

**NEW ISSUE**

**Rating: Moody's Aaa / VMIG1**

*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 net 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 and corporations. 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.")*

**\$16,550,000**  
**Minnesota Higher Education Facilities Authority**  
**Variable Rate Demand Revenue Bonds, Series Five-X**  
**(Gustavus Adolphus College)**

**(DTC Book Entry Only)**

**Dated Date: Date of Issue**

**Maturity Date: October 1, 2034**

**CUSIP: 60416H DT 8**

**This Official Statement contains information relating to the Bonds prior to the Conversion Date. Holders or purchasers of the Bonds are not to rely on the information herein with respect to the terms or conditions of the Bonds after the Conversion Date or with respect to other information herein after the initial offering.**

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority (the "Authority") payable solely from Loan Repayments made by or on behalf of Gustavus Adolphus College, a Minnesota non-profit corporation (the "College"), and, during the Variable Rate Period, drawings on the Letter of Credit.

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

During the Variable Rate Period, payment of principal of and 46 days of interest on the Bonds at the Maximum Rate will be secured by an irrevocable, transferable, direct-pay Letter of Credit issued by

**Allied Irish Banks, p.l.c., New York Branch**

(the "Bank") or by any provider of an Alternate Letter of Credit. During the Variable Rate Period, if the College provides an Alternate Letter of Credit as more fully described herein, then the Bonds shall be subject to mandatory tender on the effective date of substitution of the Alternate Letter of Credit.

The Bonds are subject to redemption prior to maturity as described herein

**THE BONDS SHALL NOT BE LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA, NOR SHALL THEY 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 bear interest at an initial rate to be determined by the Remarketing Agent from their date of issue to and including October 13, 2004. Thereafter, until the Conversion Date, the Bonds will bear interest at a Variable Rate that is determined weekly by the Remarketing Agent. Interest on the Bonds shall be payable on each Interest Payment Date for the immediately preceding Interest Accrual Period. Interest shall be computed on the basis of a 365- or 366-day year and actual days elapsed. At the option of the College and upon the conditions set forth in the Indenture, the interest rate on the Bonds may be converted to the Fixed Rate. Prior to the Conversion Date and the establishment of a Fixed Rate, Owners of the Bonds have the right to tender their Bonds for purchase by presentation to Wells Fargo Bank, National Association (the "Trustee" and the "Tender Agent") at certain times upon prior written notice as described herein at a purchase price equal to 100% of the principal amount thereof plus (unless the purchase date is an Interest Payment Date) accrued interest thereon, as more fully described herein. The initial Remarketing Agent is RBC Dain Rauscher Inc.

**BONDHOLDERS ARE REQUIRED TO TENDER AND SELL THEIR BONDS ON A MANDATORY TENDER DATE AT A PRICE EQUAL TO THE PRINCIPAL AMOUNT THEREOF PLUS ACCRUED INTEREST THEREON, OR, IF THE MANDATORY TENDER RELATES TO THE PROVISION OF AN ALTERNATE LETTER OF CREDIT, MAY ELECT NOT TO TENDER OR SELL, ALL AS MORE FULLY DESCRIBED HEREIN. A Mandatory Tender Date occurs on the effective date of the substitution of any Alternate Letter of Credit, on specified dates following failure to extend the Letter of Credit and upon failure to provide an Alternate Letter of Credit, and on any Proposed Conversion Date. Any Bond to be purchased which is not timely delivered to the Tender Agent on the Mandatory Tender Date or an Optional Tender Date and as to which there has been irrevocably deposited with the Trustee an amount sufficient to pay the purchase price thereof shall be "deemed tendered" for purposes of the Indenture and shall be deemed no longer outstanding and shall cease to accrue interest on such Tender Date.**

The Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the opinion as to validity and tax exemption of the Bonds by McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Leonard, Street and Deinard, Saint Paul, Minnesota, for the Underwriter by Faegre & Benson LLP, Minneapolis, Minnesota, and for the Bank by its legal department and by Schiff Hardin LLP, Chicago, Illinois. It is expected that the Bonds in definitive form will be available for delivery to the Underwriter through the facilities of DTC on or about October 7, 2004.

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

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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

## MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

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## TABLE OF CONTENTS

	<u>Page</u>
Introductory Statement .....	1
Risk Factors .....	2
Continuing Disclosure .....	4
The Bonds .....	5
The Original Letter of Credit and the Reimbursement Agreement .....	11
Use of Proceeds .....	15
Estimated Sources and Uses of Funds .....	15
Source of Payment for the Bonds .....	16
Accounts .....	16
Future Financing .....	19
The Authority .....	19
Financial Advisor .....	20
Underwriting .....	20
Rating .....	21
Litigation .....	21
Legality .....	21
Tax Exemption .....	22
Not Qualified Tax-Exempt Obligations .....	23
 The College .....	 Appendix I
Proposed Form of Legal Opinion .....	Appendix II
Definition of Certain Terms .....	Appendix III
Summary of Documents .....	Appendix IV
Financial Statements Including Independent Auditors' Report, May 31, 2004 and 2003 .....	Appendix V
Allied Irish Banks, p.l.c. ....	Appendix VI



## **OFFICIAL STATEMENT**

**\$16,550,000**

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY  
VARIABLE RATE DEMAND REVENUE BONDS, SERIES FIVE-X  
(GUSTAVUS ADOLPHUS COLLEGE)  
(DTC BOOK ENTRY ONLY)**

### **INTRODUCTORY STATEMENT**

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and Gustavus Adolphus College, a Minnesota non-profit corporation and the owner of an institution of higher education with its campus located in Saint Peter, Minnesota, (the "College") in connection with the issuance of the Authority's \$16,550,000 Variable Rate Demand Revenue Bonds, Series Five-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, by which the Authority was created and authorized to issue its obligations to assist institutions of higher education within the State of Minnesota (the "State") to finance certain projects.

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

Pursuant to a Loan Agreement between the College and the Authority relating to the Bonds, the College will covenant as a general obligation of the College to make payments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due and to pay the Purchase Price of the Bonds on any Tender Date. The proceeds of the Bonds will be loaned to the College by the Authority and, along with College funds, will be used to:

1. acquire, construct and furnish a 200-bed apartment complex;
2. complete the installation of fire sprinkler systems in existing College residence halls;
3. renovate the Old Main building on campus; and
4. pay issuance costs.

See "USE OF PROCEEDS" herein for a more detailed description of the project.

The Bonds are secured by a pledge of the Loan Repayments and, prior to the Conversion Date, draws under a Letter of Credit, as further described herein.

At the time of the issuance of the Bonds, an irrevocable, transferable, direct pay letter of credit (the "Original Letter of Credit," which term includes any extensions or renewals thereof or, together with an alternate letter of credit delivered in accordance with the provisions of the Indenture and the Loan Agreement, the "Letter of Credit") will be delivered by Allied Irish Banks, p.l.c., New York Branch (the "Bank"), to the Trustee, which will be authorized to draw an amount equal to the aggregate principal amount of the Bonds plus 46 days of interest to accrue

thereon (assuming a maximum interest rate (the "Maximum Rate") on the Bonds during the Variable Rate Period of 12% per annum). The College has agreed in the Loan Agreement to maintain with the Trustee at all times during the Variable Rate Period, as hereinafter defined, a Letter of Credit in an amount at least equal to the aggregate principal amount of Bonds then outstanding, plus interest thereon calculated at the Maximum Rate for a period equal to 46 days (or such other period as the rating agency then rating the Bonds may require). If the Original Letter of Credit is not renewed or replaced prior to its stated expiration date (October 7, 2009), unless terminated earlier pursuant to the terms thereof, the Bonds are required to be tendered or converted to bear interest at a Fixed Rate.

The Original Letter of Credit is to be issued pursuant to a Reimbursement Agreement dated as of October 1, 2004 (the "Reimbursement Agreement"), between the College and the Bank. See "THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."

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

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

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

EXCEPT AS EXPRESSLY PROVIDED HEREIN, THIS OFFICIAL STATEMENT PROVIDES INFORMATION RELEVANT TO THE BONDS ONLY AS OF THE DATE OF THIS OFFICIAL STATEMENT. INVESTORS ARE CAUTIONED THAT THE ORIGINAL LETTER OF CREDIT BEARS A STATED EXPIRATION DATE OF OCTOBER 7, 2009, THOUGH BY ITS TERMS IT MAY BE TERMINATED SOONER OR EXTENDED. SEE "THE ORIGINAL LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" HEREIN.

**This Official Statement contains information relating to the Bonds prior to the Conversion Date. Holders or purchasers of the Bonds are not to rely on the information herein with respect to the terms or conditions of the Bonds after the Conversion Date or with respect to other information herein after the initial offering. This Official Statement must not be used or relied upon by a Holder or purchaser of Bonds in connection with the remarketing of Bonds, the optional tender of Bonds by a Holder, the provision of an Alternate Letter of Credit or conversion of the Bonds to a Fixed Rate.**

## **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) during the Variable Rate Period, the Letter of Credit; (b) a pledge by the Authority to the Trustee of amounts payable by the College under the Loan Agreement;

and (c) money and investments held by the Trustee under the Indenture (except any money and investments required to be paid to the United States Treasury).

The Bonds are initially secured by the Original Letter of Credit issued by the Bank, and the purchasers of the Bonds are expected to rely thereon in deciding whether to purchase, hold, or sell the Bonds. See "Rating" herein. However, if for any reason the Bank fails to honor a drawing on the Original Letter of Credit and the College fails to make payment due on the Bonds, the Bonds will be accelerated and may be paid in whole or in part out of the College's Loan Repayments. In addition, failure of the College to comply or otherwise satisfy certain terms, covenants, and conditions contained in the Reimbursement Agreement (including the incorporation by reference therein of the Events of Default under the Pledge Agreement, the Loan Agreement and the Indenture) would entitle the Bank to give notice to the Trustee of an Event of Default under the Reimbursement Agreement and thereby cause the Letter of Credit to terminate twenty (20) days after the Trustee receives such notice. See "THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."

The Bonds are not secured by a mortgage or lien on, or a security interest in, any property of the College.

### **Letter of Credit**

The obligations of the Bank under the Letter of Credit are general obligations of the Bank and rank equally in priority of payment and in all other respects with other unsecured obligations of the Bank. The information describing the Bank in Appendix VI has been provided by the Bank. In the event of bankruptcy or insolvency of the Bank or if for any other reason the Bank fails or is unable to honor a draw under the Letter of Credit, each Bondholder would have to depend entirely upon the ability of the College to pay Loan Repayments.

The Original Letter of Credit expires October 7, 2009, subject to extension, at the discretion of the Bank, as provided in the Reimbursement Agreement, but in no event beyond October 1, 2034. No assurances can be given that the College will be able to obtain an extension of the Original Letter of Credit or an Alternate Letter of Credit to secure the Bonds at their stated interest rates and original terms until and including the final stated maturity of the Bonds. In the event of a failure to obtain an extension of the Original Letter of Credit or an Alternate Letter of Credit, the Bondholders will be required under the Indenture to tender their Bonds to the Trustee for mandatory purchase from the proceeds of a draw under the Letter of Credit, at a purchase price equal to the principal amount thereof. Interest owing on the Bonds as of such date will be paid as on any other Interest Payment Date.

### **Redemption, Acceleration, or Purchase Prior to Maturity**

In considering whether the Bonds might be redeemed prior to maturity, Bondholders should consider the information included in this Official Statement under the heading "THE BONDS – Redemption." The Bonds may be called for redemption prior to maturity on any Interest Payment Date at the College's option or in certain instances of damage or destruction or condemnation of the Project Facilities. The College has agreed in the Reimbursement Agreement that it will not permit the aggregate outstanding principal amount of Bonds to exceed certain amounts set forth in the Reimbursement Agreement and that it will make optional redemption of Bonds to the extent necessary to satisfy that requirement. See "THE BONDS – Redemption – Optional Redemption Prior to Conversion to Fixed Rate." This agreement may be modified by the Bank and the College without notice to or the consent of the Bondholders, the Trustee or the Authority. In addition, if certain Events of Default occur under the Reimbursement Agreement, including a failure by the College to reimburse the Bank for a draw under the Letter of Credit within the applicable time period provided in the Reimbursement

Agreement, a breach of any representation or warranty made to the Bank by the College in the Reimbursement Agreement, or a breach of any covenant or agreement of the College in the Reimbursement Agreement, the Bank in its discretion may give notice to the Trustee of an Event of Default under the Reimbursement Agreement and thereby cause the Letter of Credit to terminate twenty (20) days after the Trustee receives such notice. Receipt by the Trustee of such notice from the Bank is an event of default under the Indenture that would require the Trustee to accelerate the maturity of the Bonds. Other events of default under the Indenture may also result in the acceleration of maturity of the Bonds. The Bonds are subject to mandatory tender for purchase upon the substitution of a Letter of Credit or proposed conversion to Fixed Rates, if the College fails to replace the Letter of Credit prior to the Termination Date or if the Bank fails to extend the Letter of Credit (See "THE BONDS – Mandatory Tender"). The effect of such an acceleration or purchase on Bondholders would be similar to that of early redemption at par. See "THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT – The Reimbursement Agreement" herein and "THE LOAN AGREEMENT – Events of Default" and "THE INDENTURE – Events of Default" in APPENDIX IV – SUMMARY OF DOCUMENTS. The Reimbursement Agreement requires the College to reimburse the Bank for drawings on the Letter of Credit, with the failure to make timely reimbursement (and certain other events of default) resulting in an acceleration of the Bonds at the Bank's option. The College's ability to reimburse the Bank from time to time is dependent upon, among other things, the College's ability to receive sufficient unrestricted revenues in excess of expenditures. The amount of future unrestricted revenue may be limited by a number of factors, including competition and adverse general economic conditions.

### **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 Indenture, the Reimbursement Agreement or the other College obligations. During the Variable Rate Period, the Bonds are payable solely from drawings under the Letter of Credit or any Alternate Letter of Credit and from payments the College makes pursuant to the Loan Agreement in amounts sufficient to pay, when due, the principal of and interest on and the purchase price of the Bonds.

### **Bankruptcy and Receivership**

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

## **CONTINUING DISCLOSURE**

The Bonds are exempt from continuing disclosure requirements of Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Consequently, the College has not agreed and is not required to provide annual financial information, notices of certain material events or any other disclosure with regard to the Bonds which the Rule might otherwise require. However, certain continuing disclosure information may be available from national repositories pursuant to continuing disclosure agreements relating to other outstanding College obligations. The College has never failed to comply with any previous agreements under the Rule to provide annual reports or notices of material events. The College will enter into an undertaking for continuing disclosure following a conversion of the Bonds to a Fixed Rate.

## THE BONDS

**The sole purpose of this section is to describe terms and provisions of the Bonds before the Conversion Date, while the Bonds bear interest at the Variable Rate, and must not be relied upon following the Conversion Date.**

### General

The Bonds will be dated the date of initial delivery thereof and will mature October 1, 2034. Interest will be payable on the first Business Day of each month ("Interest Payment Date") commencing November 1, 2004.

The Bonds are issuable only as fully-registered bonds without coupons (initially in Book Entry Form), in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

The Bonds will bear interest at a Variable Rate established by the Remarketing Agent. From the Issue Date to and including October 13, 2004, the Bonds will bear interest at a rate the Remarketing Agent will determine prior to the Issue Date. Thereafter, the Remarketing Agent will determine the interest rate weekly as described below. See "THE BONDS – Setting of Interest Rates." Interest will be computed on the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. The Bonds are subject to optional and mandatory tender and optional and mandatory redemption. See the captions "THE BONDS – Optional and Mandatory Tender" and "THE BONDS – Redemption" herein. The Bonds may be converted to a Fixed Rate as described herein under the caption "THE BONDS – Conversion to a Fixed Rate."

### Setting of Interest Rates

The Remarketing Agent will determine the Weekly Interest Rate on the Wednesday of each week or the succeeding Business Day if such Wednesday is not a Business Day, and the Effective Date of the Weekly Period is the Thursday following each such Wednesday. The College has appointed RBC Dain Rauscher Inc. to serve as the Remarketing Agent (the "Remarketing Agent") who will determine the interest rate on the Bonds pursuant to the Remarketing Agreement for each Weekly Period ending prior to the Conversion Date. The College or the Remarketing Agent may terminate the Remarketing Agreement effective upon the later of 30 days' notice or the effective date of appointment of a successor Remarketing Agent.

The Weekly Interest Rate will be the minimum interest rate which, in the Remarketing Agent's sole judgment, would enable the Remarketing Agent to sell outstanding Bonds on the first day of the applicable Weekly Period at a price equal to the principal amount thereof (plus accrued interest, if any). If, for any reason, the Remarketing Agent fails to determine the Weekly Interest Rate, or if a Weekly Interest Rate cannot legally be determined, the Weekly Interest Rate for such period will be equal to (a) 105% of the VariFact™ Rate published by The Bond Buyer for such period, or (b) if the VariFact™ Rate is not published, 80% of the bond equivalent yields (calculated in accordance with standard practice in the banking industry) for the 13-week United States Treasury bills sold at the last United States Treasury auction of such bills prior to the date of determination. Interest during a Weekly Period shall be computed on the basis of the actual number of days in a year of 365 or 366 days, as appropriate.

The Remarketing Agent shall give notice to the Trustee, the College, the Tender Agent, and the Bank of the determination of each Weekly Interest Rate. The Remarketing Agent's interest rate

determination shall be conclusive and binding on the Holders, the College, the Authority, the Bank, the Tender Agent and the Trustee.

