Ratio for the last two Fiscal Years for which audited financial statements are available was at least 110% of Maximum Annual Debt Service of (A) then Outstanding Funded Debt and (B) Funded Debt thereafter incurred or proposed to be incurred; provided that if the additional Funded Debt proposed to be incurred is to finance student housing, student dining, student union or other revenue producing facilities, there shall be added to the amount of Net Income Available for Debt Service for the most recent complete Fiscal Year, for purposes of this paragraph, the estimated amount of Net Income Available for Debt Service to be derived from such facility in the first Fiscal Year following the estimated date of completion of such facility as estimated in a report of an independent management consultant to the College and the Trustee; and provided further that if the additional Funded Debt proposed to be incurred is to finance other College facilities and if the Board of Trustees has increased tuition, student fees or other rates or charges at or after the end of such Fiscal Year, for purposes of this paragraph, there shall be added to Net Income Available for Debt Service for the two most recent complete Fiscal Years the amount of increase net of increased operating expenses, as estimated in a report of an independent management consultant to the College and the Trustee.

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

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

"Debt Service Coverage Ratio" means for any particular period, the ratio (expressed as a percentage) determined by dividing Net Income Available for Debt Service during the period by the total amount of principal of and interest on Funded Debt during the period.

"Funded Debt" means indebtedness for borrowed money having a maturity date of more than one year from the date of creation thereof and which, under generally accepted accounting principles, is shown on the balance sheet as a liability, including obligations whenever payable if renewable pursuant to the terms thereof or of a revolving loan agreement for a period of more than one year from the date of creation thereof and including lease rental obligations which, under generally accepted accounting principles, are shown on the balance sheet as a liability, but excluding lease rental obligations which were not shown on the balance sheet as a liability in the College audited financial statements for any fiscal year prior to May 31, 1998.

"Maximum Annual Debt Service" means the largest total amount of principal of and interest on Funded Debt payable by the College in any future Fiscal Year during which Bonds will (if paid at their stated maturity dates or redeemed in accordance with a mandatory sinking fund schedule) be outstanding subject to the following: (i) If any part of the Funded Debt is outstanding variable rate indebtedness, the rate of interest on the variable rate indebtedness for future Fiscal Years shall be computed at the average rate of interest for the then most recent Fiscal Year or, at the election of the College, for the then current interest period; if variable rate indebtedness is proposed to be issued, the rate of interest shall be the initial variable rate as estimated by an independent management consultant, or an investment banking firm selected by the College to underwrite the sale of such variable rate indebtedness. (ii) If any part of the Funded Debt outstanding or to be issued is a guarantee by the College of indebtedness of a third person or so-called "pass-through" or "covered" indebtedness (the College having borrowed money to relend to a third person), such Funded Debt shall be excluded if the third person (whose debt is guaranteed or whose payments are expected to service the College's obligations with respect to such Funded Debt) had a Debt Service Coverage Ratio (including the amount of debt proposed to be incurred in the computation of debt service) of at least 110%. (iii) The amount of debt service with respect to "balloon indebtedness" may, at the option of the College be calculated on a level debt service basis over the period ending the Fiscal Year when the balloon is payable; as used herein, "balloon indebtedness" means Funded Debt 25% or more of the principal of which is due in any 12 month period. (iv) The amount of debt service with respect to "put" indebtedness shall be calculated at the maximum amount of principal of or interest on such indebtedness which the College may be required to purchase or redeem in any Fiscal Year; provided that if there is a written commitment from a bank or other financial institution to refinance the amount of any indebtedness which the College may be required to redeem or purchase, the debt service with respect to such put indebtedness may, at the option of the College, be calculated on the basis of the repayment schedule contemplated by such written commitment, commencing the date such commitment will (unless renewed) expire; "put" indebtedness means Funded Debt (A) which the College may be required, at the option of the holder thereof, to prepay or purchase prior to the stated maturity date thereof, in whole or in part, but if in part, in an amount 25% or more of the original principal amount thereof and (B), if subject to variable rates, is then in an interest rate reset period of more than two years. (v) There shall not be taken into account any part of the Funded Debt of the College which has been refunded, refinanced or otherwise defeased under an arrangement whereby all future payments of such indebtedness will be met from monies and investments held by an indenture trustee or escrow agent, provided that any such investments shall be direct obligations of or obligations fully guaranteed by the United States of America. (vi) If any part of such Funded Debt consists of crossover refunding debt, no part of the debt service with respect to such crossover refunding debt shall be taken into account prior to the crossover date, and after the crossover date, no part of the debt service of the refunded debt shall be taken into account. (vii) If any part of such Funded Debt is "nonrecourse" indebtedness or "subordinated" indebtedness, no part of the debt service with respect thereto shall be taken into account; "nonrecourse" indebtedness means indebtedness payable only from a limited fund and secured only by property purchased or acquired from the proceeds of such indebtedness;

"subordinated" indebtedness means indebtedness the principal and interest on which are subordinated to payment of the Bonds by a written instrument of the holder, a copy of which is filed with the Trustee. (viii) The amount of any reserve fund for any Funded Debt issued or proposed to be issued may be deducted from debt service for the Fiscal Year or Years in which such Funded Debt finally matures and for payment of which the reserve fund moneys may be used without creating a default.

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

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

For purposes of (a), (b) and (c) above, all capitalized terms used but not otherwise defined in the Loan Agreement shall have the meanings provided for audits of colleges and universities, as applied by the College's auditors in the report of the College's financial statements.

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

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

## **ACCOUNTS**

### **Summary**

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

### **Construction Account**

There shall be deposited initially into the Construction Account all proceeds of the Bonds, except as otherwise required to be deposited into the Bond and Interest Sinking Fund Account, and the Reserve Account. In addition to such proceeds of the Bonds, by the Loan Agreement, the College has covenanted that it will provide and apply additional funds, if any, which, together with Bond proceeds, will be sufficient to provide for the payment of all Project Costs and all other costs relating to the Project. The Authority shall have no obligation to deposit any moneys in said Construction Account or apply moneys to Project Costs except proceeds of the Bonds or funds made available therefor by the College.



The moneys in the Construction Account shall be held in trust by the Trustee and applied to the payment and reimbursement of Project Costs and pending such application shall be subject to a lien and charge in favor of the Holders of the Bonds and shall be held for the further security of such Holders until paid out.

Payments may be made from the Construction Account for costs of improvement, acquisition, construction and equipping of the Project ("Project Costs"), provided, however, that proceeds of the Bonds may not be applied to the costs of issuance thereof (including underwriting discount) in an amount in excess of two percent of the proceeds (par value less original issue discount according to the reoffering scale) of the Bonds.

Project Costs shall be paid only upon written order of the Authorized Institution Representative provided that interest accruing on the Bonds during the Construction Period may be paid from the Construction Account.

### **Bond and Interest Sinking Fund Account**

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

### **Reserve Account**

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

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

allowed for a reasonably required reserve fund under the Arbitrage Regulations) such deficiency shall be restored to an amount equal to the amount of the Reserve Requirement within not less than 30 days.

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

### **Redemption Account**

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

### **General Bond Reserve Account**

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

### **Authorized Investments**

Moneys on deposit to the credit of the Construction Account, Bond and Interest Sinking Fund Account, the Reserve Account, and the Redemption Account shall be invested by the Trustee only in investments as authorized by law from time to time which currently and generally are as follows: Direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states and local governments, rated at least "AA" or "Aa"; revenue bond obligations of states and local governments insured by municipal bond insurance and rated "AAA" or "Aaa"; mutual funds or unit trusts which invest solely in the foregoing obligations of the United States Government, its agencies, state and local governments; time deposits and other accounts fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least "A"; certain types of repurchase agreements; and certain commercial paper maturing in 270 days or less. Section 5.04 of the Indenture sets forth further restrictions as to type and maturity of investments.

## THE AUTHORITY

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

J. Luther Anderson has been the Executive Director of the Authority since June 30, 1995. Mr. Anderson was formerly a Senior Vice President with Springsted Incorporated.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$500 million. The Authority has had 112 issues (including refunded and retired issues) totaling \$693,981,189 of which \$397,087,513 (excluding the Bonds) is outstanding as of October 1, 1998. No additional bonds are authorized but unissued as of that date. Bonds issued by the Authority are payable only from the rentals, revenues and other income, charges and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota.

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

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

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

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

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

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

## **FINANCIAL ADVISOR**

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

## **RATING**

An application for a rating of the Bonds has been made to Moody's Investors Service ("Moody's"), 99 Church Street, New York, New York. If a rating is assigned, it will reflect only the opinion of Moody's. Any explanation of the significance of the rating may be obtained only from Moody's.

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of Moody's, circumstances so warrant. A revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **LITIGATION**

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

## **LEGALITY**

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

Certain legal matters will be passed upon for the College by MacKenzie & Gustafson, Ltd., of St. Peter, Minnesota.

## TAX EXEMPTION

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

The Loan Agreement and Indenture contain provisions (the "Tax Covenants") including covenants of the Authority and the College, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph. If a Determination of Taxability occurs, however, whether or not as a result of violation of any of the Tax Covenants, the outstanding Bonds are subject to additional interest and optional redemption without premium. (See "THE LOAN AGREEMENT—Determination of Taxability" in Appendix V). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

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

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

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

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

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

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

#### **NOT QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

## THE COLLEGE

Gustavus Adolphus College is a four-year, co-educational, liberal arts college located in St. Peter, Minnesota. The College was founded originally in 1862 as the Minnesota Preparatory School in Red Wing, Minnesota. After one year, it was named St. Ansgar's Academy and moved to East Union, Minnesota. In 1876, the institution was moved to St. Peter where it was named Gustavus Adolphus College to honor the Swedish King who defended Protestantism during the Thirty Years War. The College is affiliated with the Evangelical Lutheran Church in America.

The College is accredited by the North Central Association of Colleges and Secondary Schools as well as by appropriate professional organizations. The College is also registered with Minnesota Higher Education Services Office.

### Governance

The College is governed by a Board of Trustees who serve three-year terms. The current Board has 35 members.

