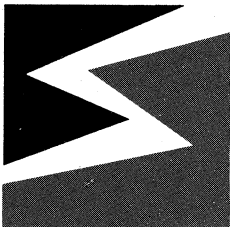


SALE: July 31, 1973, at 11:00 A.M., CDST



SPRINGSTED INCORPORATED MUNICIPAL CONSULTANTS

SUITE 813 OSBORN BUILDING • SAINT PAUL, MINNESOTA 55102 • (612) 227-8318

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

Gerald A. Rauenhurst, Chairman
President, Rauenhurst Corporation, Minneapolis

Bernard P. Friel, Vice President
Member, Briggs & Morgan, Lawyers, St. Paul

Richard C. Hawk, Secretary
Executive Director, Minnesota Higher Education Coordinating Commission

Robert W. Freson
City Administrator, St. Cloud

Earl R. Herring
Vice President for Administrative Affairs, Moorhead State College

Norman Perl
Member, Deparcq, Anderson, Perl & Hunegs, Lawyers, Minneapolis

James Schatz
Lawyer, Clerk to Hon. Miles Lord, Federal District Court

Dr. Joseph E. LaBelle — Executive Director

Faegre & Benson, Minneapolis — Counsel

No dealer, broker, salesman or other person has been authorized by the Minnesota Higher Education Facilities Authority, or the Institution, 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 either of the foregoing. Certain information contained herein has been obtained from the Institution and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Minnesota Higher Education Facilities Authority. The 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 parties referred to above since the date hereof.

For additional information or assistance in bidding please contact Springsted Incorporated
Suite 813, Osborn Building, St. Paul, Minnesota 55102 — 612/227-8318

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OFFICIAL NOTICE OF BOND SALE

\$8,450,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY FIRST MORTGAGE REVENUE BONDS SERIES G (THE MINNEAPOLIS SOCIETY OF FINE ARTS)

Bids will be received Tuesday, July 31, 1973, 11:00 A.M., CDST, at the Authority's Offices, Metro Square Building, St. Paul, Minnesota, for award at 3:00 P.M., of the same day on the following terms:

DATE AND INTEREST

The Bonds will be dated August 1, 1973. Interest will be payable February 1, 1974, and each August 1, and February 1, thereafter.

TYPE AND PURPOSE

The Bonds will be negotiable coupon, special obligations of the Authority, payable solely, and only, out of Project revenues and other income, charges and moneys to be produced and received, including rentals under the Lease between the Authority and the Society, relative to the ownership and operation of the Project for which the proceeds of this issue will be used, and the Reserve Accounts established thereto. The Bonds will be issued in denominations of \$5,000 each and may be registrable as to principal, or principal and interest, according to the terms of the Mortgage Trust Indenture relative to the issue. The Bonds are being issued to construct a new technical and academic building for the Minneapolis College of Art and Design, which construction will include acquisition of lands, structures, machinery and equipment as well as other costs appurtenant to the project and for the establishment of certain reserves relative to the Issuer.

MATURITIES AND REDEMPTION

All Bonds of this issue will be due on August 1, 1984, but some of such Bonds are required to be redeemed by the Authority, if funds are available from rent payments as due under the Lease, at par plus accrued interest, in blocks of \$25,000 or more and in ascending order of serial numbers, on August 1 in each of the years and in amounts as follows:

\$ 800,000	1976
\$ 900,000	1977 to 1980 inclusive
\$ 950,000	1981
\$1,000,000	1982
\$2,100,000	1983

Bonds redeemable on any date according to the foregoing schedule, if not then redeemed, are also redeemable on any interest payment date thereafter and are entitled to priority of redemption over higher numbered Bonds, if any, also redeemable on such date. In addition, all Bonds, at the option of the Issuer, shall be subject to prior payment in order of serial numbers, in blocks of \$25,000 or more, on any interest payment date commencing August 1, 1976 at a price of par and accrued interest. The redemption of Bonds in a greater amount than the foregoing schedule shall not excuse the maintenance of said schedule. All Bonds of this issue are subject to redemption at par and accrued interest, in whole but not in part, on any interest payment date in certain events of damage to or destruction or condemnation of the Project as provided in Section 6.14 of the Indenture or in certain cases of change of law as provided in Section 10.02 of the Lease.

GRANT AGREEMENT

A Grant Agreement will be entered into with the United States of America, Department of Health, Education and Welfare, pur-

suant to which the Government will provide an annual interest subsidy to support and to be pledged to debt service payments on the Bonds, as more fully described in the Official Statement.

PAYING AGENT AND TRUSTEE

The Paying Agent and Trustee may be named by the successful Bidder, subject to the Authority's approval, which may be assumed unless the Bidder is notified to the contrary within 48 hours after the Authority has received notice of the Bidder's selection. The Society will pay the charges of the Paying Agent and Trustee customarily made by them to similar users of their services. An alternate Paying Agent may be named subject to the consent of the Authority and provided that there shall be no additional expense to the Authority or the Society by reason thereof.

DELIVERY

Within 40 days after award, subject to the unqualified approving legal opinion of Messrs. Faegre and Benson of Minneapolis, Minnesota, and customary closing papers, including a statement of non-litigation. Bond printing and legal opinion will be paid for by the Issuer. Delivery will be at a place of the Purchaser's choice. Payment must be made in Federal Funds, or equivalent immediately available funds, on day of delivery. Legal opinion will be printed on the Bonds.

TYPE OF BID

Sealed bids for not less than \$8,200,000 and accrued interest on the principal sum of \$8,450,000 from the date of the Bonds to date of delivery must be filed with the undersigned prior to time of sale, together with a certified or cashier's check in the amount of \$84,500, payable to the order of the Minnesota Higher Education Facilities Authority, to be retained as liquidated damages if the bidder fails to comply with the accepted bid.

RATES

All Bonds must bear a single rate from date of issue to maturity which rate must be in an integral multiple of 5/100th or 1/8th of 1%. Additional coupons may not be used.

AWARD

Award will be made on the basis of lowest dollar interest cost; determined by the addition of any discount to and the deduction of any premium from the total interest on all Bonds from their date to their stated maturity of August 1, 1984. The Issuer reserves the right to reject any and all bids, to waive informalities and to adjourn the sale.

Dated July 6, 1973

**BY ORDER OF THE MINNESOTA HIGHER EDUCATION
FACILITIES AUTHORITY**

/s/Richard C. Hawk
Secretary

\$8,450,000
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY
FIRST MORTGAGE REVENUE BONDS
SERIES G (THE MINNEAPOLIS SOCIETY OF FINE ARTS)

SALE: July 31, 1973 (Tues.), at 11:00 A.M., CDST

Bids delivered to Springsted Incorporated by 10:00 A.M., CDST, the day of the sale, will be carried to the sale.

The entire principal is due August 1, 1984 which is 92,950 bond years. However, if the expected schedule of prior redemption is kept the bond years will be as follows:

YEAR	PRINCIPAL	BOND YEARS	CUMULATIVE BOND YEARS
1976	\$ 800,000	2400.00	2400.00 _____
1977	900,000	3600.00	6000.00 _____
1978	900,000	4500.00	10500.00 _____
1979	900,000	5400.00	15900.00 _____
1980	900,000	6300.00	22200.00 _____
1981	950,000	7600.00	29800.00 _____
1982	1,000,000	9000.00	38800.00 _____
1983	2,100,000	21000.00	59800.00 _____

AVERAGE MATURITY:

DATED: August 1, 1973

INTEREST: February 1, 1974 and each August 1, and
February 1, thereafter.

MATURE: August 1, 1984

REDEMPTION See page 17.

RATING: None will be requested.

OFFICIAL STATEMENT

NOTE: Throughout this Statement the Minnesota Higher Education Facilities Authority shall be referred to as the "Authority", the Minneapolis Society of Fine Arts as the "Institution", and the Minneapolis College of Art and Design as the "College". The College is owned and operated by the Institution. Reference to the College or Institution shall include the other.

THE AUTHORITY

The Minnesota Higher Education Facilities Authority was created by Chapter 868, Laws of Minnesota, 1971, for the purpose of assisting institutions of higher education of the State in the construction and financing of projects. The Authority consists of six members appointed by the Governor with the advice and consent of the Senate and a seventh member who is the Executive Director of the Minnesota Higher Education Coordinating Commission and who is designated as the Secretary of the Authority.