The interest rate on any Bond before the Conversion Date may not exceed 12% per annum (the "Maximum Rate").

## **Optional and Mandatory Tender**

### Optional Tender

Prior to the Conversion Date, a Holder may tender Bonds to the Tender Agent for purchase at the principal amount thereof plus accrued interest (the "Purchase Price") on any Business Day at least seven days after the Optional Tender Notice is delivered or deemed delivered to the Tender Agent by the Holder.

An Optional Tender Notice that is delivered to the Tender Agent at its principal office at or before 4:00 P.M., New York City time, on any Business Day shall be deemed delivered on such Business Day, and if such Notice is delivered after 4:00 P.M., New York City time, it shall be deemed to be delivered on the next succeeding Business Day. Optional Tender Notices are irrevocable upon receipt by the Tender Agent. The Optional Tender Notice shall state the principal amount of each Bond to be purchased, its number, the name of the Holder and the date on which such Bond is to be purchased (the "Optional Tender Date"), which date shall be a Business Day not less than seven (7) days after the date the Optional Tender Notice is delivered or deemed delivered to the Tender Agent. During any period in which the Bonds are in Book-Entry Form, no further deliveries are required to effect the Optional Tender. During any period in which the Bonds are not in Book-Entry Form, such Bond must be delivered (together with an appropriate instrument of transfer executed in blank in form satisfactory to the Tender Agent) to the Tender Agent, at its principal office, by 9:00 A.M., New York City time, on the Optional Tender Date.

Any Bond which the Holder thereof has elected to tender for purchase and which is not delivered on the Optional Tender Date (when delivery is required during any period in which the Bonds are not in Book-Entry Form), but for which there has been irrevocably deposited with the Trustee an amount sufficient to pay the Purchase Price thereof, shall be deemed tendered and shall cease to accrue interest on the Optional Tender Date, and shall no longer be outstanding and entitled to the benefits of the Indenture, except for the payment of the Purchase Price of such Bond from moneys held by the Trustee for such payment.

### Mandatory Tender

The Bonds are required to be tendered to the Tender Agent for purchase at the Purchase Price on (each a "Mandatory Tender Date") (i) the effective date of the substitution of any Alternate Letter of Credit, (ii) on the last regularly scheduled Interest Payment Date preceding the Termination Date of the Letter of Credit, if the College has failed to deliver to the Trustee at least 35 days prior to such Interest Payment Date an extension of the Letter of Credit or an irrevocable commitment of a bank to issue an Alternate Letter of Credit, (iii) on the Business Day following such Interest Payment Date, if the College has failed to deliver to the Trustee by 10:00 A.M. New York City time on such Interest Payment Date an Alternate Letter of Credit, and (iv) any Proposed Conversion Date.

The Trustee shall give notice by mail to the College, the Bank, the Tender Agent, the Remarketing Agent, and the Holders of the Bonds subject to such mandatory tender not less than 30 days prior to the Mandatory Tender Date.

In the case of a mandatory tender relating to the substitution of any Alternate Letter of Credit, the Holders may elect not to tender or sell their Bonds, in whole or in part (in Authorized

Denominations), by delivery of a Non-Tender Notice not less than ten (10) days prior to the Mandatory Tender Date to the Tender Agent. Such notice shall be irrevocable and shall state the principal amount subject to tender, the number of the Bond, the name of the Holder, and the principal amount the Holder elects not to tender. The notice shall also state that the Holder acknowledges that the ratings on such Bonds may be modified, reduced, suspended or withdrawn.

During any period in which Bonds are in Book-Entry Form, the Tender Agent shall purchase any Bond subject to mandatory tender for which a Non-Tender Notice has not been received without further action by the Holder. During any period in which the Bonds are not in Book-Entry Form, each Bond for which a non-tender notice has not been received must be tendered to the Tender Agent for purchase on the College's behalf at or before 9:00 A.M., New York City time, on the Mandatory Tender Date, by delivering such Bond to the Tender Agent (together with an appropriate instrument of transfer executed in blank in form satisfactory to the Tender Agent). On the Mandatory Tender Date the Tender Agent will purchase such Bond or cause such Bond to be purchased for the College's account at the Purchase Price.

Interest on any Bond for which a non-tender notice has not been received and for which there has been irrevocably deposited with the Trustee an amount sufficient to pay the Purchase Price thereof, shall be deemed tendered and shall cease to accrue interest on the Mandatory Tender Date, whether or not actually tendered on the Mandatory Tender Date and the Holder of such Bond shall not be entitled to any payment other than the Purchase Price for such Bond, and such Bond shall no longer be outstanding and entitled to the benefits of the Indenture, except for the payment of the Purchase Price of such Bond from funds held by the Tender Agent or the Trustee for such payment.

#### Tenders Under Book-Entry System

While any Bond is in Book-Entry Form, the term "Tendered Bond" refers to the beneficial ownership interest of the Beneficial Owner. On a Tender Date or upon remarketing, each Bond will be deemed delivered or transferred to a person upon transfer to such person of the beneficial ownership interest therein pursuant to the Book-Entry System.

If any Holder is entitled to receive notice of a Mandatory Tender Date, the Trustee shall give notice to DTC. No Bond in Book-Entry Form (other than a Bond which is to be converted to a Fixed Rate Bond) will be required to be delivered for an exchange, purchase or transfer in connection with such Mandatory Tender Date, and any transfer of beneficial interest in any Tendered Bonds shall be effected through the Book-Entry System. Unless waived by the Tender Agent, beneficial interest in any Tendered Bonds in Book-Entry Form shall be transferred to the Tender Agent on or before the applicable Mandatory Tender Date.

So long as the book-entry system is in effect, DTC procedures govern Beneficial Owners tendering Bonds. See "BOOK ENTRY SYSTEM" herein. The delivery of certificates evidencing the Tendered Bonds shall not be required to effect any optional tender pursuant to the Indenture, and the beneficial ownership interest of the Beneficial Owner in such Bond shall be transferred through the Book-Entry System to the Tender Agent on the Optional Tender Date against credit for the Purchase Price.

#### **Remarketing and Purchase**

On each Optional Tender Date and on each Mandatory Tender Date, the Tender Agent is required to purchase tendered Bonds with funds derived from either the remarketing of tendered Bonds or from a drawing under the Letter of Credit. College funds will not be used to purchase Bonds unless the Bank dishonors a draft for payment under the Letter of Credit.

Subject to the availability of any required offering materials and satisfaction of other conditions precedent, the Remarketing Agent has agreed to use its best efforts to remarket tendered Bonds.

### **Conversion to a Fixed Rate**

The Indenture provides that the College has the one-time right, with the Bank's consent, exercisable at any time, to direct the Authority to convert the interest rate on all of the Bonds to a Fixed Rate, effective on any Variable Rate Interest Payment Date. To exercise its option, the College must deliver to the Authority, the Trustee, the Tender Agent and the Remarketing Agent written notice thereof along with the Bank's written consent at least 35 days prior to the Variable Rate Interest Payment Date on which the Fixed Rate is to become effective (the "Conversion Date") and an opinion of nationally recognized bond counsel to the effect that the conversion to a Fixed Rate is authorized by the Indenture and will not adversely affect the exemption of interest on any Bonds from federal income taxation. See "Tax Exemption" herein.

The Trustee shall give notice by mail to the Holders of the conversion to a Fixed Rate not less than 30 days prior to the Conversion Date, specifying, among other things, the Proposed Conversion Date, the Computation Date, which is the date on which the Fixed Rate shall be determined and announced, which shall be not less than 15 days prior to the Proposed Conversion Date, and stating that the Bonds shall be subject to mandatory tender for purchase on the Proposed Conversion Date.

Notwithstanding the foregoing, the College may cancel the conversion to a Fixed Rate at any time on or prior to the last Business Day preceding the Proposed Conversion Date by giving notice to the Trustee, the Authority, the Remarketing Agent, the Tender Agent, and the Bank.

On the Computation Date, the Remarketing Agent shall determine the Fixed Rate, which shall be the annual interest rate, which, in the determination of the Remarketing Agent, if borne by the Bonds until their maturity, would result in the market value of the Bonds on that date being as nearly as practicable 100% of, but not less than, the principal amount thereof. In determining the Fixed Rate, the Remarketing Agent shall have due regard for general financial conditions and such other or special conditions as in the judgment of the Remarketing Agent may have a bearing on the Fixed Rate. After the Conversion Date, the Holders of any affected Bonds shall have no right to tender such Bonds for purchase.

### **Redemption**

#### Optional Redemption Prior to Conversion to Fixed Rate

The Bonds are subject to optional redemption by the Authority at the direction of the College, in whole or in part on any Interest Payment Date, at a redemption price equal to the principal amount of Bonds to be so redeemed, plus accrued interest to the redemption date.

Although neither the Indenture nor the Loan Agreement requires the College to pay any portion of the principal of the Bonds prior to the maturity date, the Bank has required under the Reimbursement Agreement that the College annually prepay principal on the Bonds. The Bank and the College may change or eliminate at any time this prepayment requirement, without notice to or the consent of the Trustee, the Authority or Bondholders. Any Reimbursement Agreement related to an Alternate Letter of Credit could have similar, different or no requirements with respect to the amortization of the principal amount of the Bonds.



### Extraordinary Optional Redemption

The Bonds are also subject to optional redemption at par plus accrued interest, as a whole, in certain cases of damage to or destruction or condemnation of the Project Facilities (see "SUMMARY OF DOCUMENTS – The Loan Agreement").

### Partial Redemption

If fewer than all of the Bonds at the time outstanding are to be called for optional redemption, the College shall designate to the Trustee the amount of the Bonds to be redeemed, and the Trustee shall select randomly in units of Authorized Denominations particular Bonds or portions thereof to be redeemed, unless otherwise provided in the Indenture. In no event shall such redemption result in less than \$100,000 of Bonds remaining outstanding. The College may direct the Trustee to select randomly from among all the Holders and thereafter select randomly the particular Bonds or portions thereof held by the Holders so selected in order to call for redemption as many Bonds or portions thereof from among the fewest number of Holders. Pledged Bonds shall be selected for redemption prior to any other Bonds except Bonds which have been properly tendered for purchase on optional tender dates occurring on or after the redemption date.

Notwithstanding the foregoing, while the Bonds are in Book Entry Form, DTC shall select Bonds for redemption within particular maturities according to its stated procedures. In no event shall the portion of Bonds to be redeemed and the portion of Bonds not to be redeemed be less than the minimum Authorized Denomination.

### Notice of Redemption

Notice of any redemption shall be mailed to the registered Owners at their addresses shown on the Authority's registration books maintained by the Trustee not less than 30 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 Trustee's office 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.

### **Book Entry System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the

need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, 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 Direct and Indirect 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any 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 Direct and Indirect 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. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If fewer than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. 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 (or its nominee), 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 Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or redeemed, through its Direct Participant, to the nominee holding the Bonds, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Direct Participant's interest in the Bonds, on DTC's records, to the nominee holding the Bonds. The requirement for physical delivery of Bonds in connection with a purchase or redemption will be deemed satisfied when the ownership rights in the Bonds are transferred by the Direct Participants on DTC's records and followed by a book-entry credit of purchased or redeemed Bonds to the nominee holding the Bonds.

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

The Authority, at the College's direction, 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 DTC, which is solely responsible for such information. None of the Authority, the College nor the Underwriter takes any responsibility for the accuracy thereof.

## **THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT**

The Loan Agreement requires the College at all times during the Variable Rate Period to maintain with the Trustee a Letter of Credit in an amount at least equal to the aggregate principal amount of Bonds then outstanding, plus interest thereon, computed at the Maximum Rate, for a period of 46 days.

### **The Bank**

Allied Irish Banks, p.l.c., New York Branch ("Allied Irish" and, together with the issuer of any Alternate Letter of Credit, the "Bank") will issue the Original Letter of Credit. For information concerning Allied Irish, see Appendix VI to this Official Statement. Allied Irish furnished the information contained in Appendix VI and is solely responsible for such information.

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

### **The Original Letter of Credit**

At the time of issuance of the Bonds, the College will cause the Bank to issue the Original Letter of Credit to the Trustee in an original stated amount of \$16,800,291 (the "Original Stated Amount"). Of such Original Stated Amount, \$16,550,000 supports the payment of principal or the portion of the purchase price corresponding to the principal amount of the Bonds and \$250,291 supports the payment of up to 46 days of interest or the portion of the purchase price corresponding to interest on the Bonds at an assumed interest rate of twelve percent (12%). The Original Stated Amount will be reduced and reinstated in whole or in part from time to time in accordance with the terms of the Letter of Credit described below. The amount available to be drawn under the Letter of Credit is referred to herein as the "Available Amount." The Original Letter of Credit will be an irrevocable, unsecured obligation of the Bank, which will have a stated expiration date of October 7, 2009, unless terminated earlier or extended. So long as the Original Letter of Credit is effective (i.e., has not terminated for one of the reasons described below), the Trustee will be required to draw under the Original Letter of Credit, in accordance with the terms thereof, amounts up to the Available Amount to pay (i) accrued interest on the Bonds on an Interest Payment Date (an "Interest Drawing"), (ii) principal of and accrued interest on the Bonds in respect of any optional redemption (a "Redemption Drawing"), provided that, in the event the date of redemption coincides with an Interest Payment Date, the Redemption Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iii) the Purchase Price of Bonds tendered pursuant to the terms of the Indenture for purchase on a Tender Date to the extent such Bonds have not been successfully remarketed or for which the Purchase Price has not been received by the Remarketing Agent or the Tender Agent, as appropriate, by 10:00 A.M., New York City time, on the Tender Date (a "Liquidity Drawing"), provided that in the event the Tender Date coincides with an Interest Payment Date, the Liquidity Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iv) principal of and accrued interest in respect of Bonds the payment of which has been accelerated pursuant to the Indenture (an "Acceleration Drawing"), and (v) if the Original Letter of Credit has been extended and is in effect on such date, the principal amount of Bonds outstanding on October 1, 2034 (a "Stated Maturity Drawing"); provided, however, none of the foregoing drawings shall be made under the Original Letter of Credit for payment of the principal or Purchase Price of or interest on Pledged Bonds, College Bonds or Fixed Rate Bonds.

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

Bank, in an amount equal to the Original Purchase Price of any Pledged Bonds or portions thereof so remarketed, except that the Bank, in its sole discretion, may by notice to the Trustee, the College and the Remarketing Agent refuse to permit the remarketing of any Pledged Bonds and reinstatement of the Letter of Credit if there shall have occurred and be continuing an Event of Default or Potential Default under the Reimbursement Agreement. A "Potential Default" means an event or condition which, but for the lapse of time or the giving of notice, or both, would constitute an Event of Default under the Reimbursement Agreement. Prior to the Conversion Date, in the event of a repayment of any amount relating to a Liquidity Drawing, the Available Amount under the Letter of Credit shall be automatically reinstated in an amount equal to the amount of the repayment, except that the Bank, in its sole discretion may by notice to the College, the Trustee and the Remarketing Agent refuse to so reinstate the Available Amount under the Letter of Credit if there shall have occurred and be continuing an Event of Default or Potential Default under the Reimbursement Agreement. The Bank will provide confirmation to the Trustee of any such reinstatement.

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

The Original Letter of Credit will terminate on the close of business of the Bank on the earliest to occur of: (i) October 7, 2009 or such later date to which such date has been extended in accordance with the Letter of Credit and the Reimbursement Agreement, (ii) the date which is five (5) days following the Conversion Date, as such date is specified in a certificate of the Trustee; (iii) the date which is five (5) days following the receipt by the Bank of a certificate of the Trustee in the form prescribed in the Original Letter of Credit to the effect that either (a) no Bonds remain outstanding, (b) all drawings required to be made under the Indenture and available under the Original Letter of Credit have been made and honored or (c) an Alternate Letter of Credit has been issued and is in effect in accordance with the Indenture and Loan Agreement; (iv) the date on which an Acceleration Drawing is honored and (v) the date which is twenty (20) days following receipt by the Trustee of a written notice from the Bank notifying the Trustee that an Event of Default has occurred under the Reimbursement Agreement and that the Bank is terminating the Letter of Credit. The Reimbursement Agreement provides that the Bank will consider requests by the College to extend the stated expiration date of the Original Letter of Credit and that the Bank may for any reason (or no reason) decline any such request.

### **Alternate Letter of Credit**

The Indenture and the Loan Agreement provide that during the Variable Rate Period the Bonds will be tendered if the College fails to deliver to the Trustee (i) at least thirty-five (35) days before the last regularly scheduled Interest Payment Date preceding the Termination Date of a Letter of Credit, an irrevocable commitment from a bank to issue an Alternate Letter of Credit and (ii) on such Interest Payment Date an Alternate Letter of Credit and an opinion of counsel for the bank issuing such Alternate Letter of Credit. An Alternate Letter of Credit shall be an irrevocable, direct-pay letter of credit, having a term of at least one year, issued by a commercial bank organized under the laws of the United States or a foreign nation and authorized to do business in the United States, the terms of which are required by the Indenture to be in all material respects the same as the Original Letter of Credit. If at any time there shall have been delivered to the Trustee (i) an Alternate Letter of Credit pursuant to, and meeting the requirements of, the Loan Agreement and in an available amount meeting the requirements

specified in the Indenture, and (ii) an opinion of counsel for the bank which is the issuer of the Alternate Letter of Credit to the effect that the Alternate Letter of Credit has been duly authorized, executed and delivered by the issuer thereof and is a valid and binding obligation of the issuer thereof and enforceable against the issuer, subject to bankruptcy and similar laws affecting creditors' rights generally, then the Trustee shall accept such Alternate Letter of Credit and upon the date the Trustee is permitted to draw under such Alternate Letter of Credit promptly terminate and surrender the previously held Letter of Credit to the issuer thereof for cancellation.