#### Board of Trustees

Clyde E. Allen	Retired Businessman, Bloomington, Minnesota
Mark L. Anderson	Senior Pastor, First Lutheran Church, Brainerd, Minnesota
Warren Beck	President, Gabbert and Beck, Edina, Minnesota
Philip F. Boelter	Attorney, Dorsey & Whitney, Minneapolis, Minnesota
Thomas R. Bolling	President and CEO, Overland Bolling Company, Franklin Park, Illinois
Nancy L.H. Brown	Associate Pastor, Grace Lutheran Church, Apple Valley, Minnesota
Mari A. Carlson	Director of Development and Stewardship Consultant, Mount Olivet Lutheran Church, Minneapolis, Minnesota
Roger W. Carlson	Retired Businessman, Minnetonka, Minnesota
Ogden W. Confer	Retired Businessman, Mankato, Minnesota
Charles G. Cunningham	Retired Businessman, Mendota Heights, Minnesota
Mark Dumke	Pastor, Faith Lutheran Church, Winona, Minnesota
Stephen S. Eckman	Attorney/President, Eckman, Strandness & Egan, P.A., Minneapolis, Minnesota
Jann Eichlersmith	Attorney, Leonard, Street and Deinard, Minneapolis, Minnesota
Bruce W. Engelsma	CEO and Chairman of the Board, Kraus-Anderson Companies, Minneapolis, Minnesota

Dwight Holcombe	Retired Businessman, Elk River, Minnesota
Arland Hultgren	Professor, Luther Northwestern Theological Seminary, St. Paul, Minnesota
C. Charles Jackson	Retired Businessman, Minnetonka, Minnesota
Dwight Jaeger	Retired Orthopedic Surgeon, Sartell, Minnesota
Talmadge E. King, Jr.	Chief, Medical Services, San Francisco General Hospital, Professor and Vice Chairman, Department of Medicine, University of California, San Francisco, San Francisco, California
Ron Koch	Interim Pastor, Gloria Dei Lutheran Church, Redwood Falls, Minnesota
Paul R. Kuehn	President, Miller, Johnson & Kuehn, Minneapolis, Minnesota
Judith Kaeding Larsen	Vice President, AC Nielsen, Schaumburg, Illinois
David F. Lindblom	Retired Pastor, Excelsior, Minnesota
Steve Linder	President, Lakeland Broadcasting Company, Willmar, Minnesota
Russell V. Michaletz	Partner, Arthur Anderson LLP, Minneapolis, Minnesota
Stanley N. Olson	Bishop, Southwestern Minnesota Synod, ELCA, Redwood Falls, Minnesota
Ruth A. Reister	President, The Groveland Corporation, Minneapolis, Minnesota
Florence Sponberg	Professor Emeritus, Minnesota State University, Mankato, North Mankato, Minnesota
Axel D. Steuer	President, Gustavus Adolphus College, St. Peter, Minnesota
David R. Strand	President, Medica Health Plans and System Vice President, Market and Network Management, Allina Health System, Minneapolis, Minnesota
David E. Swenson	Pastor, Good Shepherd Lutheran Church, Madison, Wisconsin
Gretchen Taylor	Homemaker, Mankato, Minnesota
George B. Torrey	Retired Businessman, Cold Spring, Minnesota
Cathy Waldhauser	Vice President, Actuarial, LifeUSA Insurance Company, Minneapolis, Minnesota
Anita J.T. Young	Vice President of Operations Administration, Lutheran Brotherhood, Minneapolis, Minnesota



## **President**

Dr. Axel D. Steuer has served as President of Gustavus Adolphus College since 1991. Dr. Steuer received his bachelor's degree in philosophy and psychology from Occidental College in 1965. After completing a master's degree in philosophy at Harvard University, a divinity degree at Harvard Divinity School, and a doctorate in religious thought at the University of Pennsylvania, President Steuer taught at Haverford College, Princeton University and Swarthmore College before returning to Occidental College in 1976 as a faculty member.

He served as Chair of the Department of Religious Studies for six years and also as Associate Dean of Faculty and Director of Graduate Studies at Occidental. Before coming to Gustavus Adolphus College, Dr. Steuer served as the executive assistant to the president at Occidental College from 1987 to 1991.

## **Academic Information**

The College offers the Bachelor of Arts degree through 25 academic departments, plus a variety of inter-departmental majors.

The College welcomes applications from students from differing ethnic, religious, racial, economic, and geographic backgrounds. Applications for admission are considered by the Admissions Committee on the basis of course selection and achievement in secondary school, aptitude test scores, letters of reference, and, whenever possible, personal interviews by admissions counselors. Consideration is given to personal objectives, character, and maturity; but, the primary factor influencing the admissions decision is academic achievement. The average high school class rank of students currently enrolled at the College is in the 88th percentile. The average ACT composite score is 26, and the average SAT combined score is 1220.

Gustavus Adolphus College follows the four-one-four academic calendar of two, 14-week semesters during the academic year, separated by a one-month interim term in January.

## **Campus and Buildings**

The campus consists of 340 acres overlooking St. Peter and the Minnesota River Valley. College facilities consist of 27 main campus buildings, including ten residence halls. The total insured value of the College buildings is approximately \$175,000,000.

The residence halls capacity is approximately 2,000 students and currently house 1,930 students or approximately 80% of the student body. Students are required to live in campus housing unless granted permission to live off-campus.

The oldest building is Old Main, which was built in 1876 as the original College building. During the 1990's additions to the campus facilities included Confer Hall, Olin Hall, and the Swanson Tennis Center. Confer Hall was constructed in 1991 and has 21,120 square feet. It is principally a classroom building, but also houses academic offices for various language departments. Olin Hall was also constructed in 1991. Olin Hall houses math and computer science, physics, and academic computing departments and has 64,259 square feet of classrooms, laboratories, and academic offices. The Swanson Tennis Center is a recreation facility containing 53,222 square feet and was constructed in 1992.

In 1995, the College began a three-year renovation and expansion of the Nobel Hall of Science. The expansion added 10,504 square feet to the building, bringing its total to 93,597. The 1995 phase included replacement of the rooftop greenhouse and renovation of some classroom and

laboratory space. The 1996 phase included the building expansion, and the 1997 phase renovated more classroom and laboratory space. The building houses the biology, chemistry, geology, and geography departments.

In addition to the 96-bed College View Apartments being financed with the Bonds, the College recently purchased two apartment buildings for student housing. The Arbor View Apartments were purchased for approximately \$1.5 million with unrestricted College cash and accommodate 64 students.

### **March 29, 1998 Storm Damage**

On March 29, 1998, tornadoes struck the College campus and the City of St. Peter. The storm struck during the College's spring break and no students were injured. All 59 campus buildings were affected by the storm and all were repaired or replaced in time for the 1998 fall term. Ninety percent of the College's 2,000 trees were destroyed but more than 800 mature trees have been planted so far to replace them. The total insurable storm damage is estimated at \$45-50 million. Non-insurable storm-related costs to the College are negligible.

### **Student Body**

The College's head count enrollment and full-time equivalent (FTE) enrollment, actual and projected, are:

<u>Fiscal Year</u>	<u>Head Count (Actual)</u>	<u>FTE (Actual)</u>	<u>Fiscal Year</u>	<u>Head Count (Projected)</u>	<u>FTE (Projected)</u>
1994-95	2,362	2,347	1999-00	2,450	2,425
1995-96	2,398	2,379	2000-01	2,450	2,425
1996-97	2,431	2,399	2001-02	2,450	2,425
1997-98	2,418	2,366	2002-03	2,450	2,425
1998-99	2,528	2,500	2003-04	2,450	2,425

Approximately 78% of the students of the 1998/99 first year class at the College are from Minnesota. A total of 43 states are represented.

### **Applications, Acceptances and Enrollments**

Applications, acceptances, and enrollments for first-year students for the past five academic years are as follows:

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Applications	1,709	1,828	1,801	1,889	1,895
Acceptances	1,385	1,439	1,484	1,562	1,556
Percent Accepted	81.0%	78.7%	82.4%	82.6%	82.1%
Enrolled	634	604	638	634	700
Percent Enrolled to Accepted	45.8%	42.0%	40.0%	40.6%	45.0%

Applications, acceptances and enrollments for the 1998-99 academic year are not available.

## Graduation Rate for First Year Students Graduating in Four Years

<u>Entering Year</u>	<u>4-year Graduation rate</u>
1990	74.3%
1991	74.3
1992	74.8
1993	76.7
1994	76.0

## Student Retention

For the past five academic years, the College has experienced the following overall retention rates. These percentages represent the combined percentages of first year, second year and third year students re-enrolled from one fall semester to the next fall semester.

Fall 1993 to Fall 1994:	91.9%
Fall 1994 to Fall 1995:	91.7%
Fall 1995 to Fall 1996:	92.6%
Fall 1996 to Fall 1997:	92.4%
Fall 1997 to Fall 1998:	93.7%

Retention from first year to second year for the past five years has been:

Fall 1993 to Fall 1994:	88.0%
Fall 1994 to Fall 1995:	91.0%
Fall 1995 to Fall 1996:	90.6%
Fall 1996 to Fall 1997:	90.7%
Fall 1997 to Fall 1998:	92.5%

## Tuition and Fees

The College meets the costs of its educational programs primarily through tuition and fees. The following table lists the fees charged full-time students for the past four academic years and as adopted by the Board of Trustees for the 1998-99 academic year.

	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
Tuition for First Year Student	\$14,125	\$14,760	\$15,350	\$15,940	\$16,560
Room and Board*	3,600	3,760	3,900	4,010	4,150
Fees	<u>70</u>	<u>80</u>	<u>180</u>	<u>180</u>	<u>180</u>
Total	<u>\$17,795</u>	<u>\$18,600</u>	<u>\$19,430</u>	<u>\$20,130</u>	<u>\$20,890</u>

\* Average room charges; may be more or less depending on residence hall and number of students per room.

Certain other fees may be charged depending on the course of study.

As part of the insurance settlement for the storm damage on March 29, 1998, the College was able to pass through to graduating seniors and returning students a \$3,000 tuition credit. The cost of the tuition credit is approximately \$6.6 million. Since it was funded from insurance proceeds, it has had no impact on the College's financial position.

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

	<u>Tuition</u>	<u>Room and Board</u>	<u>Total</u>
Carleton College	\$21,885	\$4,440	\$26,325
Macalester College	18,758	5,430	24,188
St. Olaf College	16,500	4,020	20,520
<b>Gustavus Adolphus College</b>	<b>16,170</b>	<b>4,010</b>	<b>20,180</b>
Mpls. College of Art & Design	15,808	4,075	19,883
College of St. Benedict	14,758	4,705	19,463
University of St. Thomas	14,660	4,769	19,429
St. John's University	14,758	4,574	19,332
Augsburg College	13,996	4,986	18,982
Bethel College	13,840	4,950	18,790
College of St. Catherine	14,258	4,430	18,688
College of St. Scholastica	13,995	3,957	17,952
St. Mary's University	12,495	4,120	16,615
Concordia University (St. Paul)	11,980	4,500	16,480
Concordia College (Moorhead)	12,145	3,525	15,670
<b>Average</b>	<b>\$15,054</b>	<b>\$4,456</b>	<b>\$19,509</b>

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

*Source: Minnesota Private College Council.*

## Financial Assistance

Approximately 84% of the student body annually receives some form of financial assistance. The following table is a five-year summary of financial assistance received from both College and non-College sources.

	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>
Grants/ Scholarships:					
Federal	\$ 919,632	\$ 922,919	\$ 880,594	\$ 851,056	\$ 874,170
State	2,716,612	2,643,968	2,484,382	2,435,068	2,311,751
College	6,453,366	7,860,003	8,968,064	10,034,693	10,848,311
Private	<u>827,203</u>	<u>952,608</u>	<u>1,029,613</u>	<u>1,165,186</u>	<u>1,250,000</u>
<b>Total</b>	<b>\$10,916,813</b>	<b>\$12,379,498</b>	<b>\$13,362,653</b>	<b>\$14,486,003</b>	<b>\$15,284,232</b>
Loans	\$ 5,000,156	\$ 5,595,741	\$ 5,205,102	\$ 5,576,268	\$ 5,381,418
Work-Study	<u>1,533,233</u>	<u>1,585,198</u>	<u>1,563,715</u>	<u>1,570,216</u>	<u>1,656,694</u>
<b>Grand Total</b>	<b><u>\$17,450,202</u></b>	<b><u>\$19,560,437</u></b>	<b><u>\$20,307,786</u></b>	<b><u>\$21,632,487</u></b>	<b><u>\$22,322,344</u></b>
No. of Students					
Receiving Assistance	1,851	1,933	2,005	2,066	2,071

No assurance can be given that federal and State student financial assistance will continue to be funded at current levels.

