OFFICIAL STATEMENT DATED DECEMBER 31, 1985

NEW ISSUE

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

$830,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

REVENUE BONDS, SERIES TWO-K

(THE MINNEAPOLIS SOCIETY OF FINE ARTS)

HIGHER EDUCATION FACILITIES AUTHORITY
380 JACKSON ST., STE. 450
ST. PAUL, MN 55101-3899

Bonds Dated: December 1, 1985 — Due: February 1, as shown below

The Bonds are fully registered with interest payable semiannually on February 1 and August 1, commencing August 1, 1986. The Bonds are issued in denominations of $5,000 and integral multiples thereof and principal will be payable at the principal office of Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota, (the "Trustee"), which will also act as Registrar and Paying Agent. Interest on the Bonds will be payable by check or draft of the Trustee mailed (or, pursuant to a written agreement with the Trustee, by wire transfer) to the registered Owner at the Owner's address as it appears on the registration books.

The proceeds of the Bonds will be loaned by the Minnesota Higher Education Facilities Authority (the "Authority") to The Minneapolis Society of Fine Arts (the "Society"), a Minnesota non-profit corporation and owner and operator of the Minneapolis College of Art and Design.

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority payable solely from deposits and payments made by or on behalf of the Society pursuant to a Loan Agreement between the Authority and the Society, or out of other amounts pledged pursuant to the Indenture, as described herein. The Bonds are additionally secured by the Debt Service Reserve Account, as more fully described herein.

MATURITY SCHEDULE

Year (February 1)	Principal Amount	Interest Rate	Year (February 1)	Principal Amount	Interest Rate
1988	$ 30,000	6.50%	1995	$60,000	8.00%
1989	35,000	6.75	1996	65,000	8.25
1990	40,000	7.00	1997	70,000	8.50
1991	40,000	7.25	1998	75,000	8.60
1992	45,000	7.50	1999	80,000	8.70
1993	50,000	7.75	2000	90,000	8.75
1994	55,000	7.90	2001	95,000	8.75

Bonds due on or after February 1, 1997 shall be subject to optional redemption on February 1, 1996, and on any interest payment date thereafter, in whole or in part and if in part, in integral multiples of $5,000. If redemption is in part, those Bonds remaining unpaid which have the latest maturity date will be redeemed first. If only part of the Bonds having a common maturity date are called for redemption the specific Bonds to be redeemed will be chosen by lot by the Trustee. Redemption of Bonds shall be at a price of par and accrued interest.

The Bonds are also subject to redemption on any interest payment date in whole but not in part under certain circumstances described in the Loan Agreement and Indenture, as described herein.

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

The 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 notice, and to the approval of legality and certain other matters by Faegre & Benson, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed on for the Society by its Counsel, Maslon Edelman Borman & Brand, Minneapolis, Minnesota. It is expected that the Bonds will be available for delivery in Minneapolis, Minnesota on or about December 31, 1985.

PIPER, JAFFRAY & HOPWOOD INCORPORATED

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

MEMBERS

Earl R. Herring, Chairman	Vice President for Administrative Affairs, Moorhead State University, Moorhead, Minnesota
John A. McHugh, Vice Chairman	Attorney and Banker, Minneapolis, Minnesota
Emily Anne Staples, Secretary	Director of Development, Spring Hill Conference Center, Wayzata, Minnesota
Carol A. Blomberg	Vice President, Merchants & Miners State Bank, Hibbing, Minnesota
Kathryn D. Jarvinen	Hospital Administrator, Winona, Minnesota
David Longanecker*	Executive Director, Minnesota Higher Education Coordinating Board, Saint Paul, Minnesota
Carlos Lopez, Jr.	President, Cal-Mech, Inc., Saint Paul, Minnesota
Larry Osnes*	President, Minnesota Private College Council, Saint Paul, Minnesota
Peter H. Seed	Attorney, Briggs and Morgan Professional Association, Saint Paul, Minnesota
Catherine M. Warrick	Executive Director, Chrysalis - A Center for Women, Minneapolis, Minnesota