Originally the Authority was given power to issue revenue bonds in a total amount not to exceed \$45 million. The 1973 Legislature increased this limit to an aggregate of \$62 million of principal outstanding at any time. Bonds issued by the Authority can be payable only from the rentals, revenues and other income, charges and moneys pledged for their payment. They do not in any manner represent or constitute a debt or pledge of the faith and credit of the State of Minnesota.

In the opinion of Bond Counsel the interest paid by the Authority to bond holders is exempt from Federal and Minnesota State income taxes (other than Minnesota corporate franchise taxes measured by income) under present laws and rulings.

By the provisions of Chapter 868 "... neither the authority nor its agent shall be required to pay any taxes or assessments upon or in respect of a project or any property acquired or used by the authority or its agent under the provisions of this act or upon the income therefrom ..."

Educational institutions of the State eligible for assistance by the Authority are non-profit educational institutions authorized to provide a program of education beyond the high school level. Sectarian institutions are not eligible for assistance, however, the fact that an institution is sponsored by a religious denomination does not of itself make the institution sectarian. Application to the Authority is voluntary.

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

A Project for which bonds are issued by the Authority becomes the property of the Authority — as long as bonds of the Authority issued for the Project remain outstanding. Thereafter they may be subject to repurchase options. The Project is leased by the Authority to the Institution for operation. The revenues which are the primary security for the Bonds are provided according to the terms of the Lease between the Authority and the Institution. Prior to delivery of an Issue the Authority enters into a Mortgage Trust Indenture with a Trustee who administers the funds which are the security for the payment of the Bonds, except the funds of the General Bond Reserve Account. These are under the supervision of the Authority.

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

The Authority is financed solely from fees paid by the Institutions for whom Bonds are issued. At the time of issuance and usually from Bond proceeds the Authority is paid one-third of one percent of the principal amount of the Issue. Thereafter, commencing as of the date of issue and payable in advance, but not from Bond proceeds or Funds of the Issue, the Authority receives an annual fee of one-eighth of one percent of the original principal amount of the Bonds for their life.

The staff of the Authority consists of its Executive Director, Dr. Joseph E. LaBelle and one secretary.

Bond issuance costs, including fees of Bond Counsel, the Fiscal Consultant and Trustee are paid by the Institution. The fees of Bond Counsel and the Fiscal Consultant also usually come from Bond proceeds.

As a general policy the Authority requires that the proceeds of the Bonds include a sum equal to approximately one year's debt service, after deduction of any interest subsidy grants, for the creation of debt service reserves. Of this sum 80% is deposited with the Trustee in a Series Reserve Account; the remaining 20% is deposited by the Authority in a General Bond Reserve Account pledged to the payment of all Bonds issued by the Authority for which such a deposit has been made.

To date the Authority has issued these First Mortgage Revenue Bonds:

Series A, Augsburg College, Minneapolis	\$2,200,000
Series B, Bethel College, Arden Hills	1,935,000
Series C, St. Mary's College, Winona	595,000
Series D, College of St. Scholastica, Inc., Duluth	520,000
Series E, Gustavus Adolphus College, St. Peter	1,030,000
Series F, College of Saint Benedict, St. Joseph	1,610,000
	<hr/>
	\$7,890,000

It has approved preliminary applications for:

Concordia College, Moorhead	\$3,075,000
College of St. Scholastica, Inc., Duluth	\$ 300,000

Neither of these applicants has yet filed a formal application and the amounts in each instance are only tentative.

PURPOSE OF THIS ISSUE

The Bonds will be issued for constructing a new technical academic building with appurtenant equipment, furnishings, utilities and site improvements, at the Minneapolis College of Art and Design. The Bond project includes a pedestrian bridge to and furnishings and equipment for the existing College building.

The new facilities will enable the present 475 student College to expand to 600 and will permit it to greatly enlarge the scope of its four-year program which leads to the Bachelor of Fine Arts Degree in fine arts and design, with areas of concentration in painting, print-making, sculpture, intermedia, graphic design, photography, film, video and fashion design. The new, four-story, building has been designed by Kenzo Tange, internationally known Japanese architect whose other works include the Olympic Sports Stadium in Toyko. He is associated in this commission with Parker Klein Associates Architects, Inc. of Minneapolis.

Construction is well underway and is expected to be substantially completed by September 1, 1973.

THE INSTITUTION

The Minneapolis Society of Fine Arts, established in 1883, is a Minnesota non-profit corporation with a tax exempt status. Its management is vested in a regionally representative board of trustees.

The Society operates the Minneapolis Institute of Arts, ranked as one of the Nation's foremost art museums with treasures estimated by an officer of the Society to be worth approximately \$50 million; a Children's Theater Company, which in 1972 played to a record 75,465 persons, and the Minneapolis College of Art and Design.

The College of Art and Design, founded in 1886, is a four-year accredited educational institution. It offers the Bachelor of Fine Arts Degree in Fine Arts and Design. Its present enrollment of about 475 students is expected to be increased to 600 with the new facilities to be provided by the proceeds of this issue. This is a growth from 381 for the academic year 1967-68.

The Society has undertaken a \$26 million fund raising program which will be used to expand and remodel the Art Museum, construct a new Children's Theater and the new College of Art and Design, as well as to remodel the existing College and to acquire additional site. It is also expected that funds will be available for the acquisition of new works of art and new programs.

Although the proceeds of these Bonds will be used only for the College they will be a general obligation of the Institution.

BOND PROCEEDS BUDGET

Construction, equipment, site, fees			\$7,100,000
Discount Allowance			250,000
Debt Service Reserve:	Series Reserve	\$880,000	
	General Bond Reserve	220,000	
			<u>1,100,000</u>
			\$8,450,000

SECURITY

The security of the Bonds will be:

1. The full faith and credit of the Institution;
2. The unrestricted gross receipts and revenues, including unrestricted and future pledges, received by the Institution;
3. An estimated \$72,592 interest subsidy grant to be paid annually by the United States Department of Health, Education and Welfare (The exact amount will depend upon the interest rate carried by the bonds).
4. A first mortgage lien on the Project;
5. A funded Series Reserve of \$880,000 and a General Bond Reserve of \$344,081*.

*Pledged for all outstanding Bonds of the Authority totaling \$16,340,000 with this issue.

The Institution represents that it has received pledges of not less than \$23,912,000 of which approximately \$10.1 million has been received, and spent on the project, leaving a balance of unpaid pledges and unspent receipts of \$13.8 million. In addition, it has outstanding pledge requests of not less than \$10,000,000.

Although traditionally art museums do not carry works of art as an asset, an officer of the Institution estimates the value of the art works owned by the Institution to be at least \$50 million. The By-laws of the Institution provide that works of art owned by it may be sold only upon the Accessions Committee filing its recommendation for sale with the Secretary of the Society who must mail copies of the recommendation to all members of the Board of Trustees who have 30 days in which to object, following which the Chairman of the Board shall refer the proposal to the Board of Trustees or the Executive Committee for approval or disapproval. The Institution will covenant not to change this By-law so long as bonds of this issue remain outstanding.

The basic security for the debt service of the Bonds will be the Base Rent to be paid by the Institution. Section 4.01 of the Lease between the Authority and the College will provide as follows:

Section 4.01 Base Rent. Until the principal of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Institution agrees to pay and shall pay as Base Rent for the use of the Project:

- (a) All funds received from the United States of America as interest subsidy pursuant to the Grant Agreement immediately when received; and
- (b) On or before the 10th day of each month, commencing August 10, 1973 and ending July 10, 1975, the first Forty-five Thousand Dollars (\$45,000.00) and thereafter, on or before the 10th day of each month, the first One Hundred Thousand Dollars (\$100,000.00) of unrestricted gross income received during the preceding month; and
- (c) In the event the Institution shall have made payments of Base Rent as provided in paragraphs (a) and (b), but the funds on deposit in the Bond and Interest Sinking Fund Account (after crediting thereto any other funds on deposit with the Trustee) are nevertheless insufficient to pay sums due on account of the principal of (whether at maturity or by redemption or acceleration of maturity in event of default) and interest on the Bonds then due or to become due on such semiannual interest payment date, the Institution will pay as Base Rent the amount of the deficiency at least five business days before such semiannual interest payment date; and
- (d) Unless the funds and investments in the Debt Service Reserve Account equal the sum of Eight Hundred Eighty Thousand Dollars (\$880,000.00), the Institution will forthwith pay as Base Rent such sum as may be necessary and sufficient to restore the Debt Service Reserve of Eight Hundred Eighty Thousand Dollars (\$880,000.00); and
- (e) Such amounts, if any, as may become payable under Section 6.01 or 6.02 hereof;

except to the extent the Base Rent may be abated or reduced under Section 4.07 or Section 5.11 hereof.