## Faculty and Staff

The College employs 188 full-time and 65 part-time faculty. Average salaries by full-time faculty rank are:

<u>Rank</u>	<u>Number</u>	<u>Average Salary</u>	<u>Percent Tenured</u>
Professor	55	\$52,384	98%
Associate Professor	59	43,153	95
Assistant Professor	37	36,499	0
Instructor	13	31,403	0

## Pension Plans

The College has certain contributory defined contribution pension plans for academic and non-academic personnel. Contributions for employees are determined on a percentage of annual salary. The cost of the retirement plans is paid currently and amounted to approximately \$1,147,000 for the year ended May 31, 1998. The College also provides health insurance coverage for retired employees. The cost of this coverage for the year was approximately \$39,000.

Financial Accounting Standards Board Statement No. 106, *Accounting for post-retirement Benefits Other than Pensions*, requires recording the present value of such obligations. The College adopted Statement 106 in its fiscal year ending May 31, 1996. The College estimates the present value of post-retirement health benefits as the plan currently exists to approximate \$804,000 as of May 31, 1998.

## Capital Campaign

The College engaged in a \$32.5 million capital campaign which was officially announced on April 29, 1995 and completed in May 1997 in the amount of \$33.2 million. The College is currently in the quiet phase of a new capital campaign.

## Endowment Funds

Following is a three-year history of the ending fund balances of the College's Endowment Investments at market value.

<u>Year Ended May 31</u>	<u>Endowment Fund</u>
1998	\$68,324,776
1997	57,067,132
1996	49,093,738

## Gifts, Grants and Contracts

Gifts and grants revenues received from federal, State and private sources for the past five years have been:

<u>Year Ended May 31*</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
1998	\$2,657,331	\$4,717,186	\$3,783,625
1997	2,733,818	2,201,626	3,344,767
1996	2,697,444	2,441,562	5,825,506

\* Beginning in Fiscal Year 1996, the reporting for private gifts and grants was changed due to FASB requirements. See discussion below.

<u>Year Ended May 31</u>	<u>Current Unrestricted Fund</u>	<u>Current Restricted Funds</u>	<u>Endowment Funds</u>	<u>Deferred Gift Funds</u>	<u>Plant Funds</u>
1995	\$1,204,197	\$2,537,341	\$1,589,593	\$1,507,740	\$ 684,208
1994	1,431,317	3,034,234	3,256,712	558,620	583,052

## Presentation of Financial Statements

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

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

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

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

Appendix VI sets forth the financial statements of the College for the years ended May 31, 1998 and 1997, audited by Virchow, Krause & Company, LLP, Certified Public Accountants, Minneapolis, Minnesota and prepared in accordance with SFAS #116 and SFAS #117. The firm has not participated in the preparation of this Official Statement and expresses no opinion on its contents.

## **Summaries of Current Funds Revenues, Expenditures and Transfers**

The table on page I-10 sets forth summaries of revenues, expenditures and other changes for the College's Unrestricted Current Fund for the Fiscal Years ended May 31, 1994 and 1995. The table on page I-11 sets forth the College's statements of unrestricted activities for Fiscal Years ended May 31, 1996 through 1998.

(The Balance of This Page Has Been Intentionally Left Blank)

**Gustavus Adolphus College  
Summary of Current Fund Revenues,  
Expenditures and Other Changes**

**For the Years Ended May 31**

	1994	1995	1996	1997	1998
<b>REVENUES</b>					
Tuition & Fees	\$28,818,390	\$30,995,157			
Government Grants	154,133	133,889			
Private Gifts and Grants	1,431,317	1,204,197			
Endowment Income	385,948	376,994			
Sales of Educ. Services	25,000	47,113			
Other Sources	900,516	1,109,477			
Total Revenues Before Auxiliary Enterprises	\$31,715,304	\$33,866,827			
Auxiliary Enterprises	9,022,798	9,388,359			
<b>TOTAL REVENUES</b>	<b>\$40,738,102</b>	<b>\$43,255,186</b>			
<b>EXPENDITURES AND MANDATORY TRANSFERS</b>					
Educational and General			See  "Statement  of  Unrestricted Activities"		
Instruction	\$12,661,838	\$13,632,309			
Public Service	272,590	347,501			
academic Support	1,337,158	1,400,095			
Student Services	3,325,401	3,404,176			
Institutional Support	3,952,967	4,727,027			
Operation and Maintenance	3,210,253	3,142,457			
Scholarships and Grants	5,995,954	6,705,153			
Educational and General Expenditures	\$30,756,161	\$33,358,718			
Mandatory Transfers for					
Principal and Interest	787,978	853,703			
Pooled Life Income Fund	399,493	430,532			
Loan Fund Matching Grants	17,627	44,140			
Total Education and General	\$31,961,259	\$34,687,093			
Auxiliary Expenses					
Expenditures	7,313,353	7,074,884			
Mandatory Transfers for					
Principal and Interest	0	0			
Pooled Life Income Fund	72,418	72,418			
Total Auxiliary Enterprises	\$7,385,771	\$7,147,302			
<b>TOTAL EXPENDITURES AND MANDATORY TRANSFERS</b>	<b>39,347,030</b>	<b>41,834,395</b>			
Excess of Revenues over Expen- ditures and Mandatory Transfers	\$1,391,072	\$1,420,791			
Other Transfers & Additions (Deductions)					
Endowment Funds	(\$450,152)	(\$362,535)			
Deferred Gift Funds	(25,000)	(25,000)			
Unexpended Plant Fund	(915,920)	(1,033,256)			
Other	0	0			
Net Increase (Decrease) in Fund Balance	\$0	\$0			

Source: College's Audited Financial Statements



**Gustavus Adolphus College  
Statement of Unrestricted Activities**

**For the Years Ended May 31**

	1994	1995	1996	1997	1998
<b>REVENUE:</b>					
Tuition & Fees			\$33,263,791	\$35,497,733	\$36,800,722
Less: Student aid and scholarship			9,434,270	10,346,945	11,502,337
Net tuition and fees			23,829,521	25,150,788	25,298,385
Government grants			1,339,276	1,474,908	1,196,813
Private gifts and grants			1,358,168	1,258,910	1,460,518
Endowment income			457,042	527,014	562,304
Investment income				495,794	628,627
Gains on investments			1,651,663	266,424	2,053,095
Sales and services of educational activities			25,040	37,180	62,881
Other sources			1,319,543	768,454	765,230
Sales and service of auxiliary enterprises			10,125,141	10,412,591	11,005,824
Adjustment of actuarial liability			190,150	195,741	49,349
			40,295,544	40,587,804	43,083,026
Net assets released from restriction			6,102,666	7,247,540	8,061,097
Total Revenue, Gains and Other Support			46,398,210	47,835,344	51,144,123
<b>EXPENSES:</b>		See			
Program expenses					
Instruction		"Summary of	19,550,776	20,581,441	20,528,010
Academic support			2,428,103	2,795,348	2,753,152
		Current Fund	21,978,879	23,376,789	23,281,162
Research			99,755	286,518	38,397
Public service		Revenues, Expenditures	302,329	246,715	500,806
Student services			4,071,457	4,241,168	4,270,785
Auxiliary enterprises		and Other Changes"	8,094,384	8,617,798	8,668,746
Support expenses					
Institutional support			5,432,588	5,807,649	5,535,668
Total Expenses			39,979,392	42,576,637	42,295,564
Increase in Net Assets before Extraordinary Items			6,418,818	5,258,707	8,848,559
Extraordinary loss				(248,182)	(2,042,290)
Increase in Net Assets			6,418,818	5,010,525	6,806,269
Net Assets -- Beginning of Year			24,583,951	31,002,769	36,013,294
<b>NET ASSETS -- END OF YEAR</b>			<b>\$31,002,769</b>	<b>\$36,013,294</b>	<b>\$42,819,563</b>

**GUSTAVUS ADOLPHUS COLLEGE**  
**1998-99 UNRESTRICTED OPERATING FUND BUDGET**

	1998-99 <u>Budget</u>
<b>Revenues:</b>	
Tuition and Fees	\$ 39,824,000
Less Financial Assistance	(11,896,236)
Net Tuition	27,927,764
Gifts and Grants	1,557,500
Endowment Income	590,000
Residence Halls	3,824,000
Dining Service	4,568,000
Bookstore/Computer Store	2,477,000
Investment Income	535,000
Lund and Swanson Centers	111,800
Cost Recoveries	118,420
Other Income	<u>522,281</u>
<b>Total Revenues</b>	<b><u>\$ 42,231,765</u></b>
<b>Expenses:</b>	
Instruction	\$ 2,189,575
Academic Support and Research	571,246
Public Service	172,065
Student Services	1,619,533
Advancement	786,340
Remaining Institutional Support	1,264,660
Physical Plant Maintenance	3,068,854
Debt Service	2,002,000
Capital Projects	725,000
Auxiliary Enterprises	3,749,050
Salary and Benefits	24,394,240
Student Employment	1,389,202
Contingency	<u>300,000</u>
<b>Total Expenses</b>	<b><u>\$ 42,231,765</u></b>

### **Long-Term Debt of the College as of October 2, 1998**

1. Two unsecured demand notes evidencing loans by individuals at 5% to 5.5% interest. \$2,500 is outstanding.
2. Contract for deed incurred in 1991; payable in annual principal installments of \$20,000 with the final payment due December 1, 2002. Interest is payable annually at 1% over prime; \$100,000 is outstanding.
3. \$622,189 Minnesota Higher Education Facilities Authority Lease and Purchase Agreement; Series Three-V, dated 1993, interest rate of 5.18%, final payment due August 4, 2000; \$201,026 is outstanding. The College has granted a security interest in the equipment to Norwest Investment Services, Inc., the lender in the transaction.
4. \$6,135,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-H, dated August 1, 1996; final maturity October 1, 2010; \$4,950,000 is outstanding. The Series Four-H Bonds are secured by the full faith and credit of the College and a debt service reserve of \$613,500.
5. \$4,602,000 Minnesota Higher Education Facilities Authority Lease and Purchase Agreement, Series Four-V, dated July 8, 1998; principal due semi-annually through February 15, 2009 at 4.90%. \$4,602,000 is outstanding.
6. The Bonds.

Total of long-term debt outstanding as of October 2, 1998 adjusted to include the Bonds is \$21,550,526.

### **Short-Term Debt**

The College maintains a \$2,800,000 unsecured line of credit with a local bank payable on demand which it draws on from time to time during the summer months and repays after receipt of student fees in the fall. Interest is payable at 0.75% over prime. This line of credit expires on December 1998. As of October 1, 1998, the College had no borrowings under this agreement. The College expects to renew the line of credit annually.