* *Ex Officio*

Dr. Joseph E. LaBelle, Executive Director

Bond Counsel
Faegre & Benson

Financial Advisor
Springsted Incorporated

No dealer, broker, salesman or other person has been authorized by the Authority, the Society or Piper, Jaffray & Hopwood Incorporated as Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information contained herein has been obtained from sources believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority , the Society or the Underwriter. Information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication there has been no change in the affairs of the Authority, or the Society 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.

The Bonds have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. The registration or qualification of these securities in accordance with applicable provisions of securities laws of the jurisdictions in which the Bonds may be registered or qualified and the exemption from registration or qualification in other jurisdictions shall not be regarded as a recommendation thereof. Neither these jurisdictions nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

In connection with this offering, Piper, Jaffray & Hopwood Incorporated, Minneapolis, Minnesota as Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. Although the Underwriter anticipates that it will maintain a secondary market for the Bonds, there is no assurance that such a market will develop or, if developed, will be maintained.

OFFICIAL STATEMENT

$830,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

REVENUE BONDS, SERIES TWO-K

(THE MINNEAPOLIS SOCIETY OF FINE ARTS)

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and The Minneapolis Society of Fine Arts (the "Society") in connection with the issuance of the Authority's $830,000 Revenue Bonds, Series Two-K (The Minneapolis Society of Fine Arts) (the "Bonds" or the "Issue").

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

The Bonds are also issued pursuant to the Trust Indenture between the Authority and Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota, (the "Trustee"). The Trustee will also be the Registrar and Paying Agent for the Issue.

Pursuant to a Loan Agreement between the Society and the Authority, the Society covenants to make payments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. The proceeds of the Issue will be loaned to the Society to acquire, construct, furnish and equip a bookstore, student gallery and artist work space in a building to be acquired; remodel the main college building; and acquire and install furniture and equipment for an upgraded computer laboratory (the "Project") all to be located on the campus of the Minneapolis College of Art and Design (the "College") in Minneapolis, Minnesota, which is owned and operated by the Society.

The Society has deposited Qualified Investments with the Trustee, in the amount of not less than $913,000 into the Debt Service Reserve Account. So long as the Bonds are outstanding, the Society pledges to maintain in the Debt Service Reserve Account funds and investments of at least 110% of the outstanding principal amount of the Issue.

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 foregoing Introductory Statement is a summary only. For more specific explanations, reference should be made to the following pages and appendices of this Official Statement.

THE BONDS

The Bonds are dated December 1, 1985 and will mature annually on each February 1, commencing February 1, 1988, as set forth on the cover page of this Official Statement. The Bonds are being issued in denominations of $5,000 and integral multiples thereof not exceeding the amount maturing in any year, and shall be fully registered as to principal and interest. Interest on the Bonds is payable on each February 1 and August 1, commencing August 1, 1986.

The Bonds will be registered at the office of Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota, as Trustee; the Trustee will also be the Registrar and Paying Agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder thereof or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. Bonds may be exchanged only for new Bonds of the same maturity which may be of different denominations so long as the aggregate principal amount thereof equals the aggregate principal sum of the Bonds surrendered. Payment of principal will be at the corporate office of the Trustee and payment of interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at his address as shown on the registration books of the Authority.

Transfers shall not be made with respect to any Bonds called for redemption or during any period within fifteen days next prior to the required date for mailing or publication of notice of such redemption.