If the Institution fails to pay any Base Rent under this Section when due, resulting in a default in payment of any Bond or coupon, the Institution agrees to pay interest on the amount in default at the rate provided in the Bond or represented by the coupon.

Section 4.05 of said Lease will further provide as follows:

Section 4.05 Rent a General Obligation; Security and Covenants Relating Thereto. This Lease, and particularly the obligations of the Institution to make the payments of Base Rent and Additional Rent required by Sections 4.01 and 4.03 hereof and to perform and observe the other agreements on its part contained herein, is a general obligation of the Institution additionally secured by a security interest in certain property other than the Leased Property as provided in the Agreement.

The Institution agrees to pay the rentals and payments required by this Lease from the general funds or any other moneys legally available to the Institution in the manner and at the times provided by this Lease. The Institution covenants and agrees to charge tuition fees, other fees, rentals and charges which, together with the general funds or any other moneys legally available to the Institution, shall provide moneys sufficient at all times: (i) to pay such rentals and payments required by this Lease; and (ii) to pay all other obligations of the Institution as the same become due and payable.

Further to assure the full and timely payment of the Base Rent and the performance of the covenants in Section 4.01 hereof, the Institution covenants that it will not:

- (i) Pledge, assign or create any security interest in any pledge, pledge receipts, gift or bequest or any other asset to any person as a security interest for any loan or other indebtedness except for a security interest or interests in pledges to secure not to exceed Eight Million Dollars (\$8,000,000.00) in principal amount of bank loans; or
- (ii) Make any capital expenditures or commitments for capital expenditures unless, after giving effect thereto, the Institution's unrestricted endowment funds shall at least equal One Million Dollars (\$1,000,000.00); provided that the Institution shall be permitted to make capital expenditures and commitments for capital expenditures for capital projects presently under construction, and for any capital improvements required to comply with any law, ordinance or regulation, and for any acquisition or improvement from funds donated or made available to the Institution for and restricted to capital acquisitions and improvements; or
- (iii) Sell or dispose of or purchase objects of art except in accordance with paragraph (c) of Section 1, Article V of the Institution's By-laws, which paragraph shall not be amended or repealed without the consent of the holders of sixty-five percent (65%) in aggregate principal amount of the outstanding Bonds.

At the present time the Institution does not charge admission fees to its Art Institute but this policy is now being reviewed. In 1972 over 590,000 persons attended Institute activities.

The site of the Art Museum and Children's Theater and the old building of the College is owned by the City of Minneapolis. The site of the new College building is owned by the Institution. Currently, the Institution receives the proceeds of a .2 mill levy from Hennepin County which, for taxes to be collected in 1973, will be in excess of \$655,000. During the recently ended session of the State Legislature legislation was introduced to increase the levy to .35 mill which would add nearly \$500,000. Although passed by the Senate and approved by the House City Government Committee it did not come out of the House Rules Committee. It will therefore still be before the House next January.

The Institution does in part depend upon an annual guaranty fund drive which in 1971 produced \$341,885 and in 1972 \$383,145. At the close of its fiscal year, June 30, 1972, it had endowment funds of \$13,667,931. In 1972 \$500,000 was taken from endowment funds to meet operating deficiencies. It is anticipated that there will be a deficiency for the fiscal year ended June 30, 1973 and it is anticipated there will be a deficiency again for the following year, after which it is expected that the Institution will have a balanced operating budget. The current deficiencies have been deliberately programmed in order to establish priorities for the current Fund Drive.

ASSETS OF INSTITUTION

Following is an unaudited listing of the major assets of the Institution:

Present land, buildings and furnishings <u>at cost</u> , as of June 30, 1972	\$ 2,752,820
Capital Improvements now underway	22,788,055
Works of Art (Estimated)	50,000,000
Endowment Funds as of June 30, 1972	13,667,931
Total:	\$89,208,806

INVESTMENTS

By the provisions of Section 5.06 of the Mortgage Trust Indenture the Trustee shall, upon request by the Authorized Institution Representative or the Authority, invest moneys on deposit in the:

- Bond and Interest Sinking Fund Account
- Debt Service Reserve Account
- Redemption Account

Investments for these Accounts may be in any of these:

- Direct obligations of, or obligations fully guaranteed by, the United States of America
- Certificates of Deposit of banks or trust companies having a combined capital and surplus of at least \$25,000,000
- Securities issued by the following agencies of the United States:

- Federal Home Loan Banks
- Federal Intermediate Credit Banks
- Federal Land Banks
- Banks for Cooperatives
- Federal National Mortgage Association

Section 4.04 of the Indenture limits investment of funds in the Construction Account to:

- Direct Obligations of the United States of America, or
- Certificates of Deposits or Time Deposits secured by direct obligations of the United States of America

Paragraph 2c of the General Bond Resolution permits the Authority to invest moneys in the General Bond Reserve Account in:

- Direct Obligations of the United States of America
- Certificates of Deposit or Time Deposits secured by direct obligations of the United States of America
- Such other securities as are eligible for investment of public funds of the State of Minnesota or of municipalities of the State.

All investments are limited by arbitrage provisions of the Internal Revenue Code and regulations thereunder.

Yields from funds invested by the Trustee may be used for abatement of Base Rent payments, but those from investment of the General Bond Reserve Account may not. The latter will remain in the General Bond Reserve Account, except that at such time as the Bonds for an Institution have been fully retired and all amounts required to be paid by the Institution have been paid, the Authority will rebate to the Institution its proportionate share of both its original contribution and earnings of the General Bond Reserve Account in proportion to its contribution less a proportionate charge for unrecovered advances. In the event that the amount in the Reserve at any time exceeds the total sum of all debt service, for which the funds of the Account are pledged, in each subsequent year such excess may also be rebated proportionately.

CASH FLOW

As Required:

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

Except, that in the event the Authority or Trustee takes possession of the Project by reason of the Institution's default the second priority will be to an Operation and Maintenance Account for payment of current expenses of the Project. In this event the priority of each of the other Accounts except that of the Bond and Interest Sinking Fund Account will be one step lower than stated above.

ACCOUNTS

1. Construction Account — The Trustee will pay costs of the Projects from it. The sum of \$7,100,000 from the proceeds of this issue will be deposited at closing.
2. Revenue Fund Account — All pledged revenues will be deposited in this account.
 - a. Bond and Interest Sinking Fund Account Base Rent payments pursuant to Section 4.01 of the Lease will be deposited monthly in this Account. In the event of a deficiency of base rent payments, the Institution will pay the amount of the deficiency at least five business days prior to the interest payment dates of the Bonds.

- | | |
|--------------------------------------|---|
| b. Operation and Maintenance Account | No payments will be made to this Account so long as the Institution shall pay the Base Rent. But, in the event the Authority or Trustee assumes operation of the Project, revenues remaining after debt service will be paid into it to meet operational costs. |
| c. Debt Service Reserve Account | For payment of principal and interest the sum of \$880,000 will be placed in this Account from Bond proceeds at closing. |
| d. Redemption Account | Any revenues received which are not otherwise committed will be paid into this Account. Funds in it will be available to maintain required balances in other Accounts and to redeem Bonds. No specific amounts are required. |
3. General Bond Reserve Account — This Account will be maintained by the Authority for debt service, if needed, for any Bonds of the Authority for which a deposit has been made in the Account. The amount of \$220,000 will be placed in this Account at closing from Bond proceeds. No Institution is responsible for replenishment of this Account except for withdrawals on its behalf.