### **Annual Debt Service by Fiscal Year and Coverage Statement**

The table on page I-14 shows (i) the estimated debt service for each of such Fiscal Years on the Series Four-X Bonds; (ii) the annual debt service of the College for each of the listed Fiscal Years ending May 31 with respect to all remaining long-term indebtedness; (iii) the combined total annual debt service for each of such Fiscal Years; and (iv) the amount of coverage for the combined annual debt service provided by the "income available for debt service" for the Fiscal Year ending May 31, 1997, as further detailed in footnote (c) of the table.

**This table is intended merely to show the relationship of Fiscal Year 1998 revenues of the College available for the payment of debt service to a proforma statement of combined annual debt service of the College based on an assumed interest rate and amortization schedule with respect thereto. It is not intended and should not be considered a projection of future revenues, expenses, debt service or debt service coverage of the College. There is no assurance that the future revenues, expenses, debt service and debt service coverage of the College or the respective relationships thereof will correspond to the revenues, expenses and debt service or the respective relationships thereof shown by or reflected in the following table.**

# GUSTAVUS ADOLPHUS COLLEGE

## ANNUAL DEBT SERVICE BY FISCAL YEAR AND COVERAGE STATEMENT

Fiscal Year Ending	Projected Debt Service on Series Four-X(a)	Existing Long Term Debt Service (b)	Combined Long Term Debt Service	Amount Available for Debt Service (c)	Debt Service Coverage Based on FY 1998 Net Revenue
(1)	(2)	(3)	(4)	(5)	(6)
1999	252,804	926,892	1,179,696	8,704,119	7.38
2000	606,730	924,749	1,531,479	8,704,119	5.68
2001	846,646	892,292	1,738,938	8,704,119	5.01
2002	846,144	676,833	1,522,977	8,704,119	5.72
2003	849,853	677,510	1,527,363	8,704,119	5.70
2004	847,820	591,660	1,439,480	8,704,119	6.05
2005	845,135	405,945	1,251,080	8,704,119	6.96
2006	846,595	278,875	1,125,470	8,704,119	7.73
2007	847,060	279,125	1,126,185	8,704,119	7.73
2008	846,584	278,770	1,125,354	8,704,119	7.73
2009	845,228	277,695	1,122,923	8,704,119	7.75
2010	847,763	271,069	1,118,832	8,704,119	7.78
2011	848,948	785,051	1,633,999	8,704,119	5.33
2012	848,743		848,743	8,704,119	10.26
2013	847,108		847,108	8,704,119	10.28
2014	848,984		848,984	8,704,119	10.25
2015	849,320		849,320	8,704,119	10.25
2016	848,091		848,091	8,704,119	10.26
2017	845,273		845,273	8,704,119	10.30
2018	845,703		845,703	8,704,119	10.29
2019	844,365		844,365	8,704,119	10.31
2020	846,100		846,100	8,704,119	10.29
2021	845,763		845,763	8,704,119	10.29
2022	848,363		848,363	8,704,119	10.26
2023	843,900		843,900	8,704,119	10.31
2024	847,238		847,238	8,704,119	10.27
2025	847,894		847,894	8,704,119	10.27
Totals:	\$22,034,155	\$7,266,466	\$29,300,621		

(a) Estimated debt service based on average annual rate of 5.40%.

(b) Excludes Series Four-V obligations, which are self-supporting.

(c) Calculation of Amount Available for Debt Service for Fiscal Year Ended May 31, 1998:

Increase in Unrestricted Net Assets:	\$ 6,806,269
Plus: Depreciation and Amortization	3,170,276
Extraordinary Losses	2,042,290
Debt Service Interest	320,666
Less: Net Assets released from Restriction for Land, Buildings and Equipment	(763,510)
Unrestricted funds used for facilities which are capitalized	(818,777)
Net realized gains on investments	(2,053,095)
Amount Available for Debt Service:	<u>\$ 8,704,119</u>

## PROPOSED FORM OF LEGAL OPINION

## FAEGRE &amp; BENSON LLP

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

TELEPHONE 612-336-3000  
FACSIMILE 612-336-3026

\$11,695,000

Minnesota Higher Education Facilities Authority  
Revenue Bonds, Series Four-X  
(Gustavus Adolphus College)

We have acted as bond counsel in connection with the issuance by the Minnesota Higher Education Facilities Authority (the "Authority") of its fully registered (initially book-entry) Revenue Bonds, Series Four-X (Gustavus Adolphus College), in the aggregate principal amount of \$11,695,000 (the "Bonds"), dated November 1, 1998, in the denomination of \$5,000 each and integral multiples thereof, maturing on October 1 in the years and amounts and bearing interest at the basic rates per annum as follows:

<u>October 1 of the Year</u>	<u>Amount</u>	<u>Basic Interest Rate</u>	<u>October 1 of the Year</u>	<u>Amount</u>	<u>Basic Interest Rate</u>
----------------------------------	---------------	------------------------------------	----------------------------------	---------------	------------------------------------

The Bonds are subject to optional redemption prior to the stated maturities thereof as provided in the Bonds and the Indenture. Interest on the Bonds is payable on each April 1 and October 1, commencing April 1, 1999. In the event of a Determination of Taxability (as defined in the Loan Agreement and Trust Indenture referred to below), the Bonds are subject to additional interest and optional redemption. Interest is payable by check or draft mailed or sent by wire transfer to the registered owner, and principal is payable at the principal corporate trust office of Norwest Bank Minnesota, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee"). The Bonds are issued for the purpose of funding a loan from the Authority to Gustavus Adolphus College, a Minnesota nonprofit corporation and institution of higher education located in the City of St. Peter, Minnesota (the "College"), in order to finance acquisition, construction and equipping of a campus center and student housing facilities and to improve existing facilities. We have examined executed

*Minneapolis Denver Des Moines London Frankfurt*

counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College and the Trust Indenture (the "Indenture") between the Authority and the Trustee each dated as of November 1, 1998, one or more opinions of MacKenzie & Gustafson, Ltd. as counsel to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents and certifications furnished to us by public officials and officials of the College without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of MacKenzie & Gustafson, Ltd. as to the Loan Agreement having been duly authorized and executed and being binding upon the College and as to the corporate organization, tax-exempt status, good standing and powers of the College, and as to title to the Project Site (as defined in the Loan Agreement and Indenture), without examining the records of the College or original title records or abstracts of title.

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

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

1. The Authority is an agency of the State of Minnesota with authority under Sections 136A.25 to 136A.42, Minnesota Statutes, to issue the Bonds, to loan the proceeds thereof to the College and to execute and deliver the Loan Agreement and the Indenture to secure the Bonds.
2. The Loan Agreement and the Indenture are valid and binding instruments of the parties thereto, enforceable in accordance with their terms.
3. The Bonds are secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payment held by the Trustee under the Loan Agreement.
4. Assuming compliance with the covenants in the Loan Agreement and Indenture, the interest on the Bonds is not includable in gross income for purposes of Federal income taxation or in taxable income of individuals, estates and trusts for purposes of Minnesota income taxation under present laws and rulings. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum

taxable income” for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the “Code”) or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in “adjusted current earnings” for purposes of the computation of “alternative minimum taxable income” of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Bonds are “private activity bonds” within the meaning of Section 141(a) and “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code. Ownership of the Bonds will result in disallowance of a deduction for a portion of the interest expense of a “financial institution” under Section 265(b) of the Code. Reference is made to the caption “Tax Exemption” in the Official Statement for a description of the effect of certain provisions of the Code relating to, among other things, the branch profits tax imposed on foreign corporations, losses incurred by property and casualty insurance companies, Subchapter C earnings of S corporations, net investment income of foreign corporations, and the taxability of Social Security and railroad retirement benefits.

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

Dated at Minneapolis, Minnesota, November \_\_, 1998.

M1:422759.01

(This page has been left blank intentionally)



**INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE****Annual Reporting**

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

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

**Material Events to be Disclosed**

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties (this is not applicable to the Bonds);
- (v) Substitution of credit or liquidity providers, or their failure to perform (this is not applicable to the Bonds);
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) The giving of notice to redeem any Bonds other than for a sinking fund redemption;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities and;
- (xi) Rating changes.

(This page has been left blank intentionally)

## DEFINITION OF CERTAIN TERMS

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

*Additional Bonds:* Any Additional Bonds issued by the Authority on behalf of the College pursuant to section 2.09 of the Indenture.

*Authority:* The Minnesota Higher Education Facilities Authority.

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

*Authorized Institution Representative:* The person at the time designated to act on behalf of the College by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person and signed on behalf of the College by certain officers of the College or its Board of Trustees. Such certificate may designate an alternate or alternates.

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

*Board of Trustees:* The Board of Trustees of the College, including any Executive Committee or any other committee authorized to act for such board.

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

*Bonds:* Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-X (Gustavus Adolphus College).

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

*Bond Resolution:* The Series Resolution of the Authority adopted on October 21, 1998, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

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

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

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

*College:* Gustavus Adolphus College, a Minnesota nonprofit corporation as owner and operator of the Institution, its successors and assigns.

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

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

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

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

*Fiscal Year:* The College's fiscal year, initially the 12-month period commencing on June 1 in each year.

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

*Holder, Bondholder, or Owner:* The person in whose name a Bond is registered.

*Indenture:* The Trust Indenture between the Authority and Norwest Bank Minnesota, National Association, as Trustee, dated as of November 1, 1998, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

*Institution:* Gustavus Adolphus College, a Minnesota institution of higher education located in St. Peter, Minnesota and owned and operated by the College.

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

*Issue:* The Bonds.

*Loan Agreement:* The Loan Agreement between the Authority and the College dated as of November 1, 1998, as amended or supplemented from time to time.

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

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

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

*Project:* The Project consists of the construction, furnishing and equipping of a new campus center for dining and other student services by adding 51,200 square feet of new construction and remodeling approximately 55,000 square feet of the existing dining service building and the construction of a 24-unit student housing facility of approximately 33,300 square feet, owned or to be owned and operated by the College and located on its main campus in St. Peter, Minnesota.

*Project Buildings:* The Campus Center and the 24-unit student housing facility.

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

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

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

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

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

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

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

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

*Series Four-X Bonds:* The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-X (Gustavus Adolphus College).

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

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

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

(This page has been left blank intentionally)

## SUMMARY OF DOCUMENTS

## THE LOAN AGREEMENT

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

**Construction of Project**

The College represents that the acquisition, construction and installation of the Project are to be substantially completed by no later than March 1, 2000 subject only to "force majeure," as provided in the Loan Agreement. The College may apply to the Authority at any time to delete from the Project any building, system or equipment proposed to be acquired, constructed or improved as part of the Project, or to add any building, system or equipment to the Project, or both, and upon approval of the Authority, the description of the Project shall accordingly be amended by a supplement to the Loan Agreement executed by the Authority and the College, a copy of which shall be furnished to the Trustee, provided that no such amendment of the description of the Project shall be approved if the Project, as so amended, will not constitute an authorized "project" under the Act or will adversely affect the tax exempt status of interest on the Bonds and an opinion of counsel to such effects is furnished. The College agrees that it has previously paid or will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs exceed the proceeds of the Bonds, including investment earnings in the Construction Account.