Interest on any Bond which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the person in whose name the Bond is registered at the close of business on the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date (the "Regular Record Date"). Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date shall forthwith cease to be payable to the registered Holder on the relevant Regular Record Date solely by virtue of such Holder having been such Holder; and such defaulted interest may be paid by the Trustee on a "Special Record Date," as follows:

(a) Subject to the provisions of Article VII of the Indenture relating to application of money upon the occurrence of an Event of Default, upon receipt by the Trustee of any defaulted interest, the Trustee shall fix a Special Record Date for the payment of such defaulted interest which shall not be more than fifteen days nor less than ten days prior to the date of the payment set by the Trustee in its discretion, but not more than ten days after the receipt by the Trustee of such defaulted interest. The Trustee shall promptly notify the Authority of such Special Record Date and, in the name of the Authority, shall cause notice of the proposed payment of such defaulted interest and the Special Record Date therefor to be mailed first class postage prepaid, to each Holder at his address as it appears on the registration books on a date determined by the Trustee, but not less than ten days prior to such Special Record Date. The Trustee may, in its discretion in the name of the Authority, cause a similar notice to be published at least once in a financial journal, but such publication shall not be a condition precedent to the establishment of such Special Record Date. Notice of the proposed payment of such defaulted interest and the Special Record Date therefor having been mailed as aforesaid, such defaulted interest shall be paid to the registered Owners on such Special Record Date and shall no longer be payable pursuant to the following paragraph (b).

(b) Subject to the provisions of Article VII of the Indenture, the Trustee may make payment of any defaulted interest on the Bonds in any other lawful manner, if, after notice given to the Authority by the Trustee of the proposed payment pursuant to this paragraph (b), such payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions, each Bond delivered under the Indenture upon transfer of, or in exchange for, or in lieu of, any other Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond and each such Bond shall bear interest from such date that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

Prior Redemption

At the option of the Authority, as directed by the Society, Bonds maturing February 1, 1997 through February 1, 2001 will be subject to redemption, in whole or in part, and if in part in integral multiples of $5,000 and in inverse order of maturity and by lot within a maturity, on February 1, 1996, and any interest payment date thereafter. Redemption of the Bonds shall be at a price of par and accrued interest to the date of redemption.

The Bonds are also subject to optional redemption at par and accrued interest, on any interest payment date, in whole but not in part, in certain cases of damage to or destruction or condemnation of the Project Facilities, as provided in the Loan Agreement (see "SUMMARY OF DOCUMENTS - Loan Agreement").

The Bonds are subject to mandatory redemption, as a whole and not in part, upon the occurrence of a determination of taxability, to the effect that interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder, in effect on the date of original issuance of the Bonds. The date of redemption shall be established by the Trustee and the redemption price shall be par plus accrued interest.

Notice of any such redemption shall be mailed to the registered Owners at their addresses shown on the registration books of the Authority and maintained by the Trustee not more than sixty days nor less than thirty days before the date fixed for such payment. 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.

Additional Bonds

The Authority, in its discretion, may issue Additional Bonds to provide funds to complete the Project, refund outstanding Bonds or to improve, repair or replace the Project Facilities. No Additional Bonds shall be issued, however, unless (i) the outstanding Bonds and the Additional Bonds are exempt from taxation under Section 103 of the Internal Revenue Code; (ii) the Society deposits in the Debt Service Reserve Account additional cash and Qualified Investments so that such cash and investments in the Debt Service Reserve Account is equal to 110% of the principal outstanding on the Bonds and the Additional Bonds; (iii) the Additional Bonds are issued for a project authorized by the Act; and (iv) no default shall exist by the Society under the Loan Agreement.

USE OF BOND PROCEEDS

The proceeds of the Bonds are expected to be applied approximately as follows:

Project Costs	$700,000
Capitalized Interest (14 months)	78,537
Underwriter's Discount	18,260
Costs of Issuance*	33,203
	$830,000

* *Includes fees and expenses of the bond counsel, financial consultant, counsel for the Society, the initial annual fee of the Authority, printing and miscellaneous costs.*

SUMMARY OF SECURITY FOR THE BONDS

The Bonds will be special obligations of the Authority payable solely from payments made by or on behalf of the Society as required by the Loan Agreement or out of other amounts pledged therefor under the Indenture including moneys and investments in the Debt Service Reserve Account.