The effective date of substitution of any Alternate Letter of Credit shall be a Variable Rate Interest Payment Date and shall also be a Mandatory Tender Date; provided that any Bondholder may elect to retain its Bonds by filing a Non-Tender Notice in accordance with the Indenture.

### **The Reimbursement Agreement**

The Original Letter of Credit will be issued by the Bank pursuant to a Reimbursement Agreement, dated as of October 1, 2004 (the "Reimbursement Agreement"), between the Bank and the College, under which the College will agree, among other things, to reimburse the Bank (i) for a drawing under the Letter of Credit to purchase Bonds on the earlier of the occurrence of an Event of Default under the Reimbursement Agreement, the date of the remarketing of the Bonds purchased with such a drawing, the 60th day following the date of such a drawing or the date on which the Original Letter of Credit is replaced by an Alternate Letter of Credit in accordance with the terms of the Indenture, for the amount of the drawing under the Original Letter of Credit plus interest thereon at the rate specified in the Reimbursement Agreement and (ii) for any other drawing on the day the drawing is made. Pursuant to the Reimbursement Agreement, the College will also agree to pay certain fees for issuance and maintenance of the Original Letter of Credit. The obligations of the College to the Bank under the Reimbursement Agreement are secured by (i) a pledge to the Bank, under the Indenture and the Pledge Agreement, of all Pledged Bonds, and (ii) a pledge to the Bank, under the Indenture, of an interest in the Trust Estate thereunder (which interest is subordinate to the interest of the Bondholders).

The Reimbursement Agreement contains certain representations, warranties, covenants and agreements of the College, including covenants and agreements with respect to, among other things, maintenance of existence and status as an organization described in Section 501(c)(3) of the Code; maintenance of insurance, maintenance of property, merger, consolidation or change in control; creation of indebtedness or liens on or transfers of property of the College; compliance with requirements of law; maintenance of licenses and accreditations; provision of financial and other information; and limitations on guarantees and transactions with affiliates. The Reimbursement Agreement also requires the College to comply with certain financial covenants, including requirements to maintain certain financial ratios and balances, and to provide for the optional redemption of the Bonds as previously described.

**These representations, warranties, covenants and agreements are for the benefit of the Bank only, and may be waived, modified or amended with the consent of the Bank and without notice to or consent of the Trustee or the Bondholders.**

## USE OF PROCEEDS

### The Project

Proceeds of the Bonds along with College funds will be used to:

1. acquire, construct and furnish a 200-bed apartment complex;
2. complete the installation of fire sprinkler systems in existing College residence halls;
3. renovate the Old Main building on campus; and
4. pay issuance costs.

The apartment-style residence hall the College is constructing is approximately 75,000 square feet and will contain 200 beds. This facility will replace an existing 191-bed dormitory on the College campus. Construction on this portion of the project commenced in June 2004 and the College anticipates that construction will be completed in March of 2005. The College estimates that this portion of the project will cost \$12,000,000.

The College will install sprinklers in its existing residence halls, aggregating approximately 397,000 square feet. Construction on this portion of the project commenced during the summer of 2004 and will continue it during the summers of 2005 and 2006. The College anticipates that this portion of the project will be completed after summer 2006. The College estimates that this portion of the project will cost \$900,000.

The College anticipates that renovation of its Old Main building on campus will commence in February 2005 and will be completed in September 2005. Old Main is a building of approximately 22,000 square feet. The College estimates that this portion of the project will cost \$4,480,000.

As of the date of this Official Statement, the College has a construction contract for a portion of the sprinkler system portion of the project, has a partial construction contract for the residence hall portion of the project, and does not have a construction contracts for the Old Main renovation portion of the contract. Based on architectural estimates and construction prices the College has obtained, the College believes that the project can be completed within the cost parameters discussed herein.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds together with other moneys are expected to be used as follows:

### Sources of Funds

Par amount of the Bonds	\$16,550,000
College contributions	<u>1,480,000</u>
Total Sources	<u>\$18,030,000</u>

### Uses of Funds

Project Costs (including capitalized interest)	\$17,798,000
Issuance Costs (including Underwriter's discount)	<u>232,000</u>
Total Uses	<u>\$18,030,000</u>

In the event Bond issuance costs including Underwriter's discount exceed 2% of Bond proceeds, defined as par less original issue discount, the College shall pay such excess from other than Bond proceeds.

## **SOURCE OF PAYMENT FOR THE BONDS**

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

The Bonds are secured by the pledge of the Loan Repayments, which are a general obligation of the College. The College will agree pursuant to the terms of the Loan Agreement and the Indenture to make such payments out of its operating funds or any other moneys legally available. The College covenants and agrees to charge tuition fees, other fees, rentals and charges which, together with the College's general funds or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement; to meet current operation and maintenance expenses of the Project Facilities; and to pay all other obligations of the College as they become due.

During the Variable Rate Period, the Bonds will be secured by the Original Letter of Credit or Alternate Letter of Credit, as discussed under "THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."

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

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

## **ACCOUNTS**

### **Summary**

The Indenture will provide for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement and moneys from draws under the Letter of Credit are to be deposited. These accounts include a Construction Account, a Bond Purchase Fund, a Bond and Interest Sinking Fund Account, a Reserve Account, and a Redemption Account. Each account or fund (except the Construction Account and the Reserve Account) includes a General Account and a Letter of Credit Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Construction Account. Following Bond Closing, amounts received by the Trustee from the College as Loan Repayments, proceeds of remarketing or proceeds from draws under the Letter of Credit are to be deposited into the Bond and Interest Sinking Fund Account, the Bond Purchase Account, and the Redemption Account, as required by the Loan Agreement and used, to the extent needed, to redeem or pay the principal of and interest on or the Purchase Price of the Bonds when due.



## **Construction Account**

There shall be deposited initially into the Construction Account the net proceeds of the Bonds. In addition, the College will agree in the Loan Agreement to provide for payment of all Project Costs in excess of the proceeds of the Bonds available therefor and to pay out of the College's available general funds all costs of issuance of the Bonds (including underwriting discount) in excess of 2.00% of the proceeds of the Bonds (principal less original issue discount). Upon receipt of proper documentation, the Trustee will reimburse or pay for the account of the College costs incurred in connection with the Project. When work on the Project has been completed and the Project Equipment has been installed and a certificate to that effect has been furnished to the Trustee, any balance in the Construction Account may, under certain conditions, be delivered to the Bank to pay the College's reimbursement obligations or deposited into the Bond and Interest Sinking Fund Account; otherwise such balance shall be deposited to the Redemption Account.

## **Bond Purchase Fund**

There shall be deposited to the General Account in the Bond Purchase Fund (a) the remarketing proceeds of Bonds received by the Trustee from the Tender Agent (together with any investment income thereon) into a separate sub-account of the General Account, but not including any moneys received from the Authority or the College and (b) all other moneys (except moneys available pursuant to the Letter of Credit) which are required or directed to be deposited to the Bond Purchase Fund. There shall be deposited to the Letter of Credit Account in the Bond Purchase Fund all moneys drawn by the Trustee pursuant to the Letter of Credit.

Moneys in the Bond Purchase Fund shall be used solely for the payment of the Purchase Price of Bonds upon optional or mandatory tender and shall be disbursed by the Trustee from the Bond Purchase Fund in the following order: (a) amounts in the General Account derived from remarketing of the Bonds and investment income thereon, (b) amounts in the Letter of Credit Account and (c) amounts in the General Account derived from any other sources and investment income thereon. If the funds available under clause (a) in the foregoing sentence for the payment of the Purchase Price of Bonds on any Optional Tender Date or Mandatory Tender Date, are not sufficient to pay in full the Purchase Price of such Bonds, the Trustee shall make a drawing under the Letter of Credit in an amount which will be sufficient, together with the funds available under clause (a), to pay the Purchase Price.

If there remains any balance (other than moneys held by the Trustee for the purchase of Untendered Bonds) in either the Letter of Credit Account or the General Account of the Bond Purchase Fund, the Trustee shall, prior to the close of business on the Optional Tender Date or the Mandatory Tender Date, authorize the payment of such balance first to the Bank, but only to the extent of amounts due under the Reimbursement Agreement, and then to the College.

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

There shall be deposited into the General Account of the Bond and Interest Sinking Fund Account transfers of amounts in other accounts, as permitted by the Indenture, and from Loan Repayments made by the College. There shall be deposited to the Letter of Credit Account of the Bond and Interest Sinking Fund Account all moneys drawn by the Trustee under the Letter of Credit to pay interest on any Bond (except Corporation Bonds) on any Interest Payment Date and principal on any Bond (except Corporation Bonds) on the Stated Maturity or acceleration thereof.

Funds for the payment of principal of and interest on the Bonds (other than College Bonds) on a Stated Maturity, acceleration or Interest Payment Date are to be derived from the following

sources in the order of priority indicated: (i) amounts in the Letter of Credit Account of the Bond and Interest Sinking Fund Account derived from the Letter of Credit for such purpose; and (ii) amounts in the General Account of the Bond and Interest Sinking Fund Account.

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**

While the Bonds bear interest at the Variable Rate, the Reserve Requirement is zero and there shall be no deposit into the Reserve Account prior to the Conversion Date.

### **Redemption Account**

All deposits to the Redemption Account will be made to the General Account unless specified to be deposited in the Letter of Credit Account by the Indenture, the Loan Agreement or the Letter of Credit. There shall be deposited into (a) the Letter of Credit Account of the Redemption Account, all moneys drawn by the Trustee under the Letter of Credit for optional or mandatory redemption during the Variable Rate Period and all income, if any, derived from the investment of such moneys, and (b) the General Account of the Redemption Account all other amounts required to be deposited therein pursuant to any provision of the Loan Agreement or the Indenture.

Amounts on deposit to the credit of the General Account of the Redemption Account shall be used, first, to make up deficiencies in the Bond and Interest Sinking Fund Account, the Bond Purchase Fund and the Reserve Account (after the Conversion Date), in the order listed, and, second, for the redemption of outstanding Bonds at the request or direction of the College or for the purchase of outstanding Bonds on the market at the request of the College at prices not exceeding the redemption price on the next available date for redemption or to pay any unpaid obligations under the Reimbursement Agreement. Notwithstanding the foregoing, the Trustee is authorized in its discretion to use funds and investments in the General Account of 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.

Funds for the payment of the principal of and premium, if any, on the Bonds upon redemption shall be disbursed by the Trustee in the following order of priority: (i) amounts in the Letter of Credit Account of the Redemption Account derived from the Letter of Credit for such purpose, and (ii) amounts in the General Account of the Redemption Account.

### **General Bond Reserve Account**

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

## **Authorized Investments**

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

## **FUTURE FINANCINGS**

The College regularly improves, expands and changes its physical plant and incurs long-term financing as needed for these purposes. The College does not anticipate financing any other such projects with debt within the next six months.

## **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.

Marianne T. Remedios has been the Executive Director of the Authority since May 1, 2000. Prior to her appointment, she was an associate and partner at Faegre & Benson LLP.

Elaine J. Yungerberg has been Assistant Executive Director of the Authority since 1993.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$800 million. The Authority has had 143 issues (including refunded and retired issues) totaling over \$1 billion, of which approximately \$635 million is outstanding as of September 1, 2004. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State.

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

### **UNDERWRITING**

The Bonds are being purchased by RBC Dain Rauscher Inc. as Underwriter. The Underwriter has agreed to purchase the Bonds at a purchase price of \$16,487,937.50.

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

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

## **RATING**

As noted on the cover hereof, Moody's Investors Service ("Moody's") has assigned a long-term rating of "Aaa" and a short-term rating of "VMIG1" to the Bonds, conditioned on the issuance of the Letter of Credit by the Bank. Moody's has also assigned an underlying rating of "A3" based on the stand-alone credit strength of the College. Moody's has based the Aaa long term rating on the Bonds on its analysis of the credit strength of both the College and the Bank using its "Two-Party-Pay" rating approach. This approach examines both the College and the Bank and evaluates the likelihood that both parties will be unable to make payments on the Bonds when due. The short term rating on the Bonds is based solely on the credit strength of the Bank. The ratings reflect only the view of such rating agency. Further information concerning the ratings is available from Moody's.

Generally, a rating agency bases its ratings on the information and materials furnished it and on investigations, studies and assumptions by the rating agency. There is no assurance that either rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **LITIGATION**

The Authority and the College are not aware of any pending or overtly threatened in writing litigation which would affect the validity of or the tax-exempt nature of the interest on 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 of McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, 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 Leonard, Street and Deinard, Saint Paul, Minnesota, for the Underwriter by Faegre & Benson LLP, Minneapolis, Minnesota, and for the Bank by its legal department and by Schiff Hardin LLP, Chicago, Illinois.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed in the opinions. By rendering a legal opinion, the opinion giver does not undertake to insure or guarantee that expression of legal judgment, the transaction opined upon or the future performance of the parties to the transaction. In addition, rendering an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

## 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 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 the 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.

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

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, 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 net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is not treated as a preference item in determining federal alternative minimum taxable income of individuals and corporations or the Minnesota alternative minimum tax applicable to individuals, estates and trusts. However, the interest is includable in "adjusted current earnings" for purposes of computing the federal alternative minimum taxable income of corporations and is subject to the Minnesota franchise tax imposed on corporations, including financial institutions, measured by taxable income and the alternative minimum tax base.

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

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

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

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

#### **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.

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## THE COLLEGE

Gustavus Adolphus College is a four-year, co-educational, liberal arts college located in Saint 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 Saint 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 36 members.

#### Board of Trustees

Gary F. Anderson	Retired Clergy, Hackensack, Minnesota
Jon V. Anderson	Bishop, Southwestern Minnesota Synod, ELCA, Redwood Falls, Minnesota
Rodney L. Anderson	Pastor, Saint Andrew Lutheran Church, Eden Prairie, Minnesota
Thomas M. Annesley	Professor of Pathology, University of Michigan, Ann Arbor, Michigan
Al Annexstad	Chairman, President and CEO, Federated Insurance, Owatonna, Minnesota
Mark Bernhardson	City Manager, City of Bloomington, Minnesota
Stephen P. Blenkush	Pastor, Calvary Lutheran Church, Mora, Minnesota
Philip F. Boelter	Executive Vice President and COO, Kraus-Anderson Companies Inc., Minneapolis, Minnesota
Gordon A. Braatz	Associate Pastor/Psychologist, Central Lutheran Church, Minneapolis, Minnesota
Diane L. Brady	Executive Director, Volunteer Resource Center, Minneapolis, Minnesota
David J. Carlson	Internist, Allina Medical Clinic, Edina, Minnesota
John E. Chadwick	President, The Chadwick Group, Bloomington, Minnesota
Kelly Chatman	Pastor, Redeemer Lutheran Church, Minneapolis, Minnesota

Nancy M. Dahl	Senior Vice President, Sales & Operations, Lifetouch, Eden Prairie, Minnesota
Jerome King Del Pino	General Secretary, General Board of Higher Education and Ministry, The United Methodist Church, Nashville, Tennessee
Jann Eichlersmith	Assistant General Counsel, The Scoular Company, Minneapolis, Minnesota
Bruce W. Engelsma	CEO and Chairman of the Board, Kraus-Anderson Companies, Inc., Minneapolis, Minnesota
James H. Gale	Lawyer – on sabbatical, Rock Island, Illinois
Tania K. Haber	Senior Pastor, Westwood Lutheran Church, Saint Louis Park, Minnesota
Pat Haugen	Client Executive, IBM, Sioux Falls, South Dakota
Alfred Henderson	Financial Advisor, American Express, Edina, Minnesota
George G. Hicks	Managing Partner, Varde Partners, Inc., Minneapolis, Minnesota
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Linda B. Keefe	Vice President, NAI Brannen Goddard, Atlanta, Georgia
Daniel A. Kolander	Senior Pastor, First Lutheran Church, Cedar Rapids, Iowa
Barbara Krig	Retired Educator, Excelsior, Minnesota
Richard C. Lundell	Retired Executive, Excelsior, Minnesota
Russell V. Michaletz	Deloitte & Touche, Minneapolis, Minnesota
Christine M. Morse	Vice President and Controller, Waycrosse Inc., Minneapolis, Minnesota
Martha Penkhus	RN, Immanuel Saint Joseph's Hospital, Mankato, Minnesota
Arne Selbyg	Director for Colleges and Universities, Division for Higher Education and Schools, ELCA, Chicago, Illinois
Robert D. Sparboe	Chairman and CEO, Sparboe Companies, Litchfield, Minnesota

Karin Stone	Senior Vice President, Director of Corporate Marketing, National City Corporation, Cleveland, Ohio
David E. Swenson	Senior Pastor, Lutheran Church of the Cross, Saint Petersburg, Florida
Sally Turritin	Co-Owner, Prime Mortgage Company, Minnetonka, Minnesota
Daniel K. Zismer	Managing Principal, Dorsey & Whitney LLP, Minneapolis, Minnesota

## **President**

James L. Peterson, Ph.D., became the 14th President of Gustavus Adolphus College on July 7, 2003.

From 1984 until 2003 Dr. Peterson was president and CEO of the Science Museum of Minnesota in Saint Paul. Active in the national and international museum communities, Dr. Peterson served on the Accreditation Commission of the American Association of Museums and on the National Science Foundation's Advisory Committee for Education and Human Resources and co-chaired an international science center initiative on equity and diversity. He has been a member of the Board of Directors of the Association of Science-Technology Centers and is a past president.