OTHER FIXED TERM INDEBTEDNESS

1. The Institution proposes to enter into a three-year loan of not more than \$8,000,000 with the First National and the Northwestern National Banks, both of Minneapolis. The interest rate will float at $\frac{1}{4}\%$ over prime on the amount actually borrowed. In addition a charge of $\frac{1}{2}$ of 1% will be made for unused commitments. The amount of the commitment may be reduced and the loan will be subject to prepayment at any time. Uncollected pledges will serve as collateral for the loan.
2. On June 15, 1973 the Institution entered into a direct HUD, \$250,000, 25-year, 3% loan for the purchase of two existing apartment buildings to be used as College dormitories for 76 students. The average annual debt service of \$14,357 is a first lien on net revenues from the operation of the dormitories. As further security for this loan there is a first lien on and pledge of the unrestricted endowment fund income of the Institution to the extent of \$17,947 (1.25 times average annual debt service).
3. The Society has mortgages on real estate owned by it, which total \$238,686 with terms ranging from six months to thirty years. In addition, it has \$116,310 of mortgages on real estate which it is in the process of selling.

**CURRENT CAPITAL COMMITMENTS FOR THE COLLEGE,
ART MUSEUM AND CHILDREN'S THEATER**

Construction		\$16,449,955
Site Development		594,000
Furniture, Fixtures & Equipment		1,836,600
Architect, Management & Fees, etc.		2,547,500
Land Acquisition		<u>1,360,000</u>
		\$22,788,055
Less: Payments Made to Date for Construction		<u>8,617,175</u>
Balance:		\$14,170,880
Less: Bond Proceeds	\$7,100,000	
Bank Loan Commitment	8,000,000	<u>15,100,000</u>
Excess of Bond Proceeds and Bank Loan		
Commitment over Balance needed.		\$ 928,120

RESERVES

Debt Service Reserve Account for these Bonds	\$880,000
General Bond Reserve Account for <u>all</u> Bonds of the Authority	\$344,081

NOTE: The \$880,000 will be deposited with the Trustee in the Debt Service Reserve Account for this issue from Bond proceeds. In addition \$220,000 from the Bond proceeds will be added to the \$124,081 principal amount now in the General Bond Reserve Account pledged for all of the Authority's outstanding bonds. The General Bond Reserve Account will be called upon last for any deficiencies and except for the requirements of the Bond and Interest Sinking Fund Account will be replaced first.

INTEREST SUBSIDY

The College has been advised by the Department of Health, Education and Welfare that a fund reservation has been made for a yearly debt service subsidy which it is estimated will be approximately \$72,592. The exact amount will be determined by the net effective rate carried by this issue and final determination of the principal amount of the issue which HEW will participate in. Basically the subsidy will be in an amount intended to reduce the effective rate to 3% on the \$4,000,000 part of the program eligible for an interest subsidy.

Payment of the interest subsidy will be made directly to the Trustee and will be in the same total annual amount.

The bids for this issue will be submitted to HEW for review.

REDEMPTION

All Bonds of this issue will be due on August 1, 1984, but some of such Bonds are required to be redeemed by the Authority, if funds are available from rent payments as due under the Lease, at par plus accrued interest, in blocks of \$25,000 or more and in ascending order of serial numbers, on August 1 in each of the years and in amounts as follows:

\$ 800,000	1976	\$ 950,000	1981
\$ 900,000	1977-80 inclusive	\$1,000,000	1982
	\$2,100,000		1983

Bonds redeemable on any date according to the foregoing schedule, if not then redeemed, are also redeemable on any interest payment date thereafter and are entitled to priority of redemption over higher numbered Bonds, if any, also redeemable on such date. In addition, all Bonds, at the option of the Issuer, shall be subject to prior payment in order of serial numbers, in blocks of \$25,000 or more, on any interest payment date commencing August 1, 1976 at a price of par and accrued interest. The redemption of Bonds in a greater amount than the foregoing schedule shall not excuse the maintenance of said schedule. All Bonds of this issue are subject to redemption at par and accrued interest, in whole but not in part, on any interest payment date in certain events of damage to or destruction or condemnation of the Project as provided in Section 6.14 of the Indenture or in certain cases of change of law as provided in Section 10.02 of the Lease.

COMPARISON OF ESTIMATED DEBT SERVICE WITH CURRENT PROJECTED PLEDGE RECEIPTS

Bonds:

Principal	\$8,450,000	
Interest	\$3,408,600	\$11,858,600
Less Interest Subsidy		<u>725,720</u>
Net		\$11,132,680

Bank Loan:

Principal	\$8,000,000	
Interest*	\$1,440,000	<u>\$ 9,440,000</u>
		\$20,572,680

Less: Reserve Fund:

Principal	\$1,100,000	
Interest	\$ 660,000**	\$ 1,760,000
Current Unpaid Pledges	13,800,000	
Balance of Heritage Fund Drive	2,088,000	<u>\$17,648,000</u>
Balance to be Funded		\$ 2,924,680

*Assumed at 8% for three years. The Institution will pay prime plus ¼ of 1% for actual borrowing plus ½ of 1% for unused commitment. It may reduce its commitment. It expects that pledge receipts will make it unnecessary to borrow the full \$8 million.

** Assumes uncompounded yield of 6% per year for ten years on Series Reserve and General Bond Reserve.

Note: This is on the basis that the Heritage Fund monies are used only for capital improvements. The original budget for the \$26 million drive allocated \$2 million for accession acceleration; \$1.5 million for scholarships and \$4,125,000 for new programs and operation of more extensive facilities. The total additional amount needed will depend upon the extent to which commitment is made to implement these goals.

The Institution reports that it currently has in excess of \$10 million of outstanding substantial pledge requests. During the past ten years the Institution has obtained in excess of \$34 million of gifts and pledges for capital improvements, operations or special projects. This includes \$288,000 of a Title I Federal Grant for the current building program. In addition, it has received substantial gifts of works of art. Generally, the Trustees and Staff assume responsibility for fund raising. The Institution has a full-time Development Staff of five persons which has the primary responsibility for fund drives. Administrative costs for fund raising are between 2 and 3 per cent.

PROJECTION OF ESTI

<u>YEAR</u>	<u>PROJECTED PREPAID PRINCIPAL</u>	<u>PROJECTED INTEREST*</u>	<u>GROSS DEBT SERVICE</u>
1974	\$ —0—	\$ 481,650	\$ 481,650
1975	—0—	481,650	481,650
1976	800,000	481,650	1,281,650
1977	900,000	436,050	1,336,050
1978	900,000	384,750	1,284,750
1979	900,000	333,450	1,233,450
1980	900,000	282,150	1,182,150
1981	950,000	230,150	1,180,850
1982	1,000,000	176,700	1,176,700
1983	<u>2,100,000</u>	<u>119,700</u>	<u>2,219,700</u>
Totals:	\$8,450,000	\$3,408,600	\$11,858,600

*5.70 coupon

- NOTES:**
1. The Institution **must** make the full Base Rent payments from any unrestricted funds available to it. It may use investment earnings of debt redemption funds and the Series Reserve for this purpose.
 2. In addition to the excess of Base Rent over estimated debt service as shown by the Cumulative Balance column there will be a Series Reserve of \$880,000 and a General Bond Reserve of \$344,081. The latter is a reserve for all bonds of the Authority.

MATED DEBT SERVICE

<u>LESS</u> <u>INTEREST SUBSIDY**</u>	<u>NET</u> <u>DEBT SERVICE</u>	<u>BASE</u> <u>RENT***</u>	<u>CUMULATIVE</u> <u>BALANCE****</u>
\$ 72,592	\$ 409,058	\$ 540,000	\$130,942
72,592	409,058	540,000	261,884
72,592	1,209,058	1,200,000	252,826
72,592	1,263,458	1,200,000	189,368
72,592	1,212,158	1,200,000	177,210
72,592	1,160,858	1,200,000	216,352
72,592	1,109,558	1,200,000	306,794
72,592	1,108,258	1,200,000	398,586
72,592	1,104,108	1,200,000	494,428
<u>72,592</u>	<u>2,147,108</u>	<u>1,200,000</u>	<u>779,320*****</u>
\$725,920	\$11,132,680	\$10,680,000	

**Approximate, exact amount will depend upon rate.

***\$45,000 per month August 1, 1973 thru July 1, 1975; \$100,000 per month thereafter. May be abated by investment yield on debt redemption funds and \$880,000 Series Reserve.

****Assumes no deficiencies and represents only excess of Base Rent over estimated debt service. Does not take into account investment yields.

*****Takes into account \$1,100,000 Reserve (Series and General combined) plus \$132,000 of un compounded interest of 6% per annum on \$220,000 of General Reserve.