The Debt Service Reserve Account consists of cash and Qualified Investments deposited by the Society with the Trustee in the original amount of $913,000 or 110% of the principal amount of the Bonds. The Society agrees to maintain at least 110% of the outstanding principal amount of the Issue (the "Required Amount") in the Debt Service Reserve Account. The Debt Service Reserve Account is irrevocably pledged to and shall be used by the Trustee, from time to time, as required, for the payment of principal of and interest on the Bonds.

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 Society agrees pursuant to the terms of the Loan Agreement and the Indenture to make payments directly to the Trustee as follows: at least ten days before each February 1 and August 1, into the Bond and Interest Sinking Fund Account a sum equal to (1) the amount (if any) payable as principal of the Bonds due on such interest payment date, plus (2) the amount payable as interest on the Bonds on such interest payment date, after crediting (i) the amount of accrued interest originally deposited to the credit of the Bond and Interest Sinking Fund Account from proceeds of the Bonds, and (ii) transfers to the Bond and Interest Sinking Fund Account from the Debt Service Reserve Account.

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

ACCOUNTS

Summary

The Indenture provides for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement are to be deposited. These accounts include a Construction Account, a Bond and Interest Sinking Fund Account, a Debt Service Reserve Account and a Redemption Account. The net proceeds of original issue and sale of the Bonds are to be deposited into the Construction Account, except that $78,537 as capitalized interest and accrued interest will be deposited in the Bond and Interest Sinking Fund Account. Following Bond closing, amounts received by the Trustee from the Society as Loan Repayments are to be deposited into the Bond and Interest Sinking Fund Account and the Redemption Account and used, to the extent needed, to redeem or pay the principal of and interest on the Bonds.

Construction Account

There shall initially be deposited into the Construction Account $733,203. In addition, the Society agrees in the Loan Agreement to provide for payment of all Project Costs in excess of the proceeds of the Bonds available therefor. Upon receipt of proper documentation, the Trustee will reimburse or pay for the account of the Society costs incurred in connection with the Project. When work on the Project Buildings have been completed and the Project Equipment has been installed and a certificate to that effect has been furnished to the Trustee, any balance in the Construction Account shall be deposited into the Bond and Interest Sinking Fund Account or the Redemption Account.

Bond and Interest Sinking Fund Account

Initially there shall be deposited into the Bond and Interest Sinking Fund Account, $78,537.20 as capitalized interest and accrued interest, which is to be used to pay interest on the Bonds. Deposits shall be made to the Bond and Interest Sinking Fund Account from earnings on other accounts established under the Indenture and from Loan Repayments made by the Society. The moneys and investments in the Bond and Interest Sinking Fund Account are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of and interest on the Bonds as and when such principal and interest shall become due and payable and for that purpose only.

Debt Service Reserve Account

At Bond closing, the Society shall deposit into the Debt Service Reserve Account cash or Qualified Investments from Unrestricted Funds in an amount and value of not less than $913,000. Unrestricted Funds are quasi-endowment of the Society as further defined in "DEFINITION OF CERTAIN TERMS," Appendix C. The Society will certify that all funds in the Debt Service Reserve Account are Unrestricted Funds. The funds and investments in the Debt Service Reserve Account are irrevocably pledged to and shall be used by the Trustee, from time to time, as may be required, for the payment or principal of, premium (if any) and interest on the Bonds.

The Society shall maintain in the Debt Service Reserve Account at least 110% of the outstanding principal amount of the Bonds (the "Required Amount").

If at any time the value of Qualified Investments held by the Trustee in the Debt Service Account is less than the Required Amount, the Trustee shall give notice to the Society and the Society shall thereupon deposit with the Trustee additional Qualified Investments of such value that the aggregate value of all Qualified Investments on deposit and being deposited with the Trustee shall at least equal the Required Amount.