Dr. Peterson began his career as a high school science teacher. He taught in Peoria, Illinois and Osseo, Minnesota before leaving to pursue his doctorate. After receiving his Ph.D. in 1972, Dr. Peterson served as a research associate at the University of Wisconsin, Madison for two years. He then made the transition to the National Commission on Water Quality in Washington, D.C., where he was a staff ecologist. From 1976-1984 Peterson served as a vice president in the areas of systematics and evolutionary biology, environmental research, and institutional advancement at the Academy of Natural Sciences in Philadelphia.

Dr. Peterson holds a B.A. in biology from Gustavus Adolphus College (1964) and a Ph.D. in entomology from the University of Nebraska, Lincoln (1972).

## **Academic Information**

The College offers the Bachelor of Arts degree through 24 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 Admission Committee on the basis of course selection and achievement in secondary school, aptitude test scores, letters of reference, and, whenever possible, personal interviews by admission counselors. Consideration is given to personal objectives, character, and maturity; but, the primary factor influencing the admission 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 1180.

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 Saint Peter and the Minnesota River Valley. College facilities consist of 30 main campus buildings, including thirteen residence halls. The total insured value of the College buildings is approximately \$225,000,000.

The residence halls' capacity is approximately 2,055 students and currently house 2,034 students or approximately 81% of the student body. Students are required to live in campus housing unless granted permission to live off-campus. The residence hall portion of the project funded by the Series Five-X Bonds will include 200 new beds to replace the retirement of a facility with 191 beds, creating a net gain of 9 beds on campus. Part of the Series Five-X Bond proceeds will also be used to install sprinkler systems in all residence halls without such systems currently in place.

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 the 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 1998 the College constructed the 96-bed College View Apartments and purchased two apartment buildings with approximately 64 beds (the Arbor View Apartments) for student housing.

In the fall of 2000 the International Center Residence Hall was completed. This facility has 78 beds and contains 32,430 square feet of space. This building also houses the Office of International Education.

In 2001 the Campus Center project was completed. This facility contains in excess of 106,000 square feet of space for student dining, student affairs offices, student activities, bookstore, post office and other auxiliary operations.

## Student Body

The College's actual head count enrollment and full-time equivalent (FTE) enrollment for the past five years are:

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Head Count	2,543	2,560	2,592	2,536	2,550
FTE	2,516	2,537	2,580	2,520	2,525

Approximately 80% of the students in the 2003-04 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>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Applications	2,081	2,163	2,203	2,314	2,648
Acceptances	1,596	1,637	1,703	1,791	2,033
Percent Accepted	76.6%	75.7%	77.3%	77.3%	76.8%
Enrolled	671	670	662	688	657
Percent Enrolled to Accepted	42.0%	40.9%	38.9%	38.4%	32.3%

Many colleges have eliminated application fees and have begun to accept electronic applications, resulting in an increase in the number of applications received. This has consequently resulted in the decline in the Percent Enrolled to Accepted ratio shown above.

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

<u>Entering Year</u>	<u>4-year Graduation rate</u>
1996	79.7%
1997	77.8%
1998	79.7%
1999	78.8%
2000	79.0%

## Student Retention

For the past five academic years, retention from the first year to the second year has been as follows:

Fall 1998 to Fall 1999:	90.6%
Fall 1999 to Fall 2000:	91.9%
Fall 2000 to Fall 2001:	88.8%
Fall 2001 to Fall 2002:	87.2%
Fall 2002 to Fall 2003:	89.4%

## 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 2004-05 academic year.

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Tuition for First Year Student	\$17,970	\$18,940	\$19,945	\$21,330	\$22,590
Room and Board*	\$ 4,605	\$ 4,900	\$ 5,170	\$ 5,460	\$ 5,810
Fees	\$ 260	\$ 310	\$ 385	\$ 330	\$ 330
Total	\$22,835	\$24,150	\$25,500	\$27,120	\$28,730

\* 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.

**2004/2005 Undergraduate Rate Comparison of Minnesota Private Colleges  
(Ranked by Comprehensive Charges)**

<u>College/University</u>	<u>Tuition and Required Fees</u>	<u>Room and Board</u>	<u>Comprehensive Charges</u>
Carleton College	\$30,666	\$6,309	\$36,975
Macalester College	\$26,806	\$7,350	\$34,156
St. Olaf College	\$25,150	\$5,800	\$30,950
Minneapolis College of Art & Design	\$23,910	\$5,550	\$29,460
<b>Gustavus Adolphus College</b>	<b>\$22,955</b>	<b>\$5,810</b>	<b>\$28,765</b>
University of St. Thomas	\$21,828	\$6,838	\$28,666
Hamline University	\$22,083	\$6,346	\$28,429
College of Saint Benedict	\$22,148	\$6,208	\$28,356
Saint John's University	\$22,148	\$6,027	\$28,175
College of St. Catherine	\$21,050	\$5,808	\$26,858
Augsburg College	\$20,758	\$6,080	\$26,838
College of St. Scholastica	\$20,760	\$5,916	\$26,676
Bethel College	\$19,990	\$6,570	\$26,560
Concordia University, St. Paul	\$19,928	\$6,156	\$26,084
Saint Mary's University of Minnesota	\$17,905	\$5,470	\$23,375
Concordia College, Moorhead	\$17,770	\$4,690	\$22,460
Bethany Lutheran College	\$14,742	\$4,982	\$19,724
AVERAGE	\$21,800	\$5,995	\$27,795

*These are "standard," fulltime, academic year charges for new entering students. Several colleges have differential tuition for upper-level students or other policies that result in some variation across class levels and students.*

*NOTE: Comprehensive charges are reduced for many students through financial assistance. Approximately 87 percent of private college students apply for and receive financial assistance, with the amounts and types of aid determined in relation to family resources, calculated need, government formulas and financial aid funding and other factors. Typical assistance provided to students includes Federal and State grants (if applicant qualifies), institutional grants, loans and work-study determined in relation to the student's needs and other factors.*

*Source: The Minnesota Private College Council*

## Financial Assistance

Approximately 96% 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>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Grants/Scholarships					
Federal	\$ 1,251,075	\$ 1,122,933	\$ 1,282,737	\$ 1,400,724	1,411,972
State	2,729,450	2,741,755	2,662,577	2,641,027	2,388,626
College	13,095,592	14,157,935	15,693,873	16,243,430	17,944,050
Private	<u>1,218,160</u>	<u>1,331,954</u>	<u>1,428,407</u>	<u>1,414,862</u>	<u>1,373,330</u>
Total	\$18,294,277	\$19,354,577	\$21,067,594	\$21,700,043	23,117,978
Loans	10,637,959	11,133,070	11,822,308	12,288,792	14,056,010
Work-Study	<u>1,858,200</u>	<u>2,276,019</u>	<u>2,442,866</u>	<u>1,783,994</u>	<u>1,767,225</u>
Grand Total	<u>\$30,790,436</u>	<u>\$32,763,666</u>	<u>\$35,332,788</u>	<u>\$35,772,829</u>	<u>\$38,941,213</u>
Number of Students					
Receiving Assistance	2,325	2,405	2,463	2,408	2,433

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

## Faculty

The College employs 178 full-time and 29 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	\$68,640	98%
Associate Professor	55	54,972	100%
Assistant Professor	52	47,371	0%
Instructor	16	41,491	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 \$1,608,000 for the year ended May 31, 2004. The College also provides health insurance coverage for retired employees. The cost of this coverage for the year was approximately \$432,000.

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 estimates the present value of post-retirement health benefits as the plan currently exists to approximate \$2,650,000 as of May 31, 2004.

## **Capital Campaign**

On May 31, 2004 the College successfully completed a comprehensive fund-raising campaign which began on June 1, 1997. The campaign's goal was \$100 million, and the College received in excess of \$105,205,000.

## **Endowment Funds**

Following is a five-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>
2000	\$88,252,086
2001	79,931,575
2002	73,974,109
2003	68,021,830
2004	78,770,330

## **Independent Accountants**

Appendix V sets forth the financial statements of the College for the years ended May 31, 2004 and 2003, audited by Virchow, Krause & Company, LLP, Certified Public Accountants, Minneapolis, Minnesota as stated in their report appearing therein.

## **Statement of Financial Activity for Fiscal Years 2000 through 2004**

The following table summarizes the College's statements of unrestricted activities for the Fiscal Years ended May 31, 2000 through 2004. For more complete information of the College for the Fiscal Years ended May 31, 2004 and 2003, see Appendix V of this Official Statement containing the College's audited financial statements for that period.



# GUSTAVUS ADOLPHUS COLLEGE

## STATEMENT OF UNRESTRICTED ACTIVITIES Years Ended May 31,

	2000	2001	2002	2003	2004
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Tuition and fees	\$ 42,856,661	\$ 45,269,052	\$ 48,484,997	\$ 49,995,738	\$ 53,879,157
Less: Scholarships and grants	13,503,781	14,433,165	15,967,703	16,519,506	18,223,038
Net tuition and fees	29,352,880	30,835,887	32,517,294	33,476,232	35,656,119
Government grants	1,365,071	1,737,284	1,467,991	1,114,512	1,815,053
Private gifts and grants	2,764,702	1,673,620	2,544,030	1,567,330	1,768,091
Endowment income	817,561	911,593	986,193	916,708	887,862
Investment income	878,714	640,379	340,847	300,447	238,107
Gains (losses) on investments	1,194,162	(7,711,878)	(8,251,119)	(5,727,838)	2,085,769
Sales and services of educational activities	48,510	49,550	69,736	86,331	94,543
Other sources	1,171,717	1,152,952	1,314,407	1,536,441	1,308,208
Sales and services of auxiliary enterprises	12,250,546	12,483,821	13,727,118	14,157,633	14,856,964
Adjustment of actuarial liability	24,298	23,022	89,050	137,981	(62,834)
	49,868,161	41,796,230	44,805,547	47,565,777	58,647,882
Net assets released from restrictions	9,545,491	7,862,533	6,985,359	7,190,157	11,615,762
Total Revenues, Gains and Other Support	59,413,652	49,658,763	51,790,906	54,755,934	70,263,644
<b>EXPENSES AND LOSSES</b>					
Program expenses					
Instruction	25,201,673	26,233,445	28,229,964	28,478,831	29,033,480
Academic support	3,775,814	3,934,187	3,897,057	3,988,436	3,916,047
	28,977,487	30,167,632	32,127,021	32,467,267	32,949,527
Research	65,155	70,917	71,929	70,597	91,726
Public service	636,332	715,822	845,492	824,825	780,354
Student services	5,360,732	5,799,952	6,348,336	6,424,762	6,500,772
Auxiliary enterprises	12,368,426	11,985,432	12,499,825	12,338,191	12,314,648
Support expenses					
Institutional support	6,307,630	6,499,569	7,377,197	7,112,356	7,027,557
Loss on disposal of assets		1,087,685			
Total Expenses and Losses	53,715,762	56,327,009	59,269,800	59,237,998	59,664,584
<b>Change in Net Assets</b>	5,697,890	(6,668,246)	(7,478,894)	(4,482,064)	10,599,060
Net Assets -- Beginning of Year	52,064,535	57,762,425	51,094,179	41,906,285 <sup>†</sup>	37,424,221
<b>NET ASSETS -- END OF YEAR</b>	<u>\$ 57,762,425</u>	<u>\$ 51,094,179</u>	<u>\$ 43,615,285</u>	<u>\$ 37,424,221</u>	<u>\$ 48,023,281</u>

Source: Audited financial statements of the College

<sup>†</sup> Fiscal Year 2003 adjusted for change in actuarial calculation for postretirement medical benefits; net assets were correspondingly reduced by \$1,709,000.

## Long-Term Debt and Other Obligations

The College has the following long-term debt outstanding as of September 1, 2004:

1. \$6,135,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-H, dated August 1, 1996; final maturity October 1, 2010; \$2,115,000 is outstanding. The Series Four-H Bonds are secured by the full faith and credit of the College and a debt service reserve account.
2. \$11,695,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-X, dated November 1, 1998; final maturity October 1, 2024; \$10,645,000 is outstanding. The Series Four-X Bonds are secured by the full faith and credit of the College and a debt service reserve account.

As of September 1, 2004 the total of long-term debt outstanding is \$12,760,000. The College's long-term debt will increase by the principal amount of the Bonds upon issuance.

The College also has an operating lease for an energy conservation system. The College paid \$592,000 in rental expense in each of Fiscal Years 2003 and 2004. Future minimum lease payments of \$589,000 are due annually on this lease for the five years subsequent to May 31, 2004.

**Estimated Annual Debt Service for Fiscal Years 2005 and 2006 and *Pro Forma* Coverage Statement**

The following table shows for Fiscal Years 2005 and 2006 information related to the *pro forma* debt service coverage for outstanding College debt, combined with the estimated debt service on the Bonds for those Fiscal Years.

Any additional College indebtedness will increase the College's debt service requirements in the future and may reduce the *pro forma* debt service coverage ratio shown in the table.

The table is intended merely to show the relationship of amounts available for the College's debt service for Fiscal Year 2004 to a statement of the College's combined estimated annual debt service for Fiscal Years 2005 and 2006 based on a combination of actual debt service requirements and estimated assumed interest rates and amortization schedules 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 amounts available for debt service, debt service and debt service coverage of the College or the respective relationships thereof will correspond to the *pro forma* amount available for debt service, *pro forma* debt service coverage, combined estimated long-term debt service or the respective relationships thereof shown by or reflected in the following table.

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Estimated Annual Debt Service for Fiscal Years 2005 and 2006  
and Pro Forma Coverage Statement

(1) Fiscal Year Ending May 31,	(2) Estimated Debt Service on the Bonds (a)	(3) Outstanding Long-term Debt Service	(4) Estimated Combined Long-term Debt Service (b)	(5) FY 2004 Available for Debt Service (c)	(6) <i>Pro forma</i> Coverage (times) (d)
2005	\$177,954	\$1,196,858	\$1,374,811	\$5,267,222	3.83
2006	436,920	1,070,656	1,507,576	5,267,222	3.49
	<u>\$614,874</u>	<u>\$2,267,514</u>	<u>\$2,882,388</u>		

- (a) The Bonds are variable rate bonds payable in full on the final maturity date of October 1, 2034. Debt service for the years included above is based on interest payments only at estimated rates beginning at 1.4% and escalating semiannually to 3.5%, the average of variable rates for similar issues for approximately the past 15 years.
- (b) The sum of columns (2) and (3).
- (c) Calculation of amount available for debt service for Fiscal Year ended May 31, 2004, based on the College's Fiscal Year 2004 audited financial statements and using the Reimbursement Agreement methodology for calculating unrestricted net assets:

Increase in unrestricted and temporarily restricted net assets	\$ 10,506,525
Plus:	
Interest expense on indebtedness	642,978
Depreciation and amortization	4,797,987
Less:	
Unrealized gains on investments	(9,054,320)
Pledges	(1,604,000)
Non-cash items	<u>(21,948)</u>
Amount available for debt service	\$ 5,267,222

- (d) Column (5) divided by column (4).

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PROPOSED FORM OF LEGAL OPINION

**McGrann Shea Anderson Carnival Straughn & Lamb, Chartered**

**ATTORNEYS AT LAW**

U.S. BANCORP CENTER

800 NICOLLET MALL

SUITE 2600

**MINNEAPOLIS, MINNESOTA**

55402-7035

TELEPHONE (612) 338-2525

FACSIMILE (612) 339-2386

WILLIAM R. MCGRANN  
ANDREW J. SHEA  
DAVID S. ANDERSON  
DOUGLAS M. CARNIVAL  
ROBERT O. STRAUGHN  
PETER L. COOPER  
KATHLEEN M. LAMB  
JOHN R. SCHULZ  
COREY J. AYLING  
HENRY M. HELGEN III  
RANDOLPH W. MORRIS  
SCOTT B. CROSSMAN  
CARLA J. PEDERSEN  
PAMELA HODGES NISSEN  
KATHLEEN MICHAELA BRENNAN  
JOSEPH T. BAGNOLI

GREGORY P. GATTI  
JENNIFER A. JAMESON  
TIMOTHY J. FOSTER  
AMY L. COURT  
ROGER J. STELLJES  
AMANDA R. CEFALU  
SEAN O. SKRYPEK  
ALBERT E. LI

\$16,550,000

Minnesota Higher Education Facilities Authority  
Variable Rate Demand Revenue Bonds, Series Five-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) Variable Rate Demand Revenue Bonds, Series Five-X (Gustavus Adolphus College), in the aggregate principal amount of \$16,550,000 (the "Bonds"), dated October 7, 2004, and maturing on October 1, 2034.

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 with its campus located in the city of Saint Peter, Minnesota (the "Corporation"), in order to finance construction and renovation of educational facilities, owned or to be owned and operated by the Corporation on its campus in Saint Peter, Minnesota. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the Corporation and the Trust Indenture (the "Indenture") between the Authority and Wells Fargo Bank, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee") each dated as of October 1, 2004, one or more opinions of Leonard, Street and Deinard, Professional Association, as counsel to the Corporation, 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 Corporation without undertaking to verify such facts by independent investigation. We have also relied upon the opinion of Leonard, Street and Deinard, Professional Association, as to the Loan Agreement having been duly authorized and executed and being binding upon the Corporation and as to the

corporate organization, tax-exempt status and unrelated trade or business activities, good standing, and powers of the Corporation. As to title to the Project Site (as defined in the Loan Agreement and Indenture), we have relied on information contained in owner=s or mortgagee=s title insurance policies, or commitments therefor, or title opinions provided to us by the Corporation, and have not undertaken any examination of the records of the Corporation or original title records or abstracts of title. We have also relied upon the opinions of Schiff Hardin LLP, counsel to Allied Irish Banks, p.l.c. (the “Bank”) acting through its New York Branch and of \_\_\_\_\_, a Solicitor of the Courts of Ireland and Law Agent as counsel to the Bank, as to the Letter of Credit having been duly executed and delivered and being a valid and binding obligation of the Bank.