**Loan Repayments**

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

- (a) At least one (1) business day prior to each April 1 and October 1, commencing April 1, 1999, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest, or as principal and interest, on the Series Four-X Bonds on the next succeeding interest payment date, provided however, that there shall be credited against such obligations (i) the net amount of funds and investments then on deposit to the credit of the Bond and Interest Sinking Fund Account, and (ii) any credits permitted by Sections 5.02, 5.03 or 5.04 of the Indenture (relating to the transfer to the Bond and Interest Sinking Fund Account of certain investment earnings and certain excess funds); and
- (b) prior to a date established for the optional redemption and prepayment of the Bonds, into the Redemption Account such amount, if any, as shall be necessary and sufficient to provide for the redemption of any Series Four-X Bonds called for redemption from the Redemption Account; and
- (c) forthwith into the Bond and Interest Sinking Fund Account or Redemption Account, as appropriate, the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account or Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal, premium (if any) and interest on the Series Four-X Bonds then due or then to become due (whether at maturity, or by call for redemption, or by acceleration of maturity); and

- (d) into the Reserve Account forthwith any amounts then required to be deposited therein by Section 5.02 of the Indenture; and
- (e) into any fund or account designated by the Trustee funds in the amount determined by the Trustee to be necessary to comply with the provisions of Section 6.09(f) of the Loan Agreement and Section 5.05 of the Indenture (relating to arbitrage rebate); and

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

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

### **Use of Project Facilities**

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

### **Maintenance of Project Facilities**

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

### **Operating Expenses and Liens**

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

### **Taxes and Other Governmental Charges**

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



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

### **Insurance**

The College is required to maintain, or cause to be maintained, insurance as follows:

- (a) Insurance against loss and/or damage to the Project Facilities and contents, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to \$50,000.
- (b) Comprehensive general public liability insurance against liability for personal injury in the minimum amount for each occurrence of \$5,000,000 and aggregate for each year of \$10,000,000, with a deductible amount of not more than \$50,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of \$100,000.
- (c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College.

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

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

### **Damage or Destruction**

If the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than \$500,000, the College will promptly repair, rebuild or restore the property damaged or destroyed with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss resulting from such damage or destruction exceeds \$500,000, the College shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

If the Bonds are redeemed, the available Net Proceeds or (if less) the prorata portion in respect of any Project Buildings shall be used for redemption or purchase of outstanding Bonds. For purposes of the provision, "prorata portion" shall mean the following percentages of the principal amount of outstanding Bonds: 59% of the principal amount of outstanding Bonds in the case of the Campus Center; and 34% of the principal amount of outstanding Bonds in the case of College View Apartments.

## **Condemnation**

If at any time before the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the Indenture), title to any of the Project Buildings, and site thereof, shall be taken in any proceeding involving the exercise of the right of eminent domain, the College shall either redeem the Bonds in whole or in part or rebuild or restore such facilities, as more fully provided in the Loan Agreement.

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

## **Removal of Project Equipment and Building Equipment**

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

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

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

## **Indemnification**

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

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

## **College to Maintain its Existence and Accreditation**

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

## **Federal Income Tax Status**

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

## **Institution to be Nonsectarian**

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

## **Determination of Taxability**

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

## **Financial Covenants**

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

## **Other Covenants**

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

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

## **Events of Default**

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

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

The term "force majeure" as used above includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; orders, regulations or laws of any kind of the government of the United States of America or of the State of Minnesota or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the College. The provisions of paragraph (d) above, are subject to the further limitation that if the Default can be remedied but not within a period of thirty days after notice and if the College has taken all action reasonably possible to remedy such default within such thirty-day period, the default shall not become an Event of Default for so long as the College shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The College agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the College from carrying out its agreements.

### **Remedies on Default**

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

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

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

### **Amendments**

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

## **THE INDENTURE**

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

## **Granting Clauses**

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

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

## **Accounts**

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

## **Trustee's Right to Payment**

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

## **Additional Bonds**

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

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

## **Covenants of the Authority**

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

## **Events of Default**

The following are Events of Default under the Indenture:

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

## **Remedies**

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



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

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

### **Concerning the Trustee**

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to its reference or prime rate, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses, advances and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the College to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of \$10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court. Provision is also made for removal of the Trustee by Bondholders or the Authority, at the request of the College, provided that the Authority may, but is not required to remove the Trustee with or without the request of the College if an Event of Default has occurred and is continuing or a default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

### **Concerning the Bondholders**

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



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

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

### **Defeasance**

If the Authority and the College shall:

- (a) pay or cause to be paid the principal of, and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal and interest, if any, on the outstanding Bonds by depositing with the Trustee at or at any time before maturity an amount either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all Bonds outstanding, or
- (c) deliver to the Trustee (1) proof that notice of redemption of all of the outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the College for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such outstanding Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of the redemption price on the date such Bonds are to be redeemed and on any interest payment dates, or
- (d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided, and shall also pay or provide for the payment of the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148 of the Internal Revenue Code, then at the request of the Authority or the College all the Trust Estate shall revert to the Authority and the College as their interests appear, and the entire estate, right, title and interest of the Trustee, and of registered owners of such Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all such Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent (and, in the case of defeasance under paragraph (b) above, as to effect on tax exempt status), and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

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

### **Supplemental Indentures**

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

- (a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and owners of all Bonds under the Indenture;
- (b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority or any successor;
- (c) to evidence the succession of any other department, agency, body or corporation to the Authority;
- (d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or in any supplemental indentures or to make such other provisions in regard to matters or questions arising under the Indenture or any supplemental indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any supplemental indenture and which shall not impair the security of the same;
- (e) to create a series of and authorize Additional Bonds; and.
- (f) to modify the Indenture as authorized by the Bondholders pursuant to Section 11.04 of the Indenture.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds under the Indenture then outstanding shall have the right to consent to and approve such supplemental indentures as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions of the Indenture or in any supplemental indenture; provided, however, that such provision shall not be construed as permitting without the consent of the Holders of all such Bonds (a) an extension of the maturity of any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture (except as provided in Section 2.09 of the Indenture), or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or to amendments to the Loan Agreement.

## **Amendments to the Loan Agreement**

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

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

## **Registration**

The Bonds shall be fully registered as to principal and interest at the office of the Trustee, which shall also perform the functions of registrar and paying agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. Bonds may be exchanged only for a new Bond or Bonds of the same series, aggregate principal amount, maturity and basic interest rate of any authorized denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at his address as shown on the registration books of the Trustee.

(This page has been left blank intentionally)

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



**Virchow, Krause & Company, LLP**  
Certified Public Accountants & Consultants

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Gustavus Adolphus College  
Saint Peter, Minnesota

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

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

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

Minneapolis, Minnesota  
September 4, 1998

VIRCHOW, KRAUSE & COMPANY, LLP

*Virchow, Krause & Company, LLP*

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

<b>ASSETS</b>		
	1998	1997
Cash and cash equivalents	\$ 6,412,701	\$ 4,489,394
Receivables		
Students accounts, net of allowance for doubtful accounts of \$207,000 and \$193,000	495,817	337,839
Government grants	337,379	266,418
Accrued interest	112,700	146,962
Contributions (Note 4)	3,541,000	4,036,000
Insurance (Note 17)	35,000,000	
Other	230,307	390,498
Inventories	199,009	402,748
Prepaid expenses and other assets	225,683	203,848
Students notes receivable, net of allowance for doubtful accounts of \$263,000 each year	3,262,051	3,136,302
Investments		
Cash and short-term investments	1,726,170	1,566,492
Marketable securities (Note 5)	19,401,425	16,671,842
Contracts for deed receivable	1,331,730	1,418,348
Interest in buildings, net of accumulated depreciation of \$758,527 and \$654,389 (Note 12)	3,563,596	3,667,733
Real estate held for resale	582,029	473,529
Other	327,711	297,295
Deposits held by trustee		
Cash and short-term investments	4,980	303,041
Government securities	611,575	619,665
Endowment investments (Note 6)	68,324,776	57,067,132
Construction in progress (Note 8)	8,584,418	1,367,159
Property, plant and equipment, net (Note 9)	27,674,874	34,008,489
<b>TOTAL ASSETS</b>	<b>\$ 181,949,931</b>	<b>\$ 130,870,734</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 3,320,557	\$ 2,079,402
Accrued tornado expenses (Note 17)	7,318,266	
Accrued liabilities	5,532,242	5,527,267
Deferred revenue	1,312,423	1,146,019
Annuities payable	7,673,133	6,731,260
Pooled life income beneficiaries payable	2,631,092	2,674,530
Funds held for others	675,499	554,847
Long-term debt (Note 10)	5,865,651	6,471,362
U.S. government grants refundable	3,030,093	2,877,288
Total Liabilities	37,358,956	28,061,975
<b>NET ASSETS (Note 2)</b>		
Unrestricted	42,819,563	36,013,294
Temporarily restricted	56,607,294	26,451,545
Permanently restricted	45,164,118	40,343,920
Total Net Assets	144,590,975	102,808,759
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 181,949,931</b>	<b>\$ 130,870,734</b>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

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

	1998			1997 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 36,800,722			\$ 35,497,733
Less: Scholarships and grants	11,502,337			10,346,945
Net tuition and fees	25,298,385			25,150,788
Government grants	1,196,813	\$ 240,826		1,474,908
Private gifts and grants	1,460,518	4,476,360	\$ 3,783,625	6,805,303
Endowment income (Note 6)	562,304	1,761,933	11,248	2,127,170
Investment income	628,627	404	18,874	495,794
Gains on investments	2,053,095	5,532,450	369,671	5,140,855
Sales and services of educational activities	62,881			37,180
Other sources	765,230		1,450	854,142
Sales and services of auxiliary enterprises	11,005,824			10,412,591
Adjustment of actuarial liability	49,349	115,513	635,330	983,583
	43,083,026	12,127,486	4,820,198	53,482,314
Net assets released from restrictions (Note 3)	8,061,097	(8,061,097)		
Total Revenues, Gains and Other Support	51,144,123	4,066,389	4,820,198	53,482,314
<b>EXPENSES</b>				
Program expenses				
Instruction	20,528,010			20,581,441
Academic support	2,753,152			2,809,329
	23,281,162			23,390,770
Research	38,397			286,518
Public service	500,806			332,492
Student services	4,270,785			4,241,168
Auxiliary enterprises	8,668,746			8,617,798
Support expenses				
Institutional support	5,535,668			5,707,891
Total Expenses	42,295,564			42,576,637
<b>Increase in Net Assets before Extraordinary Items</b>	8,848,559	4,066,389	4,820,198	10,905,677
Extraordinary loss (Note 10)				(248,182)
Extraordinary gain (loss) (Note 17)	(2,042,290)	26,089,360		
<b>Increase in Net Assets</b>	6,806,269	30,155,749	4,820,198	10,657,495
Net Assets - Beginning of Year	36,013,294	26,451,545	40,343,920	92,151,264
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 42,819,563</u>	<u>\$ 56,607,294</u>	<u>\$ 45,164,118</u>	<u>\$ 102,808,759</u>

See accompanying notes to financial statements.