On January 1 and July 1 in each year, the Trustee shall prepare a schedule of valuation of Qualified Investments, based on the Schedule of Qualified Investments furnished by the Institution on each such date pursuant to Section 6.03 of the Loan Agreement. For purposes of such valuation, the Trustee shall be entitled to rely conclusively on the closing price for the date of such valuation (or the most recent preceding date for which such a price is available) as published in the Wall Street Journal, with respect to any Qualified Investments traded on the New York Stock Exchange, and on the mean between the bid and asked prices for the date of such valuation (or the most recent preceding date for which such a price is available) as published in the Wall Street Journal, with respect to any other publicly traded Qualified Investments. With respect to the value of any other Qualified Investments, the Trustee may rely conclusively on a Certificate of a recognized expert.

Qualified Investments shall be: (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or obligations the principal of and interest on which are fully guaranteed by the United States of America); (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following federal agencies: Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, Government National Mortgage Association, Maritime Administration, Public Housing Authorities, Banks for Cooperatives and Federal Home Loan Bank; (iii) direct and general obligations of the State of Minnesota or of any state of the United States or of any political subdivision of any of them to the payment of the principal of and interest on which the full faith and credit of such state or political subdivision is pledged, if at the time of their purchase such obligations are rates A plus or A 1 or a higher rate category by Standard & Poor's Corporation ("Standard & Poor's") or Moody's Investors Service ("Moody's"), respectively; (iv) revenue bond obligations of the State of Minnesota or any state of the United States or of any political subdivision of any of them, fully secured at all times by a pledge of revenues attributable to the particular facility financed by such obligations or Government Obligations if at the time of purchase such obligations are rated AA or Aa or a higher rating category by Standard and Poor's or Moody's respectively; (v) mutual funds and/or unit trusts which invest solely in Government Obligations, including funds managed by the Trustee; (vi) savings accounts, time deposits or certificates of deposit deposited with or issued by commercial banks (including the Trustee and affiliates of the Trustee), savings and loan associations and mutual savings banks, if secured by possession by the Trustee at all times equal to 100% of the face amount of such investments by collateral security described in (i) and (ii) above; (vii) certificates of deposit, savings accounts, deposit accounts, time deposit accounts or depository receipts of banks, savings and loan associations and mutual savings banks, including the Trustee, fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; (vii) bankers' acceptances or certificates of deposit of commercial banks or savings and loan associations which mature not more than 360 days after the date of purchase, provided that the banks or savings and loan associations (as opposed to their holding companies) are rated for unsecured debt at the time of purchase of the investments in one of the two highest classifications established by Standard & Poor's and

Moody's, (ix) commercial paper rated at the time of purchase in the single highest classification by both Standard & Poor's and Moody's and which matures not more than 270 days after the date of purchase; and (x) securities of any corporation with a long-term debt rating from Standard & Poor's or Moody's of at least "A."

So long as no Event of Default shall exist, and so long as the Loan Agreement shall remain in effect, the Institution shall have the rights (i) to substitute from time to time other Qualified Investments for Qualified Investments held by the Trustee in the Debt Service Reserve Account, provided that the value of Qualified Investments shall at all times at least equal the Required Amount, and that the substituted Qualified Investments shall be duly endorsed or accompanied by adequate instruments of transfer and accompanied by a Certificates of an Authorized Institution Representative to the effects specified in Section 6.03 of the Loan Agreement, and (ii) to vote or direct the voting of any securities held by the Trustee in the Debt Service Reserve Account.

Redemption Account

Any amounts received which are not otherwise committed will be paid into the Redemption Account. Funds in this Account will be available to maintain required balances in other accounts and to purchase or redeem Bonds. No specific amounts are required.