Following is a summary of certain provisions of the Agreement, Deed, Lease, Mortgage Trust Indenture and the General and Series Bond Resolutions. Reference is made to the specific Sections of the respective documents. Copies of the full text of these documents will be furnished upon request.

AGREEMENTS AND SECURITY

Agreement

The Authority and the Institution will enter into an Agreement attached to which as exhibits will be the forms, subject to completion, of the Deed, the Lease, the Indenture, the General Bond Resolution and the Series Resolution described below, as well as the Official Statement, a Financing Statement for filing under the Uniform Commercial Code and a Schedule of Closing Documents. By the Agreement, the College represents among other things that the Application previously filed by the College and approved by the Authority is true and complete in all respects. In the Application materials and in the Lease, the College represents, and the Authority has found, that the College is a non-profit institution of higher education eligible for financial assistance under Chapter 868, Minnesota Laws of 1971, that the Project is eligible for financing under the Act, and that the College is nonsectarian and does not discriminate in its admission policies or programs on account of religion, race, color, creed or national origin.

The Agreement provides for the award of sale of the Project Bonds by the Authority, in its discretion, provided the Institution concurs or does not object before the award is made; the execution of the closing documents; the issuance and sale of additional parity lien bonds, in the discretion of the Authority, if necessary to pay additional Project costs; for the completion of Project construction pursuant to construction contracts previously made by the Institution as agent of the Authority, with approved changes, and for operation of the Project by the Institution under the Lease and as agent of the Authority pursuant to the Act. Under the Agreement, the Institution agrees to register or qualify the Bonds under the securities act of any state other than Minnesota, or to cooperate in the registration or qualification, at the request and expense of the underwriters. By the Agreement, the Institution assigns to the Authority its interest in the Project construction contracts, the unrestricted gross income of the Institution, the Leased Equipment and interest subsidy payments from the United States under the Grant Agreement, or any combination of these.

Deed

At or prior to closing, the Institution will execute, deliver and record a warranty deed conveying the Project and site thereof, and appurtenant easements, to the Authority. At closing, the Institution shall procure and deliver to the Authority and Bond Counsel a title insurance binder (or unless otherwise required by the Authority an opinion of Counsel as to title) satisfactory to the Authority and Bond Counsel covering the Project site and any easements specified in the Deed or Indenture.

Lease

At or prior to closing, the Authority as lessor and the College as lessee will execute and deliver a Lease for a lease term expiring at the last Bond maturity date. The Lease is intended to be a net lease of the Project, including the Project building, site, and Leased Equipment, under which the Institution will pay as Base Rent (Section 4.01) at the office of the Trustee a sum equal to principal and interest on the Bonds plus amounts required to restore the Debt Service Reserve. The Institution has also agreed to pay, as Additional Rent (Section 4.03) the annual fee of the Authority, fees and expenses of the Trustee and Paying Agent, and any taxes, special assessments or other governmental charges against the Project.

At the conclusion of the Lease Term (Section 10.03), the Institution has the option to repurchase the Project for a consideration provided that full payment of the Bonds or provision for payment has been made as well as Additional Rent. During the Lease Term, the Institution has the option to purchase unimproved parts of the Leased Premises at the per acre value determined by an independent appraiser and upon the further conditions provided by the Lease (Section 10.04), to remove or make substitutions for Leased Equipment (Section 5.07), and to make Building improvements upon certain conditions (Section 5.04). In the event of damage or destruction to the Building by fire, or other casualty, the Institution has agreed to rebuild or repair the Building unless it exercises its option not to repair or rebuild (if more than six months is required to complete the restoration and return the Project to normal use or if cost of restoration exceeds by more than \$100,000 the Net Proceeds of insurance) and to retire all the Bonds (Sections 6.01, 10.02) and similarly to replace or restore the Building in cases of partial condemnation by eminent domain or to retire all the Bonds if all or substantially all the Project (as that term is defined) or temporary use for more than six months is taken in the Proceeding (Sections 6.02, 10.02), or if it cannot rebuild or repair. If as a result of change of law or certain legal actions, the Lease becomes void or unenforceable or impossible of performance, or if unreasonable burdens or excessive liabilities (including new taxes) are imposed, the College is given the right to repurchase the Project by retiring all the Bonds (Section 10.02). In such cases where the Institution has the right to retire the Bonds during the Lease Term, and repurchase the Project, it must also pay all unpaid Additional Rent plus the specified option price (Section 10.02). Upon repurchase, the conveyance to the Institution will reserve a covenant and condition that the Institution shall not use the property for sectarian purposes or discriminate on account of race or religion in the use of the property (Section 10.05). If the Net Proceeds of insurance or condemnation exceed \$100,000, the Net Proceeds must be deposited with the Trustee to be used for restoration or to retire the Bonds, as appropriate (Sections 6.01, 6.01).

In the Lease, the Institution makes further covenants and agreements as indicated by the following Section headings:

(Article III Construction of the Project; Issuance of the Bonds)

- 3.01 Agreement to Construct and Equip the Building on the Leased Premises
- 3.03 Disbursements from the Construction Account
- 3.06 Institution Required to Pay Construction and Equipment Costs in Event Construction Account Insufficient
- 3.08 Remedies to be Pursued Against Contractors and Subcontractors and Their Sureties

(Article IV Rent, Prepayment)

- 4.05 Rent a General Obligation; Security and Covenants Relating Thereto

(Article V Use, Maintenance, Charges and Insurance)

- 5.01 Use of Leased Premises
- 5.03 Maintenance of Project by Institution
- 5.05 Liens
- 5.09 Fire and Extended Coverage Insurance
- 5.10 Boiler Insurance
- 5.12 Public Liability Insurance
- 5.13 Workmen's Compensation Coverage
- 5.14 Performance Payment Bonds

(Article VII Special Covenants)

- 7.02 Institution to Maintain its Existence and Accreditation; Conditions Under Which Exceptions Permitted
- 7.05 Annual Statement
- 7.08 Federal Income Tax Status

- 7.09 Institution to Maintain Furnishings and Movable Equipment
- 7.11 Against Discrimination
- 7.12 Institution to be Nonsectarian
- 7.13 Observe Regulations of the Authority and the State
- 7.15 Maintain List of Bondholders
- 7.16 Observance of Indenture Covenants and Terms
- 7.17 Observe Grant Agreement and Federal Regulations

In the event of default by the Institution, the Authority and Trustee may accelerate the due date of all installments of Base Rent, may repossess the Project, may terminate the Lease and operate and relet, holding the Institution liable for any deficiency, or pursue any other legal remedies available (Sections 9.01, 9.02). The security interest in Leased Equipment is subject to foreclosure under applicable provisions of the Uniform Commercial Code (Section 9.07). In event of default, among other things, the Institution agrees to pay attorney's fees and expenses (Section 9.04), to waive appraisal and similar rights (Section 9.06), and to continue furnishing heat and utilities not otherwise available (Section 9.09).

A short form of Lease will be executed and recorded in the real estate records of Hennepin County where the Project is located, describing the property, length of term and the Institution's purchase options, incorporating by reference other provisions of the Lease (Section 11.09). The full Lease will be kept on file at the offices of the Authority and Trustee, available for inspection.

Indenture

At or prior to closing the Authority will execute, deliver and record a Mortgage Trust Indenture to the Trustee to secure the Bonds. By the Granting Clauses, the Authority will mortgage, pledge and assign to the Trustee a first lien on the Project land and buildings, Leased Equipment, Grant Agreement, the Lease (except for the Authority's rights to Additional Rent), Project net revenues, Accounts, funds and investments. Under the Indenture and corresponding provisions of the Lease, except for accrued interest and debt service reserves, all Bond proceeds are to be deposited in the Construction Account (Section 4.01), to be disbursed by the Trustee for Project cost payments or reimbursements (Section 4.02), pursuant to certification of the Authorized Authority Representative, Authorized Institution Representative, and/or Project Supervisor, as specified (Section 4.03).