**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENT OF ACTIVITIES**  
Year Ended May 31, 1997

	1997			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 35,497,733			\$ 35,497,733
Less: Scholarships and grants	<u>10,346,945</u>			<u>10,346,945</u>
Net tuition and fees	25,150,788			25,150,788
Government grants	1,474,908			1,474,908
Private gifts and grants	1,258,910	\$ 2,201,626	\$ 3,344,767	6,805,303
Endowment income (Note 6)	527,014	1,587,785	12,371	2,127,170
Investment income	495,794			495,794
Gains on investments	266,424	4,854,426	20,005	5,140,855
Sales and services of educational activities	37,180			37,180
Other sources	768,454	69,095	16,593	854,142
Sales and services of auxiliary enterprises	10,412,591			10,412,591
Adjustment of actuarial liability	<u>195,741</u>	<u>(19,379)</u>	<u>807,221</u>	<u>983,583</u>
	40,587,804	8,693,553	4,200,957	53,482,314
Net assets released from restrictions (Note 3)	<u>7,247,540</u>	<u>(7,247,540)</u>		
Total Revenues, Gains and Other Support	<u>47,835,344</u>	<u>1,446,013</u>	<u>4,200,957</u>	<u>53,482,314</u>
<b>EXPENSES</b>				
Program expenses				
Instruction	20,581,441			20,581,441
Academic support	<u>2,809,329</u>			<u>2,809,329</u>
	23,390,770			23,390,770
Research	286,518			286,518
Public service	332,492			332,492
Student services	4,241,168			4,241,168
Auxiliary enterprises	8,617,798			8,617,798
Support expenses				
Institutional support	<u>5,707,891</u>			<u>5,707,891</u>
Total Expenses	<u>42,576,637</u>			<u>42,576,637</u>
<b>Increase in Net Assets before Extraordinary Loss</b>	5,258,707	1,446,013	4,200,957	10,905,677
Extraordinary loss (Note 10)	<u>(248,182)</u>			<u>(248,182)</u>
<b>Increase in Net Assets</b>	5,010,525	1,446,013	4,200,957	10,657,495
Net Assets - Beginning of Year	<u>31,002,769</u>	<u>25,005,532</u>	<u>36,142,963</u>	<u>92,151,264</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 36,013,294</u>	<u>\$ 26,451,545</u>	<u>\$40,343,920</u>	<u>\$ 102,808,759</u>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

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

	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 41,782,216	\$ 10,657,495
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,170,276	4,065,629
Loss on disposal of property	8,524,554	14,284
Gains on endowment investments	(8,489,893)	(5,261,757)
Gains on other investments	(186,890)	(821,747)
Actuarial adjustment on annuities payable	1,851,951	1,223,569
Adjustment to liability for pooled life income beneficiaries	419,765	218,375
Loan cancellations and reinstatements	12,424	24,574
Insurance receivable, net of accrued tornado expenses	(27,681,734)	
Change in assets and liabilities		
Student receivables	(157,978)	(88,872)
Government grants receivable	(70,961)	2,045
Accrued interest receivable	34,262	(8,057)
Other receivables	160,191	44,476
Inventories	203,739	67,595
Prepaid expenses and other assets	(21,835)	(57,851)
Accounts payable	1,241,155	952,759
Accrued liabilities	4,975	(8,524)
Deferred revenue	166,404	80,309
Funds held for others	120,652	(954,984)
Contributions restricted for plant and long-term investment	(10,957,978)	(4,764,132)
Receipt of unrestricted promises	322,000	144,000
Investment income restricted for plant, loans, and long-term investment	(30,122)	(86,674)
Net Cash Provided by Operating Activities	<u>10,417,173</u>	<u>5,442,512</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of endowment and pooled investments, net	(2,767,751)	(2,711,637)
Purchases of other investments, net	(2,754,669)	(3,773,160)
Purchases of property, plant and equipment	(12,474,337)	(5,489,259)
(Additions to) drawdowns of deposits held by trustee	306,151	(235,579)
Disbursements of loans to students	(599,965)	(452,528)
Repayments of loans from students	461,792	437,762
Net Cash Used for Investing Activities	<u>(17,828,779)</u>	<u>(12,224,401)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on indebtedness	(605,711)	(486,189)
Advance refunding of debt		(5,270,000)
Proceeds from issuance of long-term debt		6,135,000
Receipts of investment income restricted for plant, loans and long-term investment	30,122	86,674
Contributions received restricted for plant and long-term investment	11,130,978	4,157,132
Increase in refundable U.S. government grants	152,805	54,426
Payments to annuitants and pooled life income beneficiaries	(1,373,281)	(1,096,318)
Net Cash Provided by Financing Activities	<u>9,334,913</u>	<u>3,580,725</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,923,307	(3,201,164)
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>4,489,394</u>	<u>7,690,558</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 6,412,701</u>	<u>\$ 4,489,394</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 320,666	\$ 436,253

See accompanying notes to financial statements.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

---

Gustavus Adolphus College (the "College") is an institution of higher education affiliated with the Evangelical Lutheran Church in America. The accounting policies of the College reflect practices common to universities and colleges and conform to generally accepted accounting principles. The more significant accounting policies are summarized below:

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

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

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

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

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

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

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

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

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

GUSTAVUS ADOLPHUS COLLEGE

NOTES TO FINANCIAL STATEMENTS

May 31, 1998 and 1997

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

---

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

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

**Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment** - Contributions of exhaustible long-lived assets, or of cash and other assets to be used to acquire them, without donor stipulations concerning the use of such long-lived assets are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released over the estimated useful lives of the long-lived assets using the College's depreciation policies.

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

**Inventories** - Bookstore inventories are valued at a percentage of retail value, which approximates cost and is not in excess of market. All other inventories are valued at the lower of cost (first-in, first-out) or market.

**Investments** - Investments in marketable equity and debt securities are recorded at market value. Other investments are recorded at cost, except those items received as gifts, which are valued at fair market value at the date of gift. A permanent decline in the value of an investment recorded on the cost basis is recognized in the year such loss occurs. Market value approximates cost for all investments recorded on the cost basis.

**Deposits Held by Trustee** - Cash, short-term investments and government securities held by the trustee include amounts restricted for debt service as required by the trust indentures.

**Physical Plant and Equipment** - Physical plant assets are stated at cost less accumulated depreciation. The College depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 40 years, improvements 15 to 20 years, equipment 3 to 20 years, and library books 15 years. Normal repair and maintenance expenses are charged to operations as incurred. The College capitalizes physical plant additions in excess of \$1,000.

**Retirement Plans** - The College has certain contributory defined contribution pension plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual salary. The cost of the retirement plans is paid currently and amounted to approximately \$1,147,000 and \$976,000 for the years ended May 31, 1998 and 1997, respectively.

**Grants to Specified Students** - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the College. The amounts of such grants were \$2,314,984 and \$568,000, respectively, during the year ended May 31, 1998. The amounts of such grants were \$2,433,274 and \$538,804, respectively, during the year ended May 31, 1997.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 1998 and 1997

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value of Financial Instruments** - The College records financial instruments at cost, with the exception of investments in marketable equity and debt securities which are reflected in the financial statements at market value. Cash and cash equivalents, accounts payable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments. The fair value of investments (which are shown in Notes 5 and 6) are based upon values provided by custodians or quoted market values. In certain cases where such values are not available, historical cost is used as an estimate of market value. A reasonable estimate of the fair value of the receivables from students under government loan programs and advances from the federal government for student loans could not be made because the notes receivable are not salable and can only be assigned to the U.S. government or its designees. The fair value of receivables from students on College loan programs approximates carrying value. The fair value of real estate contracts, grants, contributions and other receivables approximates carrying value. The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

**Fund Raising and Advertising Expenses** - Fund-raising expenses totaled \$1,511,000 and \$1,691,000 for the years ended May 31, 1998 and 1997, respectively. The College expenses advertising costs at the time incurred. Advertising expenses totaled \$206,000 and \$226,000 for the years ended May 31, 1998 and 1997, respectively.

**Reclassifications** - Certain amounts appearing in the 1997 financial statements have been reclassified to conform with the 1998 presentation.

### NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	1998	1997
Operations	\$ 4,082,139	\$ 273,181
Long-term investments (quasi-endowment funds)	28,053,169	21,575,974
Gift annuity agreements	1,783,585	1,729,826
Loans to students	505,078	451,235
Retirement of indebtedness	609,586	597,086
Replacement of plant facilities	1,562,925	1,799,339
Net investment in plant	<u>6,223,081</u>	<u>9,586,653</u>
	<u>\$ 42,819,563</u>	<u>\$ 36,013,294</u>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

May 31, 1998 and 1997

---

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

---

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

	<u>1998</u>	<u>1997</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 1,443,060	\$ 1,534,907
Acquisition of buildings and equipment	31,769,388	954,115
Contributions receivable	<u>1,933,000</u>	<u>1,728,000</u>
	35,145,448	4,217,022
Long-term investment (quasi-endowment funds)	4,728,122	3,331,385
Life income and trust agreements	1,083,489	883,375
Net investment in plant	<u>15,650,235</u>	<u>18,019,763</u>
	<u>\$ 56,607,294</u>	<u>\$ 26,451,545</u>

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

Endowment funds	\$ 35,756,395	\$ 31,204,408
Contributions receivable for endowment funds	1,608,000	2,308,000
Student loan funds	440,599	417,697
Gift annuity agreements and similar funds	<u>7,359,124</u>	<u>6,413,815</u>
	<u>\$ 45,164,118</u>	<u>\$ 40,343,920</u>

---

**NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS**

---

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

	<u>1998</u>	<u>1997</u>
Amortization of contributions expended for long-lived assets	\$ 763,510	\$ 864,457
Scholarships, instruction and other departmental support	<u>7,297,587</u>	<u>6,383,083</u>
	<u>\$ 8,061,097</u>	<u>\$ 7,247,540</u>

These assets were reclassified to unrestricted net assets.

**GUSTAVUS ADOLPHUS COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**  
May 31, 1998 and 1997

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

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

	<u>1998</u>	<u>1997</u>
Temporarily restricted – operations	\$ 143,000	\$ 566,000
Temporarily restricted – plant projects	1,981,000	1,382,000
Permanently restricted – endowment	<u>1,610,000</u>	<u>2,668,000</u>
Gross unconditional promises to give	3,734,000	4,616,000
Less: Unamortized discount	<u>(193,000)</u>	<u>(580,000)</u>
Net unconditional promises to give	<u><u>\$ 3,541,000</u></u>	<u><u>\$ 4,036,000</u></u>

At May 31, 1998, contributions receivable of \$2,518,000 are due in less than one year and \$1,216,000 are due in one to five years. Promises due in one to five years were discounted at an interest rate of 6.9% at May 31, 1998 and 1997. Promises due in less than one year were not discounted.