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 has not required that the Society 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.**

Permitted Investments

Moneys on deposit to the credit of the Bond and Interest Sinking Fund Account, or the Redemption Account shall be invested by the Trustee in (i) direct obligations of or obligations fully guaranteed by the United States of America ("Government Obligations"), or (ii) time deposits of or certificates of deposit issued by a bank or trust company (including the Trustee or any affiliate of the Trustee) which deposits are insured by the Federal Deposit Insurance Corporation or are fully secured by Government Obligations, or (iii) securities issued by the agencies of the United States known as Federal Home Loan Banks, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association, Federal Maritime Administration and Public Housing Authorities, and (iv) shares of an investment company registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, and whose only investments are in securities previously described in this sentence. Obligations so purchased shall be deemed at all times to be a part of the respective fund or account, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such fund or account. The type, amount and maturity of any such investments shall conform to any instructions of the Authorized Institution Representative. Any interest and income accruing on and any profit realized from such investment shall be credited against Loan Repayments to be deposited by the College under the Loan Agreement. Any such interest or other investment income or profit not credited to Loan Repayments and deposits therefor under the Loan Agreement, and not needed to provide payments on the Bonds, shall be used as promptly as possible and in integral multiples of $5,000 for the redemption of Bonds or the purchase of Bonds on the market, it being intended that interest, income and profit shall not be permitted to accumulate but shall be used to provide for the payment of principal of and interest on the Bonds or for the prior redemption or retirement of Bonds. Any such investment made by the Trustee may be purchased from the Trustee or any affiliate of the Trustee. The Trustee shall redeem or sell, at the best price obtainable, any obligations so purchased, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the respective account. Neither the Trustee nor the Authority shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds shall be limited as to amount and yield of investment in such manner that no part of the outstanding Bonds shall be deemed "arbitrage bonds" under Section 103(c) of the Internal Revenue code of 1954 and regulations thereunder.

Moneys on deposit in the Construction Account may be invested in securities described in (i), (ii), and (iii) in the above paragraph but shall be payable in such amounts and at such times not later than the time or times when such moneys will be needed to pay Project Costs and shall mature or may be redeemed at the option of the bidder at not less than the purchase price no later than 18 months from the date of investment.

THE PROJECT

The Bonds will, in part, finance the purchase of an existing building (the "Standard Upholstery Property") adjacent to the Minneapolis College of Art and Design and the rehabilitation of the building to house the College's bookstore, a student gallery and artist work space; in the event the Society is unable to complete the purchase of the Standard Upholstery Property, the Loan Agreement permits the Society to purchase another property for the same purpose with the approval of the Authority. Proceeds will also be used to remodel certain space within the main College building to improve space utilization, including an upgrading of mechanical systems to properly accommodate student teaching spaces and to upgrade the College's computer laboratory by purchasing additional equipment.

The Project is expected to begin in January, 1986 and be completed by February 1, 1987.

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. The Executive Director of the Minnesota Higher Education Coordinating Board, and the President of the Minnesota Private College Council, who is a non-voting member, are also members of the Authority.

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

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed $150 million. The Authority has had 43 issues (including refunded and retired issues) totaling $140,360,000 of which $105,865,000 (including the Bonds) is outstanding as of January 2, 1986. Bonds issued by the Authority are payable only from the rentals, revenues and other income, charges and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota.

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

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

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

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

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

The Authority is financed solely from fees paid by the 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. The fees of bond counsel and the financial advisor usually are paid from bond proceeds.

UNDERWRITING

The Bonds are being purchased on their delivery date by Piper, Jaffray & Hopwood Incorporated (the "Underwriter") at an aggregate discount of $18,260 from the public offering price set forth on the cover page of this Official Statement.

The Society has agreed to indemnify the Underwriter against certain liabilities, including certain liabilities under the federal securities laws. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing bonds into investment trusts) and others at prices lower than the offering price stated on the cover of this Official Statement.

ABSENCE OF LITIGATION

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

RATING

The Bonds are not rated.

TAX EXEMPTION

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

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Faegre & Benson, Minneapolis, Minnesota, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed on for the Society by its Counsel, Maslon Edelman Borman & Brand, Minneapolis, Minnesota.