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

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

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

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

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

4. Assuming compliance with the covenants in the Loan Agreement and Indenture, the interest on the Bonds is not includable in gross income for purposes of federal income taxation or in net 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.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership or disposition of the Bonds.

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

Dated: October \_\_\_\_, 2004.

MCGRANN SHEA ANDERSON CARNIVAL  
STRAUGHN & LAMB, CHARTERED

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## DEFINITIONS OF CERTAIN TERMS

Following are definitions of certain words and terms as used in the Indenture and Loan Agreement related to the Bonds. Definitions of some of the words and terms below may also appear elsewhere in this Official Statement.

*Act:* Sections 136A.25 through and including 136A.42, Minnesota Statutes, as amended.

*Alternate Letter of Credit:* An irrevocable, direct-pay letter of credit delivered to the Trustee in accordance with the Indenture and the Loan Agreement to replace the Letter of Credit then in existence.

*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 Corporation and the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by its Chair, Secretary or Executive Director or any officer authorized to act on behalf of the foregoing officers. Such certificate may designate an alternate or alternates.

*Authorized Institution Representative:* The President, the Vice President for Finance and Treasurer or any other person at the time designated to act on behalf of the Corporation by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person and signed on behalf of the Corporation by certain officers of the Corporation 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 and described in Section 8.05 thereof.

*Bank:* Allied Irish Banks, p.l.c., New York Branch, as the issuer of the Original Letter of Credit, its successors in such capacity and their assigns until the full payment and satisfaction of the Letter of Credit Obligations under the original Reimbursement Agreement; upon the issuance of any Alternate Letter of Credit, "Bank" means the issuer of such Alternate Letter of Credit, its successors in such capacity and their assigns until full payment and satisfaction of the Letter of Credit Obligations under the applicable Reimbursement Agreement.

*Beneficial Owner:* With respect to any Authorized Denomination of a Bond in Book-Entry Form, each person who beneficially owns such Bond in such authorized denomination and on whose behalf such authorized denomination of Bond is held by the Depository.

*Board of Trustees:* The Board of Trustees of the Corporation, including any Executive Committee authorized to act for such Board.

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

*Bond Purchase Agreement:* The Bond Purchase Agreement relating to the Bonds among the Authority, the Underwriter, and the Corporation.

*Bond Purchase Fund:* The trust fund created in the Indenture, including the General Account and the Letter of Credit Account into which the Authority, the Corporation or the Trustee shall deposit certain moneys for the payment of the Purchase Price of Bonds.

*Bond Resolution:* The Series Resolution of the Authority adopted on September 15, 2004, authorizing the Series Five-X Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

*Bonds:* Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-X (Gustavus Adolphus College).

*Book-Entry Form:* All Bonds, if such Bonds are all held (i) in the name of the Depository (or its nominee) with each Stated Maturity evidenced by a single Bond certificate or (ii) with the approval of the Corporation, Authority and Trustee, in any similar manner for which Beneficial Owners do not receive Bond certificates.

*Book-Entry System:* A system of recordkeeping, securities clearance and funds transfer and settlement maintained for securities by the Depository and its participants.

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

*Business Day:* (i) When Bonds bear interest at a Variable Rate, any day other than a Saturday, Sunday or legal holiday, a day on which banks located in any city in which the principal office of the Trustee or of the Tender Agent is located, or (if different) the office of the Bank at which draws under the Letter of Credit are honored is located, are required or authorized by law to remain closed or a day on which the New York Stock Exchange is closed, and (ii) when Bonds bear interest at a Fixed Rate, any day other than a day upon which banks located in the city or cities in which the principal corporate trust offices of the Trustee are located are required or authorized by law to remain closed.

*Computation Date:* The date on which the Fixed Rate is to be determined in the case of conversion to Fixed Rate, which shall be not less than 15 days prior to the Proposed Conversion Date.

*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.

*Conversion Date:* The date as of which the interest rate on the Bonds converts from a Variable Rate to a Fixed Rate as such date is established pursuant to the Indenture.

*Corporation:* Gustavus Adolphus College, a Minnesota nonprofit corporation, its successors and assigns, as owner and operator of the Institution. The Corporation is also referred to as the "College" elsewhere in this Official Statement.

*Corporation Bond:* Any Bond (i) registered in the name of, or the Beneficial Owner of which is, or which the Trustee actually knows is owned or held by, the Corporation or the Authority or the Trustee or an agent of the Trustee for the account of the Corporation or the Authority or (ii) with respect to which the Corporation or the Authority has notified the Trustee, or which the Trustee actually knows, was purchased by another person for the account of the Corporation or the Authority or by a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation or the Authority, including, but not limited to, Pledged Bonds.

*Date of Taxability:* The date as of which interest on the Bonds shall be determined to be includable in gross income pursuant to a Determination of Taxability.

*Defaulted Interest:* Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

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

*Determination of Taxability:* a Notice of Deficiency issued by the Internal Revenue Service or a final decision of a court of competent jurisdiction to the effect that interest on the Bonds is includable in the gross income of the recipient by reason of the application of the provisions of Section 103 of the Internal Revenue Code, related sections and regulations thereunder, as 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, Loan Agreement, or the Reimbursement Agreement and summarized, respectively, in Appendix IV to this Official Statement in the sections entitled "THE INDENTURE - Events of Default," "THE LOAN AGREEMENT - Events of Default," and in the body of this Official Statement in the section entitled "THE ORIGINAL LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT - The Reimbursement Agreement."

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

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

*Fixed Rate or Fixed Rates:* The Fixed Rates established in accordance with the Indenture at the Conversion Date for the Bonds.

*Fixed Rate Interest Payment Date:* The first April 1 or October 1 occurring at least ninety (90) days after the Conversion Date, and each April 1 or October 1 thereafter prior to the last Maturity of any Bonds, and the date of such Maturity.

*General Account:* When used with respect to the Bond and Interest Sinking Fund Account, the Redemption Account, or the Bond Purchase Fund, the account by that name established within such account or fund.

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

*Government Obligations:* (a) direct general obligations of, or obligations the prompt payment of the principal of and the interest on which are fully and unconditionally guaranteed by, the United States of America, (b) repurchase agreements or similar financial transactions with parties rated "A" or better by the Rating Agency, the payment of principal of and interest on which are fully secured by obligations of the type described in clause (a) or (c) of this definition, which collateral (i) is held by the Trustee during the term of the instrument which such collateral secures, (ii) is not subject to liens or claims of any third parties and (iii) has a market value (determined monthly) equal to at least 102% of the amount so invested, (c) bonds, notes or other debt obligations rated in the highest Rating Category by the Rating Agency issued by a State or a political subdivision or municipal corporation thereof which are payable in whole from an escrow or similar fund or account containing only cash and/or obligations of the type described in clause (a) above, and (d) certificates or other evidence of ownership of principal to be paid or interest to accrue on a pool of securities of the type described in clause (a) above, which securities are rated in the highest Rating Category by the Rating Agency and are held in

the custody of a bank or trust company acceptable to the Trustee in a special account separate from the general assets of such custodian.

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

*Indenture:* The Trust Indenture between the Authority and Wells Fargo Bank, National Association, Minneapolis, Minnesota, as Trustee, dated as of October 1, 2004, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

*Initial Rate:* The interest rate applicable to the Bonds from the Issue Date to and including October 13, 2004.

*Institution:* Gustavus Adolphus College, a Minnesota institution of higher education headquartered in the City of Saint Peter, Minnesota and owned and operated by the Corporation. The Institution is also referred to as the "College" elsewhere in this Official Statement.

*Interest Accrual Period or Interest Period:* (i) With respect to a Weekly Period, a period commencing with the first Business Day of each calendar month during such Weekly Period (or the first day of such Weekly Period, if such day is not the first Business Day of a month) to and including the earlier of the day preceding the first Business Day of the next calendar month and the last day of such Weekly Period and (ii) with respect to the Fixed Rate Period, a period commencing with the first day of a Fixed Rate Period to and including the last day preceding the first Fixed Rate Interest Payment Date, and thereafter a period commencing with each Interest Payment Date to and including the last day preceding the next Interest Payment Date; provided that the Interest Accrual Period with respect to a Mandatory Tender Date which is a Variable Rate Interest Payment Date described in clause (ii) of the definition of Variable Rate Interest Payment Date shall commence on the first day of the immediately preceding Interest Accrual Period and shall end on the day preceding such Variable Rate Interest Payment Date and the next Interest Accrual Period shall commence on such Variable Rate Interest Payment Date.

*Interest Payment Date:* On and prior to the Conversion Date, each Variable Rate Interest Payment Date and after the Conversion Date, each Fixed Rate Interest Payment Date.

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

*Issue Date:* The date on which the Bonds are delivered to the Underwriter upon original issuance.

*Letter of Credit:* The Original Letter of Credit and any extension or renewal thereof or, upon delivery to the Trustee of any Alternate Letter of Credit, "Letter of Credit" means such Alternate Letter of Credit.

*Letter of Credit Account:* When used with respect to the Bond and Interest Sinking Fund Account, the Redemption Account, or the Bond Purchase Fund, the account by that name established within such account or fund.

*Letter of Credit Obligations:* All fees relating to the Letter of Credit, any and all obligations of the Corporation to reimburse the Bank for any drawings under the Letter of Credit, whether for the amount of such drawing or interest thereon, and all other obligations of the Corporation to the Bank arising under or in relation to the Reimbursement Agreement, all whether now existing or hereafter arising and howsoever evidenced.

*Loan Agreement:* The Loan Agreement between the Authority and the Corporation relating to the Bonds, dated as of October 1, 2004, as amended or supplemented from time to time.

*Loan Repayments:* Payments required to be made by the Corporation to the Trustee (or directly to the Bank while a Letter of Credit is in effect) pursuant to the Loan Agreement.

*Mandatory Tender Date:* The meaning assigned thereto in "THE BONDS – Optional and Mandatory Tender -- Mandatory Tender," herein.

*Maturity:* When used with respect to any Bond, means the date on which the principal of such Bond becomes due and payable as provided therein or in the Indenture, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

*Maximum Rate:* The maximum rate, 12% per annum, that may be borne by the Bonds before the Conversion Date.

*Moody's:* Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns; and if such corporation shall be dissolved or liquidated or shall no longer perform the function of a municipal securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized municipal securities rating agency designated by the Authority.

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

*Optional Tender Date:* The meaning assigned thereto in "THE BONDS – Optional and Mandatory Tender -- Optional Tender," herein.

*Original Letter of Credit:* The irrevocable, direct-pay letter of credit delivered by the Bank to the Trustee on the Issue Date of the Bonds in accordance with the Loan Agreement.

*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 Corporation, (iv) mortgages, liens and security interests granted to secure debt incurred as permitted by financial covenants then binding on the Corporation, whether such covenants are expressed in a Reimbursement Agreement or the Loan Agreement, and (v) those additional encumbrances set forth in Exhibit C to the Loan Agreement.

*Pledge Agreement:* The Pledge and Security Agreement, dated as of October 1, 2004, among the Corporation, the Trustee, and the Bank, including any amendments thereto, and any other similar written agreement among the Corporation, the Bank and the Trustee.

*Pledged Bonds:* (i) Bonds registered in the name of the Corporation, held by the Trustee as custodian for the Bank, and pledged to the Bank pursuant to the Pledge Agreement, or (ii) with respect to any Bond registered in the name of DTC, the principal portion thereof the beneficial owner of which is the Corporation subject to a security interest and pledge granted in favor of the Bank pursuant to the Pledge Agreement.

*Project:* The Project consists of (a) the acquisition, construction, furnishing and equipping of an approximately 75,000 square foot 200-bed apartment-style student housing facility; (b) the installation of fire sprinkling systems in all of the Institution's residential halls, aggregating approximately 397,000 square feet; and (c) the renovation and equipping of the approximately 22,000 square foot Old Main building, all on the Institution's Saint Peter, Minnesota campus.

*Project Buildings:* The facilities acquired, improved, or constructed with proceeds of the Bonds, including investment earnings.

*Project Costs:* Costs properly payable from the Construction Account for improvement, acquisition, construction and equipping of the Project and for other purposes as provided in the Indenture.

*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 of the Project Buildings are or will be located or otherwise to be improved as part of the Project, described in the Loan Agreement.

*Proposed Conversion Date:* The date on which the interest on the Bonds is to be converted to a Fixed Rate, as specified in the notice given by the Corporation of its election to convert the interest rate on the Bonds to a Fixed Rate.

*Purchase Price:* When used with respect to the purchase of a Bond or the remarketing of a Bond on a Tender Date pursuant to the Indenture, an amount equal to the principal amount of such Bond to be so purchased or remarketed plus interest accrued and unpaid to, but not including, the applicable Tender Date; provided that, if such Tender Date is an Interest Payment Date for which moneys are available for the payment of such interest, accrued interest will not constitute a part of the Purchase Price but will be paid to the Holder in the ordinary manner.

*Rating Agency:* Moody's, if the Bonds are then rated by Moody's and Standard & Poor's, if the Bonds are then rated by Standard & Poor's.

*Rating Category:* One of the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such Rating Category by a numerical or other modifier.

*Record Date:* (i) with respect to each Variable Rate Interest Payment Date for Bonds, the Business Day next preceding such Variable Rate Interest Payment Date, and (ii) with respect to each Fixed Rate Interest Payment Date, the 15th day of the calendar month next preceding such Fixed Rate Interest Payment Date, regardless of whether such day is a Business Day.

*Redemption Account:* The Redemption Account created under the Indenture for deposit of moneys drawn by the Trustee under the Letter of Credit for redemption of Bonds and deposit of any moneys received which are not otherwise committed.

*Reimbursement Agreement:* The Reimbursement Agreement, dated as of October 1, 2004, between the Corporation and the Bank, including any amendments thereto; and, if an Alternate Letter of Credit is issued, "Reimbursement Agreement" means a similar agreement, if any, between the issuer of such Alternate Letter of Credit and the Corporation.

*Remarketing Agent:* RBC Dain Rauscher Inc. or any successor or successors appointed and serving in such capacity pursuant to the Indenture.

*Remarketing Agreement:* The Remarketing Agreement dated as of October 1, 2004 between the Corporation and the Remarketing Agent, including any amendments thereto; and any other written agreement among the Authority and/or the Corporation and any Remarketing Agent describing the responsibilities of the Remarketing Agent.

*Reserve Account:* The Reserve Account established under the Indenture.

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

*Standard & Poor's:* Standard & Poor's Rating Services, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns; and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a municipal securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized municipal securities rating agency designated by the Authority.

*Stated Maturity:* When used with respect to any Bond or any installment of interest thereon, the date specified in such Bond as the fixed date on which principal of such Bond or such installment of interest is due and payable.

*Tender Agent:* The Tender Agent appointed in accordance with the Indenture (initially the Trustee), and any successor Tender Agent appointed thereunder.

*Tender Date:* Each Optional Tender Date and each Mandatory Tender Date.

*Termination Date:* The Stated Expiration Date as defined in the initial Reimbursement Agreement or the comparable expiration date of an Alternate Letter of Credit under the applicable Reimbursement Agreement.

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

*Trustee, Registrar, Paying Agent:* Wells Fargo Bank, National Association, Minneapolis, Minnesota.

*Variable Rate:* The variable interest rate established in accordance with the Indenture, with respect to any Bond.

*Variable Rate Interest Payment Date:* (i) The first Business Day of each calendar month commencing November 1, 2004, (ii) each Mandatory Tender Date described in the Indenture with respect to the Bonds subject thereto, (iii) each Purchase Date described in the Indenture with respect to Pledged Bonds, and (iv) the Conversion Date.

*Variable Rate Period:* The period from and including the Issue Date to and including the earlier of (i) the day next preceding the Conversion Date or (ii) the date of the last Maturity of any Bonds.

*Weekly Interest Rate:* With respect to a Bond, a variable interest rate on such Bond established in accordance with the Indenture.

*Weekly Period:* With respect to the Bonds during the Variable Rate Period, each period during which the Bonds shall bear interest at a Weekly Interest Rate.

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## 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 III, contained herein.

#### Construction of Project

The Corporation agrees that it will proceed with all reasonable dispatch to (a) improve and construct the Project Buildings substantially in accordance with the construction documents now on file in the office of the Corporation as such construction documents are from time to time amended by the Corporation and (b) acquire and install all items of Project Equipment and all Building Equipment which, in the opinion of the Corporation, is necessary for the full use and enjoyment of the Project Facilities. The Corporation 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, which shall not be unreasonably withheld, the description of the Project shall accordingly be amended by a supplement to the Loan Agreement executed by the Authority and the Corporation, 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 who is bond counsel to the Authority shall be furnished to the Corporation, the Bank, the Authority and the Trustee to such effects. The acquisition, construction and installation of the Project shall be in accordance with all applicable zoning, planning and building regulations of governmental authorities having jurisdiction of the Project. The construction of the Project Buildings and acquisition and installation of the Project Equipment and Building Equipment may be performed in the manner determined by the Corporation and by any means available to the Corporation with or without advertisement for bids. The Corporation will cause said construction, acquisition and installation of the Project to be substantially completed by no later than December 31, 2006 and all amounts in the Construction Account to be expended by no later than December 31, 2006, delays subject to "force majeure", as that term is used in Loan Agreement, only excepted.