**NOTE 5 - MARKETABLE SECURITIES**

The following summarizes the College's marketable securities in funds other than endowment at May 31, 1998 and 1997:

	<u>1998</u>		<u>1997</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
U.S. government and agency securities	\$ 3,770,373	\$ 3,936,540	\$ 3,792,100	\$ 4,107,128
Other fixed income securities	1,055,448	1,043,706	995,651	977,404
Stocks	261,852	262,461	9,169	8,411
Mutual funds	14,062,980	12,506,990	11,583,190	10,714,154
Investments in limited partnerships	<u>250,772</u>	<u>314,175</u>	<u>291,732</u>	<u>376,480</u>
	<u><u>\$ 19,401,425</u></u>	<u><u>\$ 18,063,872</u></u>	<u><u>\$ 16,671,842</u></u>	<u><u>\$ 16,183,577</u></u>

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 1998 and 1997

### NOTE 6 - ENDOWMENT INVESTMENTS

On June 1, 1994, the College adopted the unit method of accounting for substantially all endowment funds with pooled investments, assigning an initial unit value of \$1,000. Funds entering or exiting the pool are assigned units on a value-per-unit basis which is derived from the market value of the units at the end of the calendar quarter within which the transaction takes place. The pooled funds had a market value per unit of approximately \$1,508 and \$1,336 at May 31, 1998 and 1997, respectively.

The College follows the total return concept for these funds. Under this concept, endowment income to be distributed is established as a percentage of the twelve-quarter moving average market value of the pooled assets. Based on this formula, and a 4.5% spending rate, the total distributable income for the year ended May 31, 1998 amounted to \$2,335,485, which included capital gains totaling \$721,567. The total distributable income for the year ended May 31, 1997 amounted to \$2,127,170, which included capital gains totaling \$942,649.

The following table summarizes the College's endowment investments at May 31, 1998 and 1997. Quoted market prices are used to determine market values of publicly traded securities, whereas market values for investments related to the College's limited partnership interests have been estimated by the partnerships. Market value has been assumed to approximate cost for real estate and other investments.

	1998		1997	
	Market	Cost	Market	Cost
Cash and short-term investments	\$ 327,796	\$ 327,796	\$ 426,675	\$ 426,725
Marketable securities				
Stocks	6,478,746	4,727,271	15,107,656	12,421,845
Mutual funds	54,756,987	51,170,117	36,563,943	35,337,073
Investments in limited partnerships				
Fixed income securities	120,000	120,000	100,000	100,000
Real estate held for sale	147,610	147,610	147,610	147,610
Investments in limited partnerships	1,316,911	1,444,638	1,375,154	1,385,450
Other	116,650	125,740	194,758	198,880
<b>Total pooled investments</b>	<b>63,264,700</b>	<b>58,063,172</b>	<b>53,915,796</b>	<b>50,017,583</b>
Funds held by the Greater Gustavus Fund (Note 7)	800,312	800,312	721,616	721,616
Funds held by others	1,617,865	1,617,865	680,841	680,841
Perpetual trusts held by others	2,641,899	2,641,899	1,748,879	1,748,879
	<u>\$ 68,324,776</u>	<u>\$ 63,123,248</u>	<u>\$ 57,067,132</u>	<u>\$ 53,168,919</u>



# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 1998 and 1997

### NOTE 7 - GREATER GUSTAVUS FUND

The Greater Gustavus Fund is a corporation which exists for the benefit of the College. Its assets, liabilities and net assets are included in the accompanying financial statements as permanently restricted net assets. Income from the fund is periodically remitted to the College, and during fiscal 1998 and 1997, the College received \$40,000 and \$20,000, respectively, in income from the fund. The Fund's net assets totaled \$800,312 and \$721,616 at May 31, 1998 and 1997, respectively.

### NOTE 8 - CONSTRUCTION IN PROGRESS

At May 31, 1998 the following projects were in progress:

	Estimated Total Cost	Cost To Date	Funding Plan
Campus Center project	\$18,600,000	\$ 285,657	Insurance, gifts, current operations
Energy savings project	4,700,000	314,548	Long-term operating lease
Apartment project	3,600,000	2,322	Insurance, gifts, current operations
Tornado related projects	29,400,000	7,898,235	Insurance
Library reading room project	95,000	<u>83,656</u>	Gifts, current operations
		<u>\$ 8,584,418</u>	

The long-term operating lease for the energy savings project was entered into by the College subsequent to May 31, 1998.

### NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

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

	May 31,	
	1998	1997
Land	\$ 855,583	\$ 843,337
Land improvements	1,852,705	4,491,628
Buildings	43,031,051	49,881,703
Equipment	12,031,908	17,123,003
Library books	<u>5,264,523</u>	<u>4,979,976</u>
	63,035,770	77,319,647
Less: Accumulated depreciation	<u>(35,360,896)</u>	<u>(43,311,158)</u>
	<u>\$ 27,674,874</u>	<u>\$ 34,008,489</u>

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

### NOTE 10 - LONG-TERM DEBT

The College had the following long-term debt outstanding at May 31, 1998 and 1997:

	Original Amount	May 31, 1998	1997
Contract for deed payable	\$ 240,000	\$ 100,000	\$ 120,000
Demand notes payable to individuals	2,500	2,500	2,500
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Four-H Bonds of 1996)	6,135,000	5,515,000	6,010,000
Lease payable - telecommunications equipment (Series Three-V Lease and Purchase Agreement)	622,189	248,151	338,862
		<u>\$ 5,865,651</u>	<u>\$ 6,471,362</u>

The contract for deed is payable in annual principal installments of \$20,000 with the last payment due December 1, 2002. Interest is payable annually at one percent over prime. Demand notes payable to individuals bear interest at 5% to 5.5%.

The College has loans outstanding with the Minnesota Higher Education Facilities Authority ("the Authority") in connection with bonds issued by the Authority:

During July 1996, the Minnesota Higher Education Facilities Authority issued Revenue Bonds, Series Four-H (Gustavus Adolphus College) on behalf of the College totaling \$6,135,000. The bond proceeds were used to finance the acquisition and installation of an administrative computer system. Net proceeds were also used to finance the refunding of the Authority's outstanding Mortgage Revenue Bonds, Series Three-B (Gustavus Adolphus College), Mortgage Revenue Bonds, Series Two-V (Gustavus Adolphus College) and Mortgage Revenue Bonds, Series Two-N (Gustavus Adolphus College). The outstanding balances of these issues aggregated \$5,270,000 at the time of the refinancing. The outstanding balance on the Series Two-N bonds was paid in full in April 1997 pursuant to an early redemption clause. The outstanding balances for the Series Two-V and Series Two-B bonds, which are not included on the College's balance sheet, totaled \$3,485,000 at May 31, 1998. Funds held in escrow for payment of the outstanding balance of the refinanced issues totaled \$3,595,426 at May 31, 1998. The refinancing resulted in a net extraordinary loss of \$248,182. The Revenue Bonds have interest rates varying from 4.7% to 5.25% and mature in annual installments of \$190,000 to \$640,000 on October 1, 1998 through 2009 and \$765,000 on October 1, 2010.

# **GUSTAVUS ADOLPHUS COLLEGE**

## **NOTES TO FINANCIAL STATEMENTS**

May 31, 1998 and 1997

---

### **NOTE 10 - LONG-TERM DEBT (Continued)**

---

In 1993, the College entered into sublease and purchase agreements, Series Three-V, with the Authority. The agreement was for \$622,189 at an interest rate of 5.18%. The transaction is payable with semiannual payments of \$53,552 including interest on February 4 and August 4 through August 4, 2000. The project funded acquisition of various telecommunications and related equipment. The College has granted a security interest in the project equipment to Norwest Investment Services, Inc., the lender in the transaction.

The College is required to maintain debt service reserve funds under the various bond issues in amounts aggregating \$613,500.

Annual maturities of all long-term debt for each of the five years subsequent to May 31, 1998 approximate \$683,000, \$710,000, \$712,000, \$525,000 and \$550,000, respectively. Total interest expense, including interest on short-term borrowings, for the years ended May 31, 1998 and 1997, amounted to \$314,351 and \$432,056, respectively.

---

### **NOTE 11 - LINE-OF-CREDIT AGREEMENT**

---

The College has an unsecured line of credit totaling \$2,800,000 with a local bank payable on demand and expiring December 1998 with interest payable at .75% over the bank's base rate. At May 31, 1998 and 1997, the College had no borrowings under its line of credit arrangements.

---

### **NOTE 12 - POOLED LIFE INCOME FUND**

---

As of May 31, 1998, the Gustavus Adolphus College Pooled Life Income Fund (the Fund) owned substantially all of three buildings which were purchased from the College for \$4,497,674. At May 31, 1998 and 1997, the net book value of the building recorded in the financial statements of the College was \$3,563,596 and \$3,667,733, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$104,138 and \$106,840 was recorded in fiscal 1998 and 1997, respectively. The Fund and the College have entered into a lease agreement whereby the land under the buildings is leased from the College over a term of 99 years. In addition, the College and the Fund have entered into land and building leases under which the Fund leases the buildings and subleases the underlying land to the College for a term of 20 years. The leases provide for the Fund to receive annual rental on the facilities, which for fiscal years 1998 and 1997 totaled \$545,578 and \$557,145, respectively, with payment to the College for the land, which was \$15,022 and \$15,344 in 1998 and 1997, respectively. The lease payments are an obligation of the College. Net lease payments by the College to the Fund totaled \$530,556 and \$541,801 for the years ended May 31, 1998 and 1997, respectively. Terms of the lease arrangements provide for adjustments to the rental amount every five years based on changes in the Consumer Price Index.

As the units of the Fund mature on the death of each donor or beneficiary, the Fund transfers that portion of the building and leasehold interests back to the College. At the earlier of the end of the 20-year lease term or the time when the Fund's ownership in the building is reduced to 25% or less, the land and building leases grant the College the right to purchase the Fund's fractional ownership interests in the buildings at the fair market value of the Fund's fractional ownership interests at the date the option is exercised. During fiscal 1998, no ownership interests were transferred back to the College. During 1997, \$178,423, including related income, was transferred back to the College as the result of donor deaths. This included \$175,551, net of \$25,047 accumulated depreciation, related to buildings.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

### NOTE 13 - POSTRETIREMENT BENEFIT PLAN

The College sponsors a defined benefit postretirement plan that covers all employees who retire after age 65 with at least 25 years of service and faculty who retire under the Voluntary Early Retirement Program from age 60 to 63 with at least 20 years of service. The College pays the entire cost of basic benefits for employees and their spouses who retired before 1992. The plan is contributory for those employees and their spouses who retired after 1992. The College accrues the cost of postretirement benefits during the service lives of employees. The following tables set forth the plan's status with amounts reported in the College's financial statements at May 31, 1998 and 1997:

Accumulated postretirement benefit obligation components are as follows:

	1998	1997
Active employees fully eligible for benefits	\$ (71,927)	\$ (52,968)
Other active employees	(247,062)	(225,119)
Current retirees	<u>922,380</u>	<u>1,040,472</u>
Accumulated Postretirement Benefit Obligation	603,391	762,385
Unrecognized net gain	<u>200,180</u>	<u>80,168</u>
Accrued Postretirement Benefit Obligation	<u><u>\$ 803,571</u></u>	<u><u>\$ 842,553</u></u>

The College's net postretirement benefit cost is as follows:

	1998	1997
Service cost	\$ (15,304)	\$ (7,157)
Interest cost	50,534	55,106
Other	<u>3,752</u>	<u>(33,764)</u>
Net Postretirement Benefit Cost	<u><u>\$ 38,982</u></u>	<u><u>\$ 14,185</u></u>

A 7.0% rate of increase in the per capita costs of covered health care benefits was assumed for the year ending May 31, 1998, gradually decreasing by .5% per year for four years, reaching 5% by the year 2002 and after. Increasing the assumed health care cost trend rates by one percentage point in each year would have resulted in an increase in the accumulated postretirement benefit obligation as of May 31, 1998 of \$666,995 and an increase in the aggregate of the service cost and interest cost components of net postretirement benefit cost for the year ended May 31, 1998 of \$87,204. A discount rate of 7% was used to determine the accumulated postretirement benefit obligation.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**

May 31, 1998 and 1997

---

**NOTE 14 - CONCENTRATIONS OF CREDIT RISK**

---

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

---

**NOTE 15 - DEFERRED GIFT AGREEMENTS**

---

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

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the College or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The College used interest rates ranging from 5.0% to 8.6% in making the calculations for the years ended May 31, 1998 and 1997.