All revenues and income of the Project realized by the Authority must be deposited in the Revenue Fund Account (Section 5.01) and applied in order to the Bond and Interest Sinking Fund Account for Bond principal and interest (Section 5.02), to the Operation and Maintenance Account to pay operating expenses if the College is in default under the Lease (Section 5.03), to the Debt Service Reserve Account if necessary to restore the Debt Service Reserve (Section 5.04) and to the Redemption Account to redeem or purchase outstanding Bonds if all other Account balances are in the required amounts (Section 5.05). Funds in the Debt Service Reserve Account and Redemption Account are required to be used, if necessary, to pay Bond principal and interest when due. Funds in those Accounts and the Bond and Interest Sinking Fund Account may be invested (Section 5.06). All investments will be limited as necessary as to amount or yield under the arbitrage provisions of Section 103 (d) (1) of the Internal Revenue Code of 1954 and regulations thereunder.

In the Indenture, the Authority covenants to pay the Bonds from Project Revenues and Income (Section 6.01), to pay lawful charges imposed on the Project (Section 6.05), to complete and operate and maintain the Project (Sections 6.06, 6.07), not to sell or encumber the Project (Section 6.09), to establish rental rates and regulations for Project operations (Section 6.11), to maintain insurance (Sections 6.12, 6.13), to repair and reconstruct in event of damage or condemnation (Section 6.14), to maintain proper books and records and submit an annual report to the Trustee (Section 6.18), and to observe those and all other covenants and terms set forth in the Indenture and Bonds (Section 6.18). Under the Act, however, and in the Indenture, it is agreed that the Authority has no obligation to make any advance or payment or incur any expense or liability from its general funds in performing any of the conditions, covenants or requirements of the Indenture, from any funds other than Revenues and Income of the Project or Bond proceeds or (to the extent provided in the General Bond Resolution) from the General Bond Reserve Account, and the Authority shall incur no liability for failure to perform any such conditions, covenants and requirements for lack of funds provided the Authority shall have furnished the Trustee a Certificate and an Opinion of Counsel (Section 6.18).

In event of default, as defined (Section 7.01), the Trustee is authorized to accelerate the maturity of the Bonds (Section 7.02), sue to enforce the Indenture's covenants in its discretion or at direction of holders of 25% of the outstanding Bonds (Section 7.03), enter and operate the Project (Sections 7.04, 7.05), obtain appointment of a receiver (Section 7.06) and apply for a court order to hold a mortgage foreclosure sale (Section 7.07). Holders of a majority in amount of outstanding Bonds have the right to direct the proceedings by the Trustee, in accordance with law and the Indenture (Section 7.18) upon indemnifying the Trustee (Sections 7.02, 7.19, 8.06), suits by Bondholders being limited unless the Trustee has been requested and has failed to act (Section 7.19). Defaults (except payment of Bond principal) may be waived, if all interest in arrears has been paid, upon approval of holders of 51% of outstanding Bonds (Section 7.20).

The Trustee has no responsibility to use its own funds under the Indenture (Sections 8.01, 8.04) but it and the Authority may make advances, at 8% (Section 8.12, Lease Section 9.05), which are given priority of payment. The responsibilities of the Trustee prior to a known 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 (Sections 8.01, 8.07). The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the Institution to the same extent as if it were not Trustee (Section 8.15). Provision is made for succession or replacement of the Trustee by another corporate Trustee with a place of business in Minnesota and minimum capital and surplus of \$1,000,000 (Section 8.16), in event of merger (Section 8.17), resignation or removal by holders of a majority of outstanding Bonds (Section 8.18) or, in event of disability, by the Authority or a court (Section 8.19).

Provisions are made for technical amendments of the Lease and the Indenture with the consent of the Trustee (Sections 6.08, 11.01) and in other cases with the consent of the holders of 65% of outstanding Bonds (Section 6.08, 11.04), provided that the maturity dates, rates of interest, lien priority and equality cannot be changed without the consent of all Bondholders. Additional Bonds can be issued, on a parity with the Bonds, if necessary to complete the Project or, with the consent of the holders of 65% of outstanding Bonds, to provide for Project improvements, alterations, repair or replacement (Section 2.10). Bondholder approval or action may be given in writing (Section 9.01) or at a meeting (Section 9.04).

General Bond Resolution; Series Resolution

The Authority has adopted a General Bond Resolution establishing a General Bond Reserve Account in a qualified bank or banks (par. 2a) to provide additional security for the Authority's bonds to be issued, from time to time, including the Bonds (par. 1). Under the General Bond Resolution there must be deposited into the General Bond Reserve Account 20% of the probable net average annual debt service requirements of each issue of bonds to be secured by the General Bond Reserve Account (after deducting amounts of annual debt service to be paid by the Government under the Grant Agreement, if any), together with the moneys received by the Authority as consideration for the exercise of lease options, as other net proceeds of sale of Project facilities, or as excess net revenues of Project operations and certain other funds except to the extent such moneys and funds are pledged to the Trustee under a particular indenture or are otherwise restricted (par. 2b). Such moneys may be invested in authorized securities, but limited as to amount and yield of investment so that none of the outstanding bonds of the Authority shall be deemed "arbitrage bonds" under the Internal Revenue Code (par. 2c). When an Institution has provided for the payment of its Bonds, it is entitled to a rebate of its contributions to the General Bond Reserve Account from Bond proceeds, together with its share of investment earnings, less a proportionate charge for unrecovered advances made to pay principal or interest on any bonds secured by the General Bond Reserve Account (par. 2e). In the event the funds and investments in the General Bond Reserve Account exceed the amount of principal and interest secured by the Account to come due in any year, the excess may be withdrawn and rebated to the Authority and the Institutions (par. 2f).

Whenever the principal of or interest on any bonds secured by the General Bond Reserve Account (including the Bonds) shall become due, the Authority pledges to the several trustees for the bondholders (including the Trustee) that it will advance from the General Bond Reserve Account amounts sufficient to pay such principal and interest (par. 2d). For such purpose, principal becomes due only at its stated maturity date, whether or not accelerated by call for redemption or event of default, unless the Authority determines, in its discretion, to make the advance prior to the scheduled maturity date. All advances bear interest and are given priority of payment (par. 2d, Indenture Section 5.08, Lease Section 4.01). Neither the Trustee nor the Bondholders have any right to possession or to direct investment or to foreclose any security interest in the General Bond Reserve Account, but only to require advances and observance of the covenants of the General Bond Resolution (par. 2d). Accounting and other determinations by the Authority are binding on the Institution, Trustee and each Bondholder unless made unreasonably or in bad faith or as a result of mistake of fact or mathematical error (par. 2g), including determinations made in a Series Resolution as to the meeting of conditions precedent for the ratable pledge of the General Bond Reserve Account to a series of Authority Bonds (par. 3).

The General Bond Resolution may be amended to cure ambiguities or formal defects or with the consent of the holders of 65% in amount of each series of Authority bonds outstanding and secured by the Account (par. 4). Special series Bonds may be issued by the Authority, in its discretion, not secured or governed by the provisions of the General Bond Resolution (par. 5).

The Series Resolution, to be adopted when the sale of the Bonds is awarded, will provide for the award, the execution and delivery of the Bonds and closing documents, for the amount of \$220,000 Bond proceeds to be deposited with the Authority in the General Bond Reserve Account and with the Trustee in the Bond and Interest Sinking Fund Account any accrued interest and \$880,000 in the Debt Service Reserve Account. It will specifically pledge the General Bond Reserve Account to the Bonds ratably with other bonds issued or which may be issued and will make the findings required by the General Bond Resolution.

PARITY BONDS

The Authority may issue additional Bonds to provide funds to complete the Project which will be on a parity with this issue. In the event of such issuance additional Base Rentals and related provisions will be required. Additional parity Bonds may also be issued to provide for improvement, alteration, repair or replacement of the Project with the consent of the holders of 65% of outstanding Bonds.

REGISTRATION OF BONDS

Bonds may be registered as to principal only, or as to both principal and interest. If a Bond is registered as to both principal and interest it may be reconverted into a Coupon Bond at the request and expense of the registered owner.