#### Loan Repayments and Payment of Purchase Price of Bonds

Under the Loan Agreement, the Corporation 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, and to pay the Purchase Price of Bonds on each Tender Date. Prior to the Conversion Date, funds drawn under the Letter of Credit and actually received by the Trustee in amounts equal to the interest on and principal of Bonds then due on any Interest Payment Date or principal payment date or by reason of acceleration, or equal to the Redemption Price due on any Redemption Date, or equal to the Purchase Price on any Tender Date, shall be deemed to fulfill the Corporation's repayment or purchase obligation under the Loan Agreement, and the Corporation need not make any duplicative payment to the Trustee.

To provide for such payments the Corporation covenants to pay for the account of the Authority in the following amounts:

(a) from and after the Conversion Date unless the Bonds are secured by a Letter of Credit and the related Reimbursement Agreement or a supplemental indenture provides to the contrary, into the Bond and Interest Sinking Fund Account on or before one Business Day prior to the date payable, the amount payable as interest on the Bonds on the next succeeding Interest Payment Date and the amount payable as principal on the Bonds on the next succeeding principal payment date, subject during the Variable Rate Period and during any other period when interest and principal are paid by draws under a Letter of Credit to a credit for any moneys drawn under the Letter of Credit; and

(b) into the Bond and Interest Sinking Fund Account, as required, the amount of any deficiency in the event the funds on deposit in the Bond and Interest Sinking Fund Account are for any reason insufficient to pay principal, premium (if any) and interest on the Bonds then due (whether at maturity, or by redemption or acceleration of maturity in event of default), subject during the Variable Rate Period and during any other period when interest and principal are paid by draws under a Letter of Credit to a credit for any moneys drawn under the Letter of Credit; and

(c) into the Reserve Account on the Conversion Date, a sum equal to the Reserve Requirement in cash, securities or instruments or an opinion of counsel as specified by the Indenture and during the Fixed Rate Period, such sum, if any, as is necessary to maintain or restore the debt service reserve to the Reserve Requirement; and

(d) into the Redemption Account such amounts, if any, as may become payable under Sections 4.06, 5.08, 5.09 and 6.09 of the Loan Agreement and such further amounts as may be required to provide for the redemption of any Bonds called for redemption from the Redemption Account on or before the date when payable to the Holders of outstanding Bonds, 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 applicable Account or Accounts as provided in the Indenture, and (ii) any credits for amounts transferred under Sections 5.07, 8.02, 8.03 and 8.05 of the Indenture (relating to the transfer of certain investment earnings and certain excess funds); and

(e) to the Trustee the amounts to be disbursed to the Tender Agent to pay the Purchase Price of Bonds upon optional or mandatory tender; provided however that there shall be credited against such obligations the moneys drawn under the Letter of Credit.

There is reserved to the Corporation the right to prepay all or part of the Loan and to redeem Bonds prior to their maturity as described under "THE BONDS-Redemption."

As additional payments the Corporation 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**

So long as the Bonds are Outstanding and the Corporation owns the Project Facilities, the Corporation will own, use and operate the Project Facilities at all times as educational facilities, eligible to be and defined as a "project" under the Act, and not as facilities for sectarian instruction or as a place of religious worship nor primarily in connection with any part of a program of a school or department of divinity for any religious denomination. The Corporation agrees that it will not use or permit to be used the Project Facilities in such manner or to such an extent as would cause interest on the Bonds to be includable in gross income of the recipient for federal income tax purposes or loss of the Corporation's status as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

## **Maintenance of Project Facilities**

The Corporation agrees that so long as the Bonds are outstanding, the Corporation will keep the Project Facilities in good repair and good operating condition at its own cost and will make such repairs, modifications and replacements as are necessary in the judgment of the Corporation that the Project will remain a "project" under the Act and the interest on the Bonds will be exempt from federal income taxation, and may make such repairs, modifications and replacements as in the judgment of the Corporation are desirable so long as the Project Facilities will remain a "project" under the Act and the interest on the Bonds will be exempt from federal income taxation. The Corporation represents that it has no present intention to sell or otherwise dispose of the Project Facilities except to the extent Project Facilities become obsolete or worn out. Except as otherwise provided by the Loan Agreement, the Corporation shall maintain its title to and possession of the Project Facilities, provided that if certain Project Equipment become fixtures of Corporation buildings which are not Project Buildings, liens may be placed on such Project Equipment, provided further that the Corporation may sell, transfer, convey, lease or sublease or enter into agreements in the ordinary course of business for the use of all or any part of the Project Facilities so long as (i) the tax exempt status of the Bonds will not be affected thereby, (ii) no such sale, transfer, conveyance, lease, sublease or agreement shall be inconsistent with the provisions of the Loan Agreement, the Indenture, or the Act, (iii) the Corporation shall remain fully obligated under the Loan Agreement, as if such lease, sublease or agreement had not been made, and (iv) in the case of such sale, transfer or conveyance, or in the case of any lease to or occupancy by persons who are not students, employees or faculty of the Corporation, an opinion of Bond Counsel is provided to the Trustee to the effect that tax exemption of the interest on the Bonds is not adversely affected; provided further that the Corporation may demolish any of the Project Facilities that, in the Corporation's judgment, are worn out, obsolete, or require replacement, or are no longer used, or that the Corporation, by resolution of its Board of Trustees, has determined in its judgment are no longer useful.

## **Title to Property and Liens**

Except for Permitted Encumbrances, the Corporation will not permit any liens to be established or to remain against the Project Facilities including any mechanics' liens for labor or materials furnished in connection with the acquisition and construction of the Project, or with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the Corporation 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 Corporation 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 Corporation shall promptly pay or cause to be discharged all such items.

## **Taxes and Other Governmental Charges**

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

The Corporation may, at its expense, in good faith contest any such taxes, assessments, license fees and other governmental charges and, in the event of any such contest, may permit the taxes, assessments, license fees or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the Corporation 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 taxes, assessments, license fees or charges shall be paid promptly.

### **Insurance**

The Corporation is required to maintain, or cause to be maintained, insurance during the Variable Rate Period as required by the Reimbursement Agreement, if any, and with respect to any portion of the Project Facilities not subject to the requirements of the Reimbursement Agreement and following the Conversion Date as follows:

- (a) Insurance against loss and/or damage to the Project Facilities and contents under a policy or policies covering such risks as are ordinarily insured against by similar institutions, 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 not more than \$250,000.
- (b) Comprehensive general public liability insurance including blanket contractual liability and personal injury liability and automobile insurance in the minimum amount for each occurrence of \$5,000,000 and aggregate for each year of \$5,000,000 with a deductible amount of up to \$250,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of \$100,000.
- (c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the Corporation.

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

The Corporation is required to provide to the Trustee, on or before October 1 of each year, a Certificate of Insurance Compliance in the form attached to the Loan Agreement. Each required policy shall contain a provision that the insurer will not cancel or modify the policy without giving written notice to the Corporation 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 \$1,000,000, the Corporation 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 \$1,000,000, the Corporation 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, with the consent of the Bank during the Variable Rate Period, shall be used for redemption or purchase of outstanding Bonds.

## **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 the Project Facilities shall be taken in any proceeding involving the exercise of the right of eminent domain, there shall be no abatement in the Loan Repayments, and to the extent that the Net Proceeds of the award is not greater than \$1,000,000, the Corporation will promptly replace, rebuild or restore the property so taken 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 Net Proceeds of the award exceeds \$1,000,000, the Corporation shall either replace, 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 shall be used for redemption or purchase of outstanding Bonds.

During the Variable Rate Period the consent of the Bank is required for certain of the foregoing elections by the Corporation.

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

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

- (a) the Corporation may substitute equipment and related property for any Project Equipment and Building Equipment, provided that such substitution shall not materially impair the character or revenue producing significance or value of the Project Facilities;
- (b) the Corporation may release any equipment from the definition of Project Equipment (with or without the physical removal thereof) without substitution therefor, provided that the Corporation pays a sum equal to the then value of such Project Equipment as determined by an independent engineer selected by the Corporation, to the Trustee for deposit in the Redemption Account for the redemption and prepayment of the Bonds; provided that if the depreciated book value of any item of equipment so removed was less than \$100,000, such release without substitution and such deposit to the Redemption Account may be effected without such determination of value and Certificate by an independent engineer upon such showing by the Corporation as may be satisfactory to the Trustee; and
- (c) the Corporation may remove any Building Equipment without substitution therefor provided that such removal will not materially impair the character or revenue producing significance or value of the Project Facilities, and the Corporation shall furnish the Trustee a Certificate of an Authorized Institution Representative to that effect.

In connection with (a) and (b) above, if the depreciated book value of the Project Equipment or, in connection with (c) above, the depreciated book value of Building Equipment, to be substituted, removed or released equals or exceeds \$100,000 the Corporation will deliver to the Trustee a certificate signed by the Authorized Institution Representative stating that the substitution, removal, or release, as the case may be, of such equipment will not materially impair the character or revenue producing significance of the Project Facilities.

## **Indemnification**

The Corporation 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 Corporation 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 Corporation in connection with the sale of the Bonds.

### **Existence and Accreditation of Corporation and Institution**

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

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

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

### **Institution to be Nonsectarian**

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

### **Federal Income Tax Status**

The Corporation 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.

### **Determination of Taxability After the Conversion Date**

In the event a Determination of Taxability is made on or after the Conversion Date 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%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. In addition, in the event of such Determination of Taxability on or after the Conversion Date, the Bonds shall be subject to optional redemption, in whole or in part, on the next date for which due notice can be given or any date thereafter and the redemption price therefor shall be equal to par plus accrued interest (including additional interest from the Date of Taxability).

### **Other Covenants**

The Corporation 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 the Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds; and to observe all applicable State laws and regulations, including those of the Authority, the Department of Education and the Minnesota Higher Education Services Office. The Corporation agrees to indemnify the Authority from losses arising from certain representations made by the Corporation regarding the absence of hazardous waste on the Project Facilities.

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

### **Events of Default**

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

(a) If the Corporation shall fail to make or cause to be made any Loan Repayment to the Trustee when due, and either (i) on a Bond principal or interest payment date or redemption date (established or required to be established), the available moneys on deposit in the Bond and Interest Sinking Fund Account, Reserve Account and Redemption Account are insufficient to pay when due principal of and interest on the Bonds, or (ii) such failure shall continue for five (5) Business Days after notice from the Trustee or the Authority to the Corporation that such payment has not been made; or

(b) If the Corporation shall fail to comply with the provisions of Section 6.09(f) of the Loan Agreement (relating to arbitrage calculation and rebate requirements); or

(c) On or after the Conversion Date, if the Corporation shall fail to maintain the balance in the Reserve Account in the amount of the Reserve Requirement as defined in the Indenture, provided failure to comply with such requirement shall not become an Event of Default unless the Corporation fails to restore the deficiency within a period of thirty (30) days after written notice specifying such deficiency and requesting that it be remedied is given to the Corporation by the Authority or the Trustee; or

(d) If the Corporation fails to pay or cause to be paid when due the amount of any Purchase Price required to be paid under the Loan Agreement; or

(e) If the Corporation shall fail to observe and perform for reasons other than force majeure, any other covenant, condition or agreement on its part under the Loan Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied, is given to the Corporation by the Authority or the Trustee; or

(f) If the Corporation 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 Corporation; or

(g) If a court of competent jurisdiction shall enter an order, judgment or decree against the Corporation in any insolvency, bankruptcy, or reorganization proceeding, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the property of the Corporation, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety (90) days from the date of the entry thereof; or

(h) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the property of the Corporation, and such custody or control shall not be terminated within ninety (90) 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 Corporation. The provisions of paragraph (e) 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 Corporation 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 Corporation shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The Corporation agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the Corporation 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) Subject to the Bank's right of consent, the Trustee may declare all or any amount of Loan Repayments thereafter to become due under and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The Trustee (or the Authority with respect to certain sections of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement.

(c) Subject to the Bank's right of consent, the Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to action taken under the foregoing paragraphs shall be applied first to advances and expenses (provided that proceeds of a Letter of Credit drawing may not be applied to the payment of advances and expenses pursuant to the Loan Agreement), second to payment of the Bonds as provided in Section 10.04 of the Indenture and third to the Bank to pay all Letter of Credit Obligations and any excess to the Corporation.

## **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 III, contained herein.

### **Granting Clauses**

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

(a) all right, title and interest of the Authority under the Loan Agreement and all Loan Repayments and other sums due under the Loan Agreement, except the Authority's annual fee and rights to indemnity and reimbursement;

(b) a first lien on and pledge of (i) the moneys and investments in the Accounts and the Bond Purchase Fund covenanted to be created and maintained under the Indenture, (ii) moneys and investments in the Construction Account not paid out for Project Costs, and (iii) all accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof; and

(c) any and all other property of every name and nature from time to time conveyed, mortgaged, assigned or transferred, or in which a security interest is granted, by the Authority or the Corporation or by anyone in behalf of them or with their written consent, to the Trustee.

### **Accounts**

Bond proceeds, revenues and other funds derived under the Loan Agreement or Indenture and moneys derived from drawings under the Letter of Credit 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 expense incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee). The Trustee has no lien upon or right to receive payment of any fees, expenses or other amounts from the Bond Purchase Fund or amounts drawn or deemed to have been drawn under the Letter of Credit or the proceeds of remarketing the Bonds.

### **Covenants of the Authority**

Under the Indenture the Authority covenants, among other things, to perform its various undertakings and agreements; not to extend the maturity of any of the Bonds or the time of payment of any claims for interest; to take such action or cause and permit the Trustee to take such action as may be necessary and advisable to enforce the covenants, terms and conditions of the Loan Agreement, if such action shall, in the discretion of the Trustee, be deemed to be in the best interests of the Authority or the Bondholders; to comply with the applicable arbitrage rebate requirements under Section 148(f) of the Code and regulations thereunder; to keep proper books, accounts and records; and not to issue or permit to be issued any Bonds under

the Indenture in any manner other than in accordance with the provisions of the Indenture and not to suffer or permit any default to occur under the Indenture. Under the Act, and it is expressly agreed that, the Authority has no obligation to make any advance or payment or incur any expense or liability from its general funds for performing any of the conditions, covenants or requirements of the Indenture or from any funds other than Loan Repayments or moneys in the Accounts established by the Indenture.

### **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 Corporation (giving the Corporation 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 Corporation, as that term is defined in the Loan Agreement shall occur and be continuing (but not an event of default which is the basis for the Bank's notice that it will not reinstate the interest portion of the Letter of Credit pursuant to clause (f) of the Events of Default, in which case clause (f) shall apply); or

(e) If there is a default in the due and punctual payment of the Purchase Price of Bonds required to be purchased pursuant to Section 4.01 or Section 4.02 of the Indenture (relating to optional and mandatory tender of Bonds) when payment of such amount has become due and payable; or

(f) Prior to the Conversion Date, if the Trustee receives a written notice from the Bank that, as a consequence of certain events as set forth in the Letter of Credit, the Bank will not reinstate the interest portion of the Letter of Credit following an interest drawing; or

(g) Prior to the Conversion Date, if the Trustee receives written notice from the Bank that an event of default under the Reimbursement Agreement has occurred (but not an event of default which is the basis for the Bank's notice that it will not reinstate the interest portion of the Letter of Credit pursuant to clause (f) of the Events of Default, in which case clause (f) shall apply) and that the Bank is terminating the Letter of Credit; or

(h) Prior to the Conversion Date, if the Corporation fails to perform its obligations under Section 4.10 of the Loan Agreement (relating to maintenance of the Letter of Credit).

## Remedies

(a) Upon an Event of Default under paragraph (a), (b), (e), (f) or (g) under the foregoing section "Events of Default" the Trustee shall declare the principal of all Bonds secured by the Indenture 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, to annul such declaration at anytime as provided in paragraph (c) of this section.

(b) Upon and during the continuance of an Event of Default under paragraph (c), (d), or (h) of the foregoing section, and subject to limitations on the Bank's rights set forth in the Indenture, the Trustee (i) with the Bank's consent may, and (ii) (A) with the Bank's consent and upon written request of the Holders of a majority in aggregate principal amount of Bonds outstanding or (B) upon request of the Bank, shall, by notice in writing delivered to the Authority, declare the principal of all Bonds secured by the Indenture then outstanding and the interest accrued thereon immediately due and payable, subject, however, to the right of (i) the Holders of a majority in aggregate principal amount of Bonds then outstanding with the Bank's consent or (ii) the Bank, by written notice to the Authority and to the Trustee, to annul such declaration at anytime as provided in paragraph (c) of this section.

(c) If the Trustee is instructed by the Holders or Bank in accordance with the Indenture to annul such declaration of acceleration, the Trustee shall annul such declaration if all covenants with respect to which default shall have been made shall be fully performed or made good, and all arrears of interest, the reasonable expenses and charges of the Trustee, 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 and the Letter of Credit is reinstated to the full principal and interest amount described in the Loan Agreement.