Total funds received through new deferred gift agreements for the year ended May 31, 1998 amounted to approximately \$1,302,000. This amount was recorded in the College's financial statements as gift income of approximately \$559,000 and annuities payable of \$743,000. Total assets held by the College under deferred gift agreements totaled approximately \$20,861,000 at May 31, 1998. Liabilities related to these agreements totaled \$10,635,000 at May 31, 1998.

Total funds received through new deferred gift agreements for the year ended May 31, 1997 amounted to approximately \$1,279,000. This amount was recorded in the College's financial statements as gift income of approximately \$490,000 and annuities payable of \$789,000. Total assets held by the College under deferred gift agreements totaled approximately \$18,822,000 at May 31, 1997. Liabilities related to these agreements totaled \$9,795,000 at May 31, 1997.

---

**NOTE 16 - ALLOCATION OF EXPENSES**

---

The College allocated interest expense of \$314,351 and \$432,056; depreciation of \$3,170,276 and \$4,065,629; operation and maintenance of plant expense of \$3,829,646 and \$3,648,394; and lease payments of \$462,892 and \$469,374 to program and support functions for the year ended May 31, 1998 and 1997, respectively.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 1998 and 1997

### NOTE 17 - EXTRAORDINARY GAIN (LOSS)

On March 29, 1998, a destructive tornado hit the campus causing estimated damage of \$45,000,000. Expenses related to clean up and other miscellaneous costs have been included as a reduction of unrestricted net assets. Costs incurred to repair buildings and replace equipment at May 31, 1998 been included in construction in progress and will be capitalized in fiscal year 1999. Insurance proceeds received for capital projects have been included in temporarily restricted net assets which is consistent with the College's policy of amortizing gifts for long-lived assets over the asset's depreciable life. Details of the damage and extraordinary gain are outlined below:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Costs incurred for the year ended May 31, 1998			
Expenses	\$ 5,110,110		\$ 5,110,110
Destroyed building	3,200,000		3,200,000
Construction in progress		\$ 7,898,235	7,898,235
Totals	<u>8,310,110</u>	<u>7,898,235</u>	<u>16,208,345</u>
Estimated costs incurred subsequent to May 31, 1998			
Expenses	7,318,266		7,318,266
Construction in progress		21,473,389	21,473,389
Totals	<u>7,318,266</u>	<u>21,473,389</u>	<u>28,791,655</u>
Total estimated insured loss	<u>\$15,628,376</u>	<u>\$29,371,624</u>	<u>\$45,000,000</u>
Insurance recovery	\$ 3,200,000	\$29,371,624	\$32,571,624
Loss on disposal of property, plant and equipment	(8,524,554)		(8,524,554)
Release of contributions expended for long-lived assets destroyed	<u>3,282,264</u>	<u>(3,282,264)</u>	
Extraordinary gain (loss)	<u>\$ (2,042,290)</u>	<u>\$26,089,360</u>	<u>\$24,047,070</u>

In addition, as part of the insurance settlement, a goodwill credit of \$3,000 was given to all full-time students. Each qualified graduating senior received a check during the summer of 1998. Continuing students will receive a \$1,500 credit each semester for the 1998-99 school year based upon their academic status. The cost of this credit is estimated at \$6,600,000 and is not included in the College's financial statements since the transaction is designated for the benefit of specified students and is considered an agency transaction.

**PROPOSAL FORM**

**SALE DATE:** October 21, 1998

**TO:** Mr. J. Luther Anderson, Executive Director  
Minnesota Higher Education Facilities Authority  
Galtier Plaza, Suite 450  
175 East Fifth Street  
St. Paul, MN 55101  
(651) 296-4690

**RE:** \$11,695,000 Revenue Bonds, Series 4-X (Gustavus Adolphus College)

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$\_\_\_\_\_ (Note: This amount may not be less than \$11,554,660) and accrued interest to the date of delivery.

_____ % 2000	_____ %2007	_____ % 2013	_____ % 2019
_____ %2001	_____ %2008	_____ % 2014	_____ % 2020
_____ %2002	_____ %2009	_____ % 2015	_____ % 2021
_____ %2003	_____ %2010	_____ % 2016	_____ % 2022
_____ %2004	_____ %2011	_____ % 2017	_____ % 2023
_____ %2005	_____ %2012	_____ % 2018	_____ % 2024
_____ %2006			

**Designation of Serial and Term Maturities**

Last Year of Serial Maturities \_\_\_\_\_ Years of Term Maturities \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NOTE:** No serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond.

In making this offer we accept all of the terms and conditions of the Terms of Proposal published in the Official Statement dated October 9, 1998. In the event of failure to deliver these Bonds in accordance with the Terms of Proposal as printed in the Official Statement and made a part hereof, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Subject to any applicable exemption in the Rule, this offer to purchase/bid is subject to the Authority's covenant and agreement to take all steps necessary to assist us in complying with SEC Rule 15c2-12, as amended.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ \_\_\_\_\_

TRUE INTEREST RATE: \_\_\_\_\_ %

Account Members

\_\_\_\_\_  
Account Manager

BY: \_\_\_\_\_

Phone: \_\_\_\_\_

The foregoing offer is hereby accepted by the Issuer on the date of the offer by its following officer duly authorized and empowered to make such acceptance.

\_\_\_\_\_  
Executive Director

\_\_\_\_\_ SURE-BID \_\_\_\_\_ Good Faith Check Submitted





**PROPOSAL FORM**

**SALE DATE:** October 21, 1998

**TO:** Mr. J. Luther Anderson, Executive Director  
Minnesota Higher Education Facilities Authority  
Galtier Plaza, Suite 450  
175 East Fifth Street  
St. Paul, MN 55101  
(651) 296-4690

**RE:** \$11,695,000 Revenue Bonds, Series 4-X (Gustavus Adolphus College)

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$\_\_\_\_\_ (Note: This amount may not be less than \$11,554,660) and accrued interest to the date of delivery.

_____ % 2000	_____ %2007	_____ % 2013	_____ % 2019
_____ %2001	_____ %2008	_____ % 2014	_____ % 2020
_____ %2002	_____ %2009	_____ % 2015	_____ % 2021
_____ %2003	_____ %2010	_____ % 2016	_____ % 2022
_____ %2004	_____ %2011	_____ % 2017	_____ % 2023
_____ %2005	_____ %2012	_____ % 2018	_____ % 2024
_____ %2006			

**Designation of Serial and Term Maturities**

Last Year of Serial Maturities \_\_\_\_\_ Years of Term Maturities \_\_\_\_\_

**NOTE:** No serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond.

In making this offer we accept all of the terms and conditions of the Terms of Proposal published in the Official Statement dated October 9, 1998. In the event of failure to deliver these Bonds in accordance with the Terms of Proposal as printed in the Official Statement and made a part hereof, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Subject to any applicable exemption in the Rule, this offer to purchase/bid is subject to the Authority's covenant and agreement to take all steps necessary to assist us in complying with SEC Rule 15c2-12, as amended.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ \_\_\_\_\_

TRUE INTEREST RATE: \_\_\_\_\_ %

Account Members

\_\_\_\_\_  
Account Manager

BY: \_\_\_\_\_

Phone: \_\_\_\_\_

The foregoing offer is hereby accepted by the Issuer on the date of the offer by its following officer duly authorized and empowered to make such acceptance.

\_\_\_\_\_  
Executive Director

\_\_\_\_\_ SURE-BID

\_\_\_\_\_ Good Faith Check Submitted



**PROPOSAL FORM****SALE DATE:** October 21, 1998

**TO:** Mr. J. Luther Anderson, Executive Director  
Minnesota Higher Education Facilities Authority  
Galtier Plaza, Suite 450  
175 East Fifth Street  
St. Paul, MN 55101  
(651) 296-4690

**RE:** \$11,695,000 Revenue Bonds, Series 4-X (Gustavus Adolphus College)

For the Bonds of this Issue which shall mature and bear interest at the respective annual rates, as follow, we offer a price of \$\_\_\_\_\_ (Note: This amount may not be less than \$11,554,660) and accrued interest to the date of delivery.

_____ % 2000	_____ %2007	_____ % 2013	_____ % 2019
_____ %2001	_____ %2008	_____ % 2014	_____ % 2020
_____ %2002	_____ %2009	_____ % 2015	_____ % 2021
_____ %2003	_____ %2010	_____ % 2016	_____ % 2022
_____ %2004	_____ %2011	_____ % 2017	_____ % 2023
_____ %2005	_____ %2012	_____ % 2018	_____ % 2024
_____ %2006			

**Designation of Serial and Term Maturities**

Last Year of Serial Maturities \_\_\_\_\_ Years of Term Maturities \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**NOTE:** No serial bond may mature on or after the first mandatory sinking fund redemption date of any term bond.

In making this offer we accept all of the terms and conditions of the Terms of Proposal published in the Official Statement dated October 9, 1998. In the event of failure to deliver these Bonds in accordance with the Terms of Proposal as printed in the Official Statement and made a part hereof, we reserve the right to withdraw our offer, whereupon the deposit accompanying it will be immediately returned. All blank spaces of this offer are intentional and are not to be construed as an omission.

Subject to any applicable exemption in the Rule, this offer to purchase/bid is subject to the Authority's covenant and agreement to take all steps necessary to assist us in complying with SEC Rule 15c2-12, as amended.

Not as a part of our offer, the above quoted prices being controlling, but only as an aid for the verification of the offer, we have made the following computations:

NET INTEREST COST: \$ \_\_\_\_\_

TRUE INTEREST RATE: \_\_\_\_\_ %

Account Members

\_\_\_\_\_  
Account Manager

BY: \_\_\_\_\_

Phone: \_\_\_\_\_

.....  
The foregoing offer is hereby accepted by the Issuer on the date of the offer by its following officer duly authorized and empowered to make such acceptance.

\_\_\_\_\_  
Executive Director

\_\_\_\_\_ SURE-BID \_\_\_\_\_ Good Faith Check Submitted