LEGAL OPINION

The issuance and sale of the Bonds shall be subject to the delivery of the approving legal opinion of Messrs. Faegre & Benson as Bond Counsel to the Authority, the Institution, the Trustee and the purchaser of the Bonds to the effects that (i) the Authority has authority under the Act to issue the Bonds, to acquire and lease the Project to the Institution and to execute and deliver the Indenture to secure the Bonds, (ii) the Bonds, the Deed, the Lease and the Indentures have been duly authorized by all necessary proceedings and duly executed and delivered (iii) the Bonds, the Lease and the Indenture are valid and binding instruments in accordance with their terms, (iv) the Indenture provides a valid and direct first mortgage lien on the Project subject only to the Lease and encumbrances permitted by the Indenture, (v) the Grant Agreement, is a valid and binding obligation of the United States of America to provide interest subsidy on the Bonds, (vi) the Bonds are further secured by the General Bond Reserve Account established by the Authority by its General Bond Resolution dated October 31, 1972 on a parity with bonds of other series as provided in the General Bond Resolution and (vii) the interest on the Bonds is exempt from federal and Minnesota state income taxes (other than Minnesota corporate franchise taxes measured by income) under present laws and rulings.

TOUCHE ROSS & CO.

780 NORTHSTAR CENTER
MINNEAPOLIS, MINNESOTA 55402

September 19, 1972

Board of Trustees
The Minneapolis Society of
Fine Arts
Minneapolis, Minnesota

We have examined the accompanying balance sheet of The Minneapolis Society of Fine Arts (including the City of Minneapolis Park Museum Fund) as of June 30, 1972, and the related statements of revenues and expenditures and changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Society follows the policy of not including works of art in its balance sheet.

In our opinion, subject to the ultimate collection of pledges receivable described in Note B, the aforementioned financial statements present fairly the financial position of The Minneapolis Society of Fine Arts (including the City of Minneapolis Park Museum Fund) at June 30, 1972 and the results of its activities for the year then ended in conformity with generally accepted accounting principles applied on a consistent basis except for the change, which we approve, in recording Heritage Fund pledges from the cash to the accrual basis of accounting as described in Note A.



Certified Public Accountants

TOUCHE ROSS & CO.

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THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Fund)

BALANCE SHEET

ASSETS

	June 30	
	1972	1971
OPERATING FUND:		
Cash	\$ 27,922	\$ 2,245
Accounts receivable:		
Taxes, Park Museum Fund	276,162	285,791
Guaranty fund subscriptions	35,114	25,526
Miscellaneous	134,683	82,889
Temporary investments of expendable funds in securities, at cost, or market value at date of gift, which approximates market	65,345	
Prepaid expenses and school supply inventory	60,300	55,649
Receivable from endowment funds (Note D)	500,000	
	<u>\$ 1,099,526</u>	<u>\$ 452,100</u>
SPECIAL PURPOSE FUNDS:		
Heritage Fund:		
Cash	\$ 144,059	\$ 238,545
Accounts receivable:		
Pledges receivable (Notes A and B)	10,039,000	
Miscellaneous	49,328	49,000
Temporary investments of expendable funds in securities, at cost, or market value at date of gift, which approximates market	865,133	1,073,136
Real estate, at cost	1,126,686	576,007
Construction in process	386,255	
Receivable from operating fund	593,943	
	<u>13,204,404</u>	<u>1,936,688</u>
Other special purpose funds:		
Cash	243,330	46,999
Accounts receivable:		
Student loans	147,349	121,890
Miscellaneous	69,297	76,812
Temporary investments of expendable funds in securities, at cost, or market value at date of gift, which approximates market	14,000	11,840
Receivable from operating fund	194,908	343,988
Receivable from endowment funds	145,726	65,799
	<u>814,610</u>	<u>667,328</u>
	<u>\$14,019,014</u>	<u>\$ 2,604,016</u>
ENDORWMENT FUNDS:		
Cash	\$ 19,250	\$ 16,000
Account receivable	8,000	
Investments (Note C):		
Vested in the Society	9,570,848	8,996,877
Held in trust	4,069,833	4,018,968
	<u>\$13,667,931</u>	<u>\$13,031,845</u>
PHYSICAL PROPERTIES FUND:		
Land, buildings and equipment, at cost, or appraised value of gifts:		
Land and land improvements	\$ 358,397	\$ 358,397
Building and building improvements	1,709,326	1,656,993
Furniture, fixtures and equipment	685,097	621,932
	<u>2,752,820</u>	<u>2,637,322</u>
Less accumulated depreciation	1,155,951	1,089,524
	<u>\$ 1,596,869</u>	<u>\$ 1,547,798</u>

See notes to financial statements.

LIABILITIES AND FUND BALANCES

	June 30	
	1972	1971
OPERATING FUND:		
Liabilities:		
Payable to Heritage Fund	\$ 593,943	\$ 343,988
Payable to other special purpose funds	194,908	65,551
Payable to Park Museum Fund		109,133
Other accounts payable and accrued expenses	146,586	70,623
Deferred revenue	159,576	589,295
	<u>1,095,013</u>	<u>(137,195)</u>
Fund balance (deficit)	4,513	\$ 452,100
	<u>\$ 1,099,526</u>	
SPECIAL PURPOSE FUNDS:		
Heritage Fund:		
Liabilities:		
Accounts payable	\$ 71,215	\$ 32,154
Mortgages payable	195,481	162,271
Fund balance (Note E)	12,937,708	1,742,263
	<u>13,204,404</u>	<u>1,936,688</u>
Other special purpose funds:		
Liabilities:		
Accounts payable for works of art	274,424	329,656
Other accounts payable	16,378	10,725
	<u>290,802</u>	<u>340,381</u>
Fund balances	523,808	326,947
	<u>814,610</u>	<u>667,328</u>
	<u>\$14,019,014</u>	<u>\$ 2,604,016</u>
ENDORWMENT FUNDS:		
Installment notes payable (Note C)	\$ 316,502	\$ 354,404
Payable to special purpose funds	145,726	65,799
Payable to operating fund	500,000	
Fund balances:		
Unrestricted as to use of income	4,845,833	5,276,481
Restricted as to use of income	7,859,870	7,335,161
	<u>12,705,703</u>	<u>12,611,642</u>
	<u>\$13,667,931</u>	<u>\$13,031,845</u>
PHYSICAL PROPERTIES FUND:		
Installment note payable	\$ 39,944	\$ 1,547,798
Fund balance	1,556,925	
	<u>\$ 1,596,869</u>	<u>\$ 1,547,798</u>

THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Fund)

STATEMENT OF REVENUES AND
EXPENDITURES - OPERATING FUND

	<u>Year ended June 30</u>	
	<u>1972</u>	<u>1971</u>
REVENUES:		
Contributions - annual guaranty fund	\$ 383,145	\$ 341,885
Endowment fund income (Note D)	324,738	301,060
Tax levy, Park Museum Fund	612,789	583,816
Memberships	71,983	68,477
Tuition and fees, College of Art and Design	668,247	569,919
Museum activities	490,277	332,451
College of Art and Design activities	124,230	180,489
Transfers from special purpose funds	65,034	94,772
Other	<u>31,764</u>	<u>33,582</u>
	2,772,207	2,506,451
EXPENDITURES:		
Operating expenses	3,073,124	2,683,640
Additions to physical properties	<u>57,375</u>	<u>32,737</u>
	<u>3,130,499</u>	<u>2,716,377</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>\$ 358,292</u>	<u>\$ 209,926</u>

STATEMENT OF CHANGES IN FUND BALANCE
(DEFICIT) - OPERATING FUND

	<u>Year ended June 30</u>	
	<u>1972</u>	<u>1971</u>
FUND BALANCE (DEFICIT) at beginning of year	(\$137,195)	(\$139,769)
Deduct - excess of expenditures over revenues	358,292	209,926
Add - transfer from endowment funds (Note D)	<u>500,000</u>	<u>212,500</u>
FUND BALANCE (DEFICIT) at end of year	<u>\$ 4,513</u>	<u>(\$137,195)</u>

See notes to financial statements.

THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Fund)

STATEMENT OF CHANGES IN FUND BALANCES - SPECIAL PURPOSE FUNDS

	<u>Year ended June 30, 1972</u>		<u>Year ended June 30, 1971</u>	
	<u>Heritage</u>	<u>Other special</u>	<u>Heritage</u>	<u>Other special</u>
	<u>Fund</u>	<u>purpose funds</u>	<u>Fund</u>	<u>purpose funds</u>
ADDITIONS:				
Contributions	\$ 4,332,835	\$146,835	\$2,049,647	\$119,491
Endowment fund income (Note D)		460,243		453,626
Other income	48,133	133,316	7,305	91,125
Transfer from Heritage Fund		24,925		55,276
Transfer from operating fund		104,179		83,793
Transfer from endowment funds				4,501
	<u>4,380,968</u>	<u>869,498</u>	<u>2,056,952</u>	<u>807,812</u>
DEDUCTIONS:				
Purchases of Works of Art	20,000	392,791	8,500	327,578
Planning and development expenditures	132,320		139,106	
Architects fees and expenses	802,656		264,329	
Additions to physical properties fund	145	5,487	2,223	10,194
Other authorized expenditures		209,325		322,533
Transfers to operating fund revenues		65,034		94,772
Transfer to endowment fund	830,656			
Transfer to other special purpose funds	<u>24,925</u>		<u>55,276</u>	
	<u>1,810,702</u>	<u>672,637</u>	<u>469,434</u>	<u>755,082</u>
NET CHANGE	2,570,266	196,861	1,587,518	52,730
FUND BALANCES at beginning of year, as previously reported	1,742,263	326,947	154,745	274,217
Effect of the change in method of accounting for pledges receivable (Note A)	<u>8,625,179</u>			
FUND BALANCES at end of year	<u>\$12,937,708</u>	<u>\$523,808</u>	<u>\$1,742,263</u>	<u>\$326,947</u>

See notes to financial statements.

THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Fund)

STATEMENT OF CHANGES IN FUND BALANCES - ENDOWMENT FUNDS

	<u>Year ended June 30, 1972</u>		<u>Year ended June 30, 1971</u>	
	<u>Use of income</u>		<u>Use of income</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>
ADDITIONS:				
Contributions received	\$ 7,100	\$ 83,161	\$ 32,045	\$ 148,533
Income from investments	232,474	334,517	272,227	396,363
Gain (loss) from disposal of securities	(222,225)	113,359	(200,332)	(29,507)
Transfers from Heritage Fund	<u>351,298</u>	<u>479,358</u>		
	368,647	1,010,395	103,940	515,389
DEDUCTIONS:				
Transfers to other funds:				
Operating fund revenues	299,295	25,443	273,865	27,195
Operating fund balance (deficit)	500,000		212,500	
Special purpose funds		<u>460,243</u>	<u>4,501</u>	<u>453,626</u>
	<u>799,295</u>	<u>485,686</u>	<u>490,866</u>	<u>480,821</u>
NET CHANGE	(430,648)	524,709	(386,926)	34,568
FUND BALANCES at beginning of year	<u>5,276,481</u>	<u>7,335,161</u>	<u>5,663,407</u>	<u>7,300,593</u>
FUND BALANCES at end of year	<u>\$4,845,833</u>	<u>\$7,859,870</u>	<u>\$5,276,481</u>	<u>\$7,335,161</u>
Whereof:				
Vested in Society	\$4 296,805	\$4,339,066	\$4,725,287	\$3,867,389
Held in trust	<u>549,028</u>	<u>3,520,804</u>	<u>551,194</u>	<u>3,467,772</u>
	<u>\$4,845,833</u>	<u>\$7,859,870</u>	<u>\$5,276,481</u>	<u>\$7,335,161</u>

See notes to financial statements.

THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Funds)

STATEMENT OF CHANGES IN FUND BALANCE -
PHYSICAL PROPERTIES FUND

	<u>Year ended June 30</u>	
	<u>1972</u>	<u>1971</u>
ADDITIONS:		
Transfers for purchase of physical properties:		
From operating fund:		
Equipment	\$ 43,978	\$ 22,615
Books for libraries	13,397	10,122
From special purpose funds:		
Equipment	1,888	9,680
Books for libraries	3,744	2,442
Gifts of books for College of Art and Design		
Library	<u>12,547</u>	<u>9,856</u>
	75,554	55,015
DEDUCTION - depreciation of building and equipment	<u>66,427</u>	<u>61,532</u>
NET CHANGE	9,127	(6,517)
FUND BALANCE at beginning of year	<u>1,547,798</u>	<u>1,554,315</u>
FUND BALANCE at end of year	<u>\$1,556,925</u>	<u>\$1,547,798</u>

See notes to financial statements.

THE MINNEAPOLIS SOCIETY OF FINE ARTS
(including the City of Minneapolis Park Museum Fund)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1972

A. Change in accounting method:

During 1972 the Society changed its accounting method for Heritage Fund pledges from the cash to the accrual method. The Society had previously recognized contributions only to the extent of amounts received. Under the accrual method the financial statements at June 30, 1972 include pledges receivable of \$10,039,000. Had the accrual method been used for the year ended June 30, 1971, pledges receivable of \$8,625,179 would have been recorded as of June 30, 1971.

B. Pledges receivable:

Pledges receivable are to be collected during the following fiscal periods:

Years ending <u>June 30</u>	
1973	\$ 2,484,000
1974	2,684,000
1975	2,344,000
1976	1,296,000
1977 - 1982	<u>1,231,000</u>
	<u>\$10,039,000</u>

In addition to the pledges recorded, the Society has \$1,129,500 in contingent pledges. The ultimate collection of pledges receivable cannot be evaluated currently and no provision has been made for possible losses in collection.

C. Investments:

	June 30, 1972		June 30, 1971	
	<u>Book amount</u>	<u>Market(1)</u>	<u>Book amount</u>	<u>Market(1)</u>
Investments vested in the Society, generally at cost:				
Bonds and notes	\$ 2,442,755	\$ 2,339,940	\$ 2,695,586	\$ 2,422,025
Preferred stocks	628,872	757,488	659,283	690,313
Common stocks	5,001,018	7,441,509	4,411,363	5,955,109
Real estate (2)	1,296,666	1,296,666	1,296,666	1,296,666
Uninvested cash (overdraft) (3)	201,537	201,537	(66,021)	(66,021)
	<u>\$ 9,570,848</u>	<u>\$12,037,140</u>	<u>\$ 8,996,877</u>	<u>\$10,298,092</u>
Investments held in trust:				
Bonds	\$ 1,530,173	\$ 1,542,200	\$ 1,412,922	\$ 1,427,539
Preferred stocks	101,614	184,250	103,036	124,175
Common stocks	2,440,313	3,766,076	2,471,138	3,541,893
Uninvested cash (overdraft)	(2,267)	(2,267)	31,872	31,872
	<u>\$ 4,069,833</u>	<u>\$ 5,490,259</u>	<u>\$ 4,018,968</u>	<u>\$ 5,125,479</u>

- (1) Includes \$1,649,966 for the year ended June 30, 1972 and \$1,679,822 for the year ended June 30, 1971 (at book amount) for which market prices were not available.
- (2) Real estate carried at \$628,992 at June 30, 1972 pledged as collateral to installment notes payable.
- (3) At June 30, 1972 in process of transfer from Heritage Fund.

D. Endowment fund income:

The Society follows the practice of transferring to operating fund revenues and to special purpose funds, 6% per annum of the current market value of endowment fund investments. The amount transferred from unrestricted endowment funds in excess of the income on endowment fund investments aggregated \$818,808 at June 30, 1972, of which \$217,990 was transferred during the year ended June 30, 1972.

In addition, during the year ended June 30, 1972, the Society transferred \$500,000 from unrestricted endowment funds to the operating fund balance (deficit) to cover the excess of operating fund expenditures over revenues for the two years ended June 30, 1972.

E. Heritage Fund balance:

The fund equity has been designated by the Board of Trustees and donors for expansion and remodeling of the Institute of Art, Children's Theatre Company and College of Art and Design, in addition to providing for ongoing activities, scholarship accessions of Works of Art.

F. Pension Plan:

The Society has a contributory pension plan covering all regular full-time employees who have completed two years of service and attained age 30, but whose age at employment was under 55. The Society's policy is to fund pension costs accrued. The pension contributions included in operating fund expenditures for the years ended June 30, 1972 and 1971 were \$25,700 for each year. As of June 30, 1972 the fund assets were in excess of the actuarially computed vested benefits under the plan.

G. Commitments:

Contracts of approximately \$10,750,000 have been let in conjunction with the Heritage Fund building and expansion program. The cost of construction equipment and fees is estimated to aggregate \$18,000,000 which will be financed by donations, grants and interim borrowings.

H. Account reclassifications:

Certain account balances for the year ended June 30, 1971 have been restated to conform to classifications used in 1972. These reclassifications had no effect on fund balances.