(d) Prior to the Conversion Date, upon any declaration of an acceleration under the Indenture, the Trustee shall give notice to Holders in the same manner as a notice of redemption under Article III of the Indenture, stating a date no later than five (5) days after the date of acceleration (the "Accelerated Payment Date"), as the date upon which such Bonds shall be payable and interest on the Bonds shall cease to accrue as of the Accelerated Payment Date. Upon any declaration of acceleration under the Indenture, the Trustee shall immediately draw on the Letter of Credit as provided in the Indenture.

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 and subject to limitations on the Bank's rights described below, the Trustee (a) with the Bank's consent may, and (b)(i) with the Bank's consent and upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds or (ii) upon the request of the Bank, shall proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, to enforce the Loan Agreement and to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its

rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders or the Bank as aforesaid, unless such Bondholders or the Bank shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

### **Limitations on the Bank's Right to Consent**

Notwithstanding any other provision of the Indenture or the Loan Agreement, no consent of or notice to the Bank shall be required nor shall the Bank have any right to receive notice of, consent to, direct or control any actions, restrictions, rights, remedies, waivers or accelerations pursuant to any provision of the Indenture or the Loan Agreement after the Letter of Credit has expired (unless the Letter of Credit Obligations have not been fully paid or satisfied) or during any time:

(a) the Bank has wrongfully failed to honor draws properly presented and conforming under and in compliance with the terms of the Letter of Credit,

(b) the Letter of Credit for any reason ceases to be valid and binding on the Bank or is declared to be null and void, or the validity or enforceability of any material provision of the Letter of Credit is denied by an officer of the Bank in writing or any governmental agency or authority, or the Bank is denying further liability or obligation under the Letter of Credit, contrary to the terms of the Letter of Credit,

(c) a petition is pending against the Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, receivership proceeding or liquidation law of any jurisdiction, whether now or hereafter in effect, and has not been dismissed within sixty (60) days after the filing, or

(d) the Bank has filed a petition, which is pending, under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, receivership proceeding or liquidation law, of any jurisdiction, whether now or hereafter in effect, or has consented to the filing of any petition against it under such law.

Notwithstanding the occurrence of any of the events described in paragraphs (b), (c) and (d), in the event that principal of and interest on all Bonds shall have been paid in full and any amounts shall be owing the Bank under the Reimbursement Agreement, the provisions of this Section shall be inoperative.

### **Concerning the Trustee**

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 Corporation to the same extent as if it were not Trustee.

There shall at all times be a trustee under the Indenture which shall be a national association or a corporation organized and doing business under the laws of the United States or the State of Minnesota, authorized under such laws to exercise corporate trust powers, having an office and place of business in the State of Minnesota, having a combined capital, surplus and undivided profits of at least Ten Million Dollars (\$10,000,000), and subject to supervision or examination by Federal or State authority.

Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets

as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor.

The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the Rating Agency, the Bank and the Authority thirty days' notice in writing of such resignation specifying a date when such resignation shall take effect. Such resignation shall take effect on the day specified in such notice unless previously a successor trustee shall have been appointed by the Bondholders as hereinafter provided, in which event such resignation shall take effect immediately on the appointment of such successor trustee.

Any Trustee may be removed at any time by the holders of a majority in principal amount of the Bonds outstanding or by the Authority at the request of the Corporation, with the consent of the Bank (subject to the limitations of the Bank's right to consent provided in the Indenture).

In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory officer shall take charge or control of the Trustee or of its property or affairs, a successor Trustee may be appointed by the Bank (subject to the limitations of the Bank's rights provided in the Indenture), and if no Letter of Credit is in effect by the Holders of a majority in principal amount of the said Bonds then outstanding, but until a new Trustee shall be appointed by the Bank or the Bondholders, as applicable, the Authority shall, subject to the provisions hereof, appoint a Trustee to fill such vacancy.

If no appointment of a successor Trustee shall be made pursuant to the Indenture within six months after a vacancy shall have occurred in the office of Trustee, the Holder of any Bond or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor trustee.

### **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 such default shall have become an Event of Default and the Holders of a majority in aggregate principal amount of Bonds outstanding or the Bank 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: First for the equal benefit of the Holders of all Bonds outstanding (other than Corporation Bonds) and Second for the benefit of the Bank and Third for the benefit of the Holders of the Corporation Bonds.

Nothing in the preceding paragraph or in any other provision of the Indenture shall limit or impair the right of the Bank to take action and institute proceedings, in the name of an individual Bondholder or otherwise, as the Bank shall deem appropriate (i) to contest any claim or assertion by any person (including any claim or assertion by the Corporation or by any receiver, custodian, trustee or liquidator for the Corporation) that any payment of interest on the Bonds constituted a voidable preference under the United States Bankruptcy Code, as amended, or any similar state insolvency law or (ii) to request or petition any court of competent jurisdiction to make a determination that any payment of interest on the Bonds did not constitute a voidable

preference under the United States Bankruptcy Code, as amended, or any similar state insolvency law.

The Trustee (a) with the consent of the Bank and upon the written request of the Holders of a majority in principal amount of the Bonds at the time outstanding or (b) upon the written request of the Bank, 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 or the Purchase Price; 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 and the Letter of Credit is reinstated to the full principal and interest amount according to its terms. 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 Corporation shall:

(a) pay or cause to be paid the principal of, and premium, if any, and interest on the outstanding Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) on or after the Conversion Date, provide for the payment of principal, premium, if any, and interest on the Bonds by depositing with the Trustee at or at any time before maturity an amount either in cash or direct obligations of the United States in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all such Bonds outstanding, or

(c) on or after the Conversion Date, deliver to the Trustee (1) proof that notice of redemption of all of such outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the Corporation for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in 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 all Letter of Credit Obligations, the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148(f) of the Internal Revenue Code and regulations thereunder,

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

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

### **Supplemental Indentures**

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

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

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds then outstanding, with the prior written consent of the



Bank, 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 Bonds outstanding (a) an extension of the maturity of any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or the Loan Agreement as set forth in the Indenture.

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

### **Amendments to the Loan Agreement**

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

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

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

### **Registration**

The Bonds shall be fully registered as to principal and interest at the principal corporate trust office of the Trustee, which shall also perform the functions of registrar and paying agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. If the Bonds are no longer in book entry form, Bonds may be exchanged only for a new Bond or Bonds of the same series, aggregate principal amount, maturity and interest rate of any Authorized Denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, upon request by a registered Owner of more than \$1 million principal amount of Bonds, by wire transfer) to the registered Owner at his address as shown on the registration books of the Trustee, subject to applicable payment procedures while in book entry form.

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**FINANCIAL STATEMENTS INCLUDING INDEPENDENT AUDITORS' REPORT,  
MAY 31, 2004 AND 2003**



## 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, 2004 and 2003 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 auditing standards generally accepted in the United States of America. 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, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Virchow Krause & Company, LLP*

Minneapolis, Minnesota  
July 16, 2004

**GUSTAVUS ADOLPHUS COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
May 31, 2004 and 2003

<b>ASSETS</b>		
	2004	2003
Cash and cash equivalents	\$ 8,486,488	\$ 5,872,613
Receivables		
Students accounts, net of allowance for doubtful accounts of \$275,000 and \$225,000	390,873	397,849
Government grants	408,406	117,618
Accrued interest	58,061	6,940
Contributions	2,432,000	3,244,000
Other	127,520	207,010
Inventories	400,908	399,615
Prepaid expenses and other assets	418,213	384,005
Students notes receivable, net of allowance for doubtful accounts of \$221,500 each year	3,435,398	3,286,582
Investments		
Cash and short-term investments	2,044,268	1,939,792
Marketable securities	21,080,079	17,899,073
Contracts for deed receivable		71,900
Interest in buildings, net of accumulated depreciation of \$1,226,411 and \$1,137,028	2,606,763	2,706,196
Real estate held for resale	228,500	263,500
Beneficial interest in funds held in trust	1,886,571	2,057,505
Other	272,115	32,732
Deposits held by trustee		
Cash and short-term investments	9,840	43,583
Fixed income securities	1,452,722	1,439,395
Endowment investments	78,770,330	68,021,830
Deferred debt acquisition costs	207,243	220,359
Construction in progress	871,595	626,832
Property, plant and equipment	83,263,718	84,542,745
<b>TOTAL ASSETS</b>	<b>\$ 208,851,611</b>	<b>\$ 193,781,674</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,280,819	\$ 1,606,774
Accrued liabilities	8,503,925	8,322,683
Deferred revenue	2,028,475	1,883,488
Future interest discount on pooled life income funds	1,881,512	1,828,644
Annuities payable	8,469,391	7,573,625
Funds held for others	1,534,721	1,291,395
Long-term debt	12,760,000	13,610,000
U.S. government grants refundable	3,108,681	3,113,471
Total Liabilities	39,567,524	39,230,080
<b>NET ASSETS</b>		
Unrestricted	48,023,281	37,424,221
Temporarily restricted	62,650,672	62,743,207
Permanently restricted	58,610,134	54,384,166
Total Net Assets	169,284,087	154,551,594
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 208,851,611</b>	<b>\$ 193,781,674</b>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENT OF ACTIVITIES**  
**Year Ended May 31, 2004**  
**With Comparative Figures for 2003**

	2004			2003 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 53,879,157			\$ 49,995,738
Less: Scholarships and grants	18,223,038			16,519,506
Net tuition and fees	35,656,119			33,476,232
Government grants	1,815,053			1,114,512
Private gifts and grants	1,768,091	\$ 2,065,196	\$ 2,655,852	5,110,932
Endowment income	887,862	2,404,698	149,233	3,621,081
Investment income	238,107		962	302,120
Gains (losses) on investments	2,085,769	6,968,551	192,029	(7,148,670)
Sales and services of educational activities	94,543			86,331
Other sources	1,308,208		923	1,537,192
Sales and services of auxiliary enterprises	14,856,964			14,157,633
Adjustment of actuarial liability	(62,834)	84,782	1,226,969	(367,814)
	58,647,882	11,523,227	4,225,968	51,889,549
Net assets released from restrictions	11,615,762	(11,615,762)		
Total Revenues, Gains and Other Support	70,263,644	(92,535)	4,225,968	51,889,549
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Instruction	29,033,480			28,478,831
Academic support	3,916,047			3,988,436
	32,949,527			32,467,267
Research	91,726			70,597
Public service	780,354			824,825
Student services	6,500,772			6,424,762
Auxiliary enterprises	12,314,648			12,338,191
Support expenses				
Institutional support	7,027,557			7,112,356
Total Expenses and Losses	59,664,584			59,237,998
<b>Change in Net Assets</b>	10,599,060	(92,535)	4,225,968	(7,348,449)
Net Assets - Beginning of Year	37,424,221	62,743,207	54,384,166	161,900,043
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 48,023,281</b>	<b>\$ 62,650,672</b>	<b>\$ 58,610,134</b>	<b>\$ 154,551,594</b>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENT OF ACTIVITIES**  
Year Ended May 31, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Tuition and fees	\$ 49,995,738			\$ 49,995,738
Less: Scholarships and grants	16,519,506			16,519,506
Net tuition and fees	33,476,232			33,476,232
Government grants	1,114,512			1,114,512
Private gifts and grants	1,567,330	\$ 3,060,232	\$ 483,370	5,110,932
Endowment income	916,708	2,591,302	113,071	3,621,081
Investment income	300,447		1,673	302,120
Losses on investments	(5,727,838)	(1,281,853)	(138,979)	(7,148,670)
Sales and services of educational activities	86,331			86,331
Other sources	1,536,441		751	1,537,192
Sales and services of auxiliary enterprises	14,157,633			14,157,633
Adjustment of actuarial liability	137,981	11,739	(517,534)	(367,814)
	47,565,777	4,381,420	(57,648)	51,889,549
Reclassification of prior year net assets due to change in donor restrictions on gifts		778,000	(778,000)	
Net assets released from restrictions	7,190,157	(7,190,157)		
Total Revenues, Gains and Other Support	54,755,934	(2,030,737)	(835,648)	51,889,549
<b>EXPENSES AND LOSSES</b>				
Program expenses				
Instruction	28,478,831			28,478,831
Academic support	3,988,436			3,988,436
	32,467,267			32,467,267
Research	70,597			70,597
Public service	824,825			824,825
Student services	6,424,762			6,424,762
Auxiliary enterprises	12,338,191			12,338,191
Support expenses				
Institutional support	7,112,356			7,112,356
Total Expenses and Losses	59,237,998			59,237,998
Change in Net Assets	(4,482,064)	(2,030,737)	(835,648)	(7,348,449)
Net Assets - Beginning of Year, as Adjusted (Note 17)	41,906,285	64,773,944	55,219,814	161,900,043
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 37,424,221</b>	<b>\$ 62,743,207</b>	<b>\$ 54,384,166</b>	<b>\$ 154,551,594</b>

See accompanying notes to financial statements.

**GUSTAVUS ADOLPHUS COLLEGE**

**STATEMENTS OF CASH FLOWS**  
Years Ended May 31, 2004 and 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 14,732,493	\$ (7,348,449)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	4,797,897	4,910,435
(Gains) losses on endowment investments	(11,400,176)	4,839,025
(Gains) losses on other investments	50,085	(73,247)
Actuarial adjustment of annuities payable	524,188	278,767
Pooled life income deferral adjustments	527,303	252,183
Loan cancellations and reinstatements	63,632	62,043
Change in assets and liabilities		
Student receivables	6,976	115,821
Government grants receivable	(290,788)	59,991
Accrued interest receivable	(51,121)	101,235
Contributions receivable - operations	157,146	20,550
Other receivables	79,490	(52,842)
Inventories	(1,293)	31,211
Prepaid expenses and other assets	(34,208)	114,648
Accounts payable	(371,833)	72,998
Accrued liabilities	181,242	(198,855)
Deferred revenue	144,987	(24,255)
Funds held for others	243,326	77,131
Contributions restricted for plant and long-term investment	(4,150,630)	(1,340,198)
Investment income restricted for plant, loans, and long-term investment	(150,195)	(114,744)
Net Cash Flows from Operating Activities	<u>5,058,521</u>	<u>1,783,448</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of endowment and pooled investments, net	651,676	1,113,254
Sales (purchases) of other investments, net	(3,290,106)	712,866
Purchases of property, plant and equipment	(3,612,216)	(2,310,889)
Withdrawals from deposits held by trustee	20,416	1,388
Disbursements of loans to students	(805,512)	(642,604)
Repayments of loans from students	593,064	752,879
Net Cash Flows from Investing Activities	<u>(6,442,678)</u>	<u>(373,106)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of principal on indebtedness	(850,000)	(820,000)
Receipts of investment income restricted for plant, loans and long-term investment	150,195	114,744
Contributions received restricted for plant and long-term investment	4,805,484	1,061,648
Decrease in refundable U.S. government grants	(4,790)	(27)
Increase in liability for new split interest agreements	1,341,957	296,507
Payments to annuitants and pooled life income beneficiaries	(1,444,814)	(1,402,942)
Net Cash Flows from Financing Activities	<u>3,998,032</u>	<u>(750,070)</u>
<b>Net Change in Cash and Cash Equivalents</b>	2,613,875	660,272
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>5,872,613</u>	<u>5,212,341</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 8,486,488</u>	<u>\$ 5,872,613</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 642,978	\$ 681,094
Noncash investing activities		
Property and equipment acquired through accounts payable	201,437	155,559

See accompanying notes to financial statements.



## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS May 31, 2004 and 2003

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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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 accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

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

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

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

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

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

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

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

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.

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi-endowment funds.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2004 and 2003

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

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**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.

**Receivables** - An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured.

**Inventories** - Bookstore inventories were valued at a percentage of retail value, which approximates cost and was not in excess of market. Beginning in fiscal year 2004, bookstore inventories are valued at cost using the first-in, first-out method. 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 fixed income securities held by the trustee include amounts restricted for debt service as required by the trust indentures.

**Deferred Debt Acquisition Costs** - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness.

**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 \$5,000.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS

May 31, 2004 and 2003

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

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**U.S. Government Grants Refundable** - Funds provided by the United States Government under the Federal Perkins and Nursing Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

**Retirement Plans** - The College has certain contributory defined contribution retirement plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual salary. The cost of the plans is paid currently and was approximately \$1,608,000 and \$1,577,000 for the years ended May 31, 2004 and 2003, 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 \$2,386,000 and \$1,016,000, respectively, for the year ended May 31, 2004. The amounts of such grants were \$2,627,000 and \$977,000, respectively, for the year ended May 31, 2003.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Income Tax Status** - The Internal Revenue Service has determined that 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.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 cost which approximates 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 saleable 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.

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 2004 and 2003

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

**Fund Raising and Advertising Expenses** - Fund-raising expenses totaled \$2,229,000 and \$2,287,000 for the years ended May 31, 2004 and 2003, respectively. Advertising expenses totaled \$298,000 and \$275,000 for the years ended May 31, 2004 and 2003, respectively. The College expenses advertising costs at the time incurred.

**Reclassifications** - Certain amounts appearing in the 2003 financial statements have been reclassified to conform with 2004 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

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

At May 31, 2004 and 2003, the College's unrestricted net assets were allocated as follows:

	2004	2003
Operations	\$ 2,009,676	\$ 2,172,789
Long-term investments (quasi-endowment funds)	24,814,146	17,065,733
Gift annuity agreements	2,043,811	2,106,428
Loans to students	514,798	509,745
Plant	18,640,850	15,569,526
	<u>\$ 48,023,281</u>	<u>\$ 37,424,221</u>

Temporarily restricted net assets consist of the following at May 31, 2004 and 2003:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 3,629,148	\$ 4,090,398
Acquisition of buildings and equipment	2,625,805	1,847,126
Contributions receivable	2,173,000	2,935,000
	8,427,953	8,872,524
Long-term investment (quasi-endowment funds)	3,245,481	1,583,506
Life income and trust agreements	1,017,764	879,702
Net investment in plant	49,959,474	51,407,475
	<u>\$ 62,650,672</u>	<u>\$ 62,743,207</u>

Permanently restricted net assets consist of the following at May 31, 2004 and 2003:

Endowment funds	\$ 50,206,191	\$ 47,815,096
Contributions receivable for endowment funds	259,000	309,000
Student loan funds	469,401	459,757
Gift annuity agreements and similar funds	7,675,542	5,800,313
	<u>\$ 58,610,134</u>	<u>\$ 54,384,166</u>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2004 and 2003

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

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The sources of net assets 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, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Amortization of contributions expended for long-lived assets	\$ 2,202,540	\$ 2,303,636
Scholarships, instruction and other departmental support	<u>9,413,222</u>	<u>4,886,521</u>
	<u>\$ 11,615,762</u>	<u>\$ 7,190,157</u>

These assets were reclassified to unrestricted net assets.

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**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

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Contributions receivable include the following unconditional promises to give at May 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Temporarily restricted - operations	\$ 398,000	\$ 548,000
Temporarily restricted - plant projects	1,960,000	2,743,000
Permanently restricted - endowment	<u>297,000</u>	<u>335,000</u>
Gross unconditional promises to give	2,655,000	3,626,000
Less: Unamortized discount	<u>(223,000)</u>	<u>(382,000)</u>
Net unconditional promises to give	<u>\$ 2,432,000</u>	<u>\$ 3,244,000</u>

At May 31, 2004, contributions receivable of \$1,395,000 are due in less than one year and \$1,260,000 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, 2004 and 2003. Promises due in less than one year were not discounted.

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**NOTE 5 - MARKETABLE SECURITIES**

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The following summarizes the College's marketable securities in funds other than endowment at May 31, 2004 and 2003:

	<u>2004</u>		<u>2003</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
U.S. government and agency securities	\$ 2,785,016	\$ 2,896,724	\$ 2,728,035	\$ 2,695,424
Other fixed income securities	367,576	362,593	439,883	402,081
Stocks	153,762	152,951	127,776	137,558
Mutual funds	17,748,725	16,167,783	14,514,458	14,919,566
Investments in limited partnerships	<u>25,000</u>	<u>27,025</u>	<u>88,921</u>	<u>97,678</u>
	<u>\$ 21,080,079</u>	<u>\$ 19,607,076</u>	<u>\$ 17,899,073</u>	<u>\$ 18,252,307</u>

# GUSTAVUS ADOLPHUS COLLEGE

## NOTES TO FINANCIAL STATEMENTS May 31, 2004 and 2003

### NOTE 6 - ENDOWMENT INVESTMENTS

The College follows 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 \$1,338 and \$1,213 at May 31, 2004 and 2003, respectively.

The amount of endowment income to be distributed is established as a percentage of the twelve-quarter moving average market value of the pooled assets. In fiscal 2004 a 4.9% spending rate was used. In fiscal 2003, a 5% spending rate was used. Based on this formula and spending rate, the total distributable income for the year ended May 31, 2004 amounted to \$3,441,793, which included capital gains totaling \$2,103,742. The total distributable income for the year ended May 31, 2003 amounted to \$3,621,081, which included capital gains totaling \$2,382,892.

The following table summarizes the College's endowment investments at May 31, 2004 and 2003. 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, contracts for deed and other investments.

	2004		2003	
	Market	Cost	Market	Cost
Cash and short-term investments	\$ 209,809	\$ 209,809	\$ 78,908	\$ 78,908
Marketable securities				
Stocks	87,446	92,676	65,113	66,339
Mutual funds	74,115,122	59,617,853	63,611,663	58,846,506
Fixed income securities	20,000	20,000	40,000	40,000
Investments in limited partnerships	115,814	111,295	222,612	302,061
 Total pooled investments	 74,548,191	 60,051,633	 64,018,296	 59,333,814
 Beneficial interest in funds held in trust	 4,222,139	 4,222,139	 4,003,534	 4,003,534
	<u>\$ 78,770,330</u>	<u>\$ 64,273,772</u>	<u>\$ 68,021,830</u>	<u>\$ 63,337,348</u>

The fair value of all permanent endowment assets is currently in excess of all donors cumulative original gift values. However, as a result of market conditions in recent years, the fair value of assets allocated to certain individual endowment funds is currently less than the gift value of those individual funds. Deficit balances in various individual funds total approximately \$1,317,000 at May 31, 2004. Valuation losses in excess of historical gift value reduce temporarily restricted net assets to the extent of prior accumulated gains with the balance of such losses recorded in the unrestricted net asset class. The market volatility of equity-based investments is expected to continue impacting available distributions.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2004 and 2003

**NOTE 7 - CONSTRUCTION IN PROGRESS**

At May 31, 2004 the following projects were in progress:

	<u>Estimated Total Cost</u>	<u>Cost To Date</u>	<u>Funding Plan</u>
Dormitory project	\$12,000,000	\$ 388,542	Debt
Fire sprinkler project	1,000,000	13,677	Debt
Old Main renewal project	4,500,000	437,656	Gifts, debt and current operations
Other projects	320,000	<u>31,720</u>	Gifts and current operations
		<u>\$ 871,595</u>	

**NOTE 8 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following as of May 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Land	\$ 955,993	\$ 955,993
Land improvements	7,000,655	6,853,699
Buildings	101,728,908	100,153,514
Equipment	24,888,444	23,513,841
Library books	<u>6,916,382</u>	<u>6,759,048</u>
	141,490,382	138,236,095
Less: Accumulated depreciation	<u>(58,226,664)</u>	<u>(53,693,350)</u>
	<u>\$ 83,263,718</u>	<u>\$ 84,542,745</u>

**NOTE 9 - LONG-TERM DEBT**

The College had the following long-term debt outstanding at May 31, 2004 and 2003:

	<u>Original Amount</u>	<u>2004</u>	<u>2003</u>
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Four-H Bonds of 1996)	\$ 6,135,000	\$ 2,115,000	\$ 2,685,000
Minnesota Higher Education Facilities Authority Revenue Bonds - Gustavus Adolphus College (Series Four-X Bonds of 1998)	11,695,000	<u>10,645,000</u>	<u>10,925,000</u>
		<u>\$ 12,760,000</u>	<u>\$ 13,610,000</u>

## **GUSTAVUS ADOLPHUS COLLEGE**

### **NOTES TO FINANCIAL STATEMENTS** May 31, 2004 and 2003

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#### **NOTE 9 - LONG-TERM DEBT (Continued)**

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

During November 1998, the Minnesota Higher Education Facilities Authority issued Revenue Bonds Series Four-X (Gustavus Adolphus College) on behalf of the College totaling \$11,695,000. The bond proceeds were used to finance the construction, furnishing and equipping of the expansion and remodeling of the College's Campus Center and the construction of the College View Apartments for student housing. The revenue bonds have interest rates varying from 4.75% to 4.80% and mature in annual installments of \$290,000 to \$505,000 on October 1 through 2015 with payments of \$1,680,000, \$1,985,000 and \$2,340,000 due October 1, 2018, 2021 and 2024, respectively. The term bonds maturing in the years 2018, 2021 and 2024 are subject to annual sinking fund payments on October 1 in the years 2016 through 2024 in amounts varying from \$530,000 to \$825,000. The bonds are secured by a pledge of the Loan Repayments and a Reserve Account.

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 on these bonds were paid in full pursuant to early redemption clauses. The Series Four-H Revenue Bonds have interest rates varying from 4.8% to 5.25% and mature in annual installments of \$190,000 to \$305,000 on October 1 through 2009 and \$765,000 on October 1, 2010. The bonds are secured by a pledge of the Loan Repayments and a Reserve Account.

The College is required to maintain debt service reserve funds under the various bond issues in amounts aggregating \$1,478,000. The bonds issued under the Authority also include certain financial covenants which include meeting a Revenue/Expenditure Test, as defined, for at least two of each preceding three fiscal year period and which limit the College's ability to incur additional long-term debt.

Annual maturities of all long-term debt for each of the five years subsequent to May 31, 2004 approximate \$595,000, \$495,000, \$520,000, \$545,000 and \$570,000, respectively. Total interest expense for the years ended May 31, 2004 and 2003 amounted to \$636,000 and \$674,000, respectively.

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#### **NOTE 10 - LINE-OF-CREDIT AGREEMENT**

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The College has three unsecured lines of credit totaling \$6,500,000 with local banks which are payable on demand. One agreement expires in January 2005 and is payable at an interest rate that is .5% under the bank's prime rate. The other agreements expire in October 2004 and are payable at an interest rate that is .25% over the Wall Street Journal prime rate. At May 31, 2004 and 2003, the College had no borrowings outstanding under these agreements.



## GUSTAVUS ADOLPHUS COLLEGE

### NOTES TO FINANCIAL STATEMENTS May 31, 2004 and 2003

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#### NOTE 11 - POOLED LIFE INCOME FUND

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As of May 31, 2004, 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, 2004 and 2003, the net book value of the building recorded in the financial statements of the College was \$2,606,763 and \$2,706,196, respectively. Depreciation for financial statement purposes is recorded using the straight-line method over periods of 40 to 45 years. Depreciation totaling \$92,423 and \$93,962 was recorded in fiscal 2004 and 2003, 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 2004 and 2003 totaled \$537,000 and \$546,000, respectively, with payment to the College for the land, which was \$13,072 and \$13,295 in 2004 and 2003, respectively. The lease payments are an obligation of the College. Net lease payments by the College to the Fund totaled \$523,769 and \$532,707 for the years ended May 31, 2004 and 2003, 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 2004, \$10,267, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$10,050, net of \$3,040 accumulated depreciation, related to buildings. During 2003, \$99,631, including related income, was transferred back to the College as the result of donor deaths or assignments. This included \$96,591, net of \$27,662 accumulated depreciation, related to buildings.

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#### NOTE 12 - POSTRETIREMENT BENEFIT PLAN

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The College sponsors a postretirement medical plan that covers eligible 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 plan is contributory for those employees and their spouses who retired after 1992. Eligible employees who retire after May 31, 2005 will pay 100% of the cost of medical insurance. 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, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Accumulated postretirement benefit obligation	\$ 2,650,000	\$ 2,489,418
Fair value of plan assets	<u>0</u>	<u>0</u>
Underfunded Status	<u>\$ 2,650,000</u>	<u>\$ 2,489,418</u>
Accrued benefit cost recognized	<u>\$ 2,650,000</u>	<u>\$ 2,489,418</u>

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2004 and 2003

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**NOTE 12 - POSTRETIREMENT BENEFIT PLAN (Continued)**

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	2004	2003
Net postretirement benefit cost	\$ 431,887	\$ 248,065
Employer contributions	\$ 271,305	\$ 248,065
Plan participants' contributions	249,081	222,849
Benefits Paid	\$ 520,386	\$ 470,914

An 8% rate of increase in the per capita costs of covered health care benefits was assumed for the year ending May 31, 2005, decreasing to 4.5% by the year 2009. In 2004, a discount rate of 6.75% was used to determine the accumulated postretirement benefit obligation. In 2003, a discount rate of 7.25% was used to determine the accumulated postretirement benefit obligation.

In January 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 106-1, *"Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003"*. The FSP permits a sponsor or a postretirement healthcare plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* (the "Act") until authoritative guidance on the accounting for the federal subsidy is issued or until certain other events occur. The College has elected to defer recognition of the effects of the Act until further guidance is available. Therefore, the accumulated postretirement benefit obligation and the net periodic postretirement benefit cost do not reflect the impact of the new law.

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**NOTE 13 - CONCENTRATIONS OF CREDIT RISK**

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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. In addition, the College's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the College's programs and activities.

## **GUSTAVUS ADOLPHUS COLLEGE**

### **NOTES TO FINANCIAL STATEMENTS May 31, 2004 and 2003**

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#### **NOTE 14 - DEFERRED GIFT AGREEMENTS**

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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(s) of the donor(s). The College used interest rates ranging from 3.6% to 10.2%, in making the calculations for the years ended May 31, 2004 and 2003.

During the year ended May 31, 2004, the College received gift income of approximately \$957,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$21,313,000 and \$10,576,000, respectively, at May 31, 2004.

During the year ended May 31, 2003, the College received gift income of approximately \$186,000 relating to deferred gift agreements. Total assets held by the College under deferred gift agreements and liabilities related to these agreements totaled approximately \$18,228,000 and \$9,442,000, respectively, at May 31, 2003.

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#### **NOTE 15 - ALLOCATION OF EXPENSES**

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The College allocated interest expense of \$636,328 and \$674,184; depreciation of \$4,797,897 and \$4,910,435; operation and maintenance of plant expense of \$7,834,100 and \$8,455,827; and lease payments of \$474,435 and \$478,901 to program and support functions for the years ended May 31, 2004 and 2003, respectively.

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#### **NOTE 16 - OPERATING LEASE**

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The College has an operating lease for an energy conservation system. Rental expense associated with this lease totaled \$592,000 for each of the years ended May 31, 2004 and 2003. Future minimum lease payments of \$589,000 are due annually on this operating lease for the five years subsequent to May 31, 2004.

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#### **NOTE 17 - PRIOR PERIOD ADJUSTMENT**

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The 2003 financial statements have been adjusted for a change in the actuarial calculation for postretirement medical benefits. This had the effect of increasing the postretirement benefit plan liability by \$1,709,000 and reducing unrestricted net assets by the same amount.

**GUSTAVUS ADOLPHUS COLLEGE**

**NOTES TO FINANCIAL STATEMENTS**  
May 31, 2004 and 2003

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**NOTE 18 - CONTINGENCIES**

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Various lawsuits, claims and other contingent liabilities arise in the ordinary course of the College's activities. Based on information currently available with respect to a recently filed lawsuit, management believes that liabilities, if any, resulting from this claim would be substantially covered by insurance and would not materially affect the financial condition or operations of the College.

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

THIS DOCUMENT REPRESENTS ONLY A SUMMARY OF THE INFORMATION REFERRED TO HEREIN. EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN, THIS DOCUMENT DOES NOT ATTEMPT TO DESCRIBE THE BUSINESS OR ANALYZE THE CONDITION, FINANCIAL OR OTHERWISE, OF ALLIED IRISH BANKS, p.l.c. ("AIB") OR OTHERWISE DESCRIBE ANY RISKS ASSOCIATED WITH AIB. EACH BONDHOLDER MUST RELY ON THAT HOLDER'S OWN KNOWLEDGE, INVESTIGATION AND EXAMINATION OF AIB AND AIB'S CREDITWORTHINESS.

AIB reports its financial information on a consolidated basis which includes AIB and certain affiliates and subsidiaries ("AIB Group"). AIB Group provides a diverse and comprehensive range of banking, financial and related services principally in Ireland, Britain, Poland and the United States. AIB Group is currently organized into five (5) divisions: Republic of Ireland; Great Britain & Northern Ireland; Poland; Capital Markets (which includes AIB's New York Branch) and Group Technology & E-Business.

AIB is the largest banking corporation organized under the laws of Ireland. As of December 31, 2003, AIB's total assets were EUR81 billion. Pre-tax profits for the year ending December 31, 2003 amounted to EUR1,011 million. Profit after tax was EUR677 million. Return on equity was 14.5% and return on assets was 0.90%.

Effective April 1<sup>st</sup> 2003, AIB Group acquired a 22.5% stake in M&T Bank Corporation [NYSE:MTB], Buffalo, New York as result of the merger of AIB's subsidiary Allfirst Financial Inc with M&T Bank Corporation, which merger has created a mid-Atlantic banking franchise with over 700 branches in six (6) states and the District of Columbia.

AIB's New York Branch files quarterly reports on Form FFIEC-002 ("Call Reports") with the Federal Reserve Bank of New York, 33 Liberty Street, New York, NY 10001, the Federal Deposit Insurance Corporation ("FDIC") at 20 Exchange Place, New York, NY 10005 and with the New York State Banking Department at 1 State Street, New York, NY 10004. The Call Reports are publicly available.

AIB is an Irish registered public limited company and its ordinary shares are quoted on the Dublin and London stock exchanges. The Group's ordinary shares (symbol AIB) and non-cumulative preference shares (symbol AIBPr) are traded in the USA on the New York Stock Exchange in the form of American Depositary Shares ("ADS") and each ADS is evidenced by an American Depositary Receipt ("ADR"). AIB, as a foreign private issuer of securities in the United States, is required to file an annual report on Form 20-F with the U.S. Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") within 6 months after the end of each fiscal year. Moreover, a foreign issuer, unlike domestic companies, is required to submit to the SEC under the Exchange Act on Form 6-K, only those interim reports and other materials that the issuer prepares in accordance with home country or home market requirements or delivers to its security holders. Exchange Act documents filed by AIB are publicly available at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549 and at its regional offices at 233 Broadway, New York, NY 10279 and 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of documents filed by AIB with the SEC may also be accessed electronically by means of the SEC's home page on the Internet at "<http://www.sec.gov>".

Any of the documents referred to herein (other than exhibits to such documents) are available upon request, without charge, by writing to the Chief Financial Officer, Allied Irish Banks, p.l.c., New York Branch, 405 Park Avenue, New York, NY 10022. Additional information about AIB, including a copy of AIB Group's Annual Report and Form 20-F, is presently available on the Internet at "<http://www.aib.ie>".

Note: The rate as at 12/31/03 - EUR1 = \$1.2595