ARBITRAGE

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

MISCELLANEOUS

The Authority assumes no responsibility for, and, accordingly, has not undertaken to independently verify the accuracy, completeness or fairness of, statements contained herein except to the extent that such statements concern the Authority.

APPENDIX A

THE SOCIETY

The Minneapolis Society of Fine Arts, established in 1883, is a Minnesota non-profit corporation composed of approximately 16,500 private and corporate members. The Society operates the Minneapolis Institute of Arts, a nationally recognized art museum whose collection numbers more than 70,000 works of art, and the Minneapolis College of Art and Design. The proceeds of the Bonds will finance construction and improvements to the College.

Governance

The Society is governed by the Board of Trustees, consisting of sixty members, elected by the membership of the Society. The President of the Society is a voting member of the Board of Trustees. Board members may serve two consecutive 3-year terms and Executive Committee members serve three, three-year terms.

Board of Trustees

Richard R. Green	Superintendent, Minneapolis Public Schools
Carolyn T. Groves (Mrs. Franklin)	President & Director, CTG Corp. & Groves Advertising, Inc.
Alfred Harrison	Senior Vice President, Director & Manager Minneapolis Office, Alliance Capital Management Corp.
Thomas E. Holloran	Professor, Graduate Program in Management, St. Thomas College
Wayne R. Huelskoetter	President, Dicomed Corp.
Andrew M. Hunter III	Managing Director, Hunter Keith Marshall & Co., Inc.
Dean E. Hutton	Senior Vice President, Merrill Lynch & Co.
Stephen F. Keating	Chair, Executive Committee, The Toro Company
Michele Keith (Mrs. Robert J. Jr.)	Volunteer in Leadership Role
Dean R. Koutsky*	Executive Vice President & Senior Creative Director, Campbell-Mithun
Jean M. Krogness (Mrs. Charles V.)	Volunteer in Leadership Role
Myron Kunin*	President & CEO, Regis Corporation
John E. Larkin, Jr.	Orthopedic Surgeon
David M. Lebedoff, Vice Chair*	Attorney; Partner, Lindquist & Vennum
Richard S. Levitt	Director & Vice Chair, Norwest Corporation
D. Kenneth Lindgren*	Attorney; Vice President & Director, Larkin, Hoffman, Daly & Lindgren, Ltd.
John W. Lottes*	President & CEO, Minneapolis Society of Fine Arts
Patricia Lund	Vice President, Lunds, Inc.
Wayne H. MacFarlane	Retired
Carol Ann Mackay (Mrs. Harvey)	Artist
W. Eugene Mayberry	Chair, Board of Governors, Mayo Clinic; Vice Chair, Mayo Foundation
Robert W. Maynard	Vice President & General Counsel, Honeywell Inc.
Deborah Z. McNally (Mrs. Pierce)	Volunteer in Leadership Role
Cornell L. Moore	President, Lease Moore Equipment, Inc.
John L. Morrison	President, International Group, The Pillsbury Co.
Kingsley H. Murphy, Jr.	Owner, Northland Stations
Ruth Meany Murphy	Executive Director, Community Design Center
Edward D. Orenstein	Chair of Board: Commonwealth Leasing Corp., Enercon Data Corp.

John E. Pearson*	Chair & CEO, Northwestern National Life Insurance Company
Laverne Phillips (Mrs. Wm.)	Volunteer in Leadership Role
Harry C. Piper, Jr.	Chair of Board & Director, Piper Jaffray & Hopwood Incorporated
Nancy Randall	Artist
Eleanor W. Reid	Director of Marketing, Gittleman Corp.
Raymond A. Reister	Attorney; Senior Partner, Dorsey & Whitney
Steven M. Rothschild	Executive Vice President, Consumer Foods, General Mills, Inc.
Terry Tinson Saario	Executive Director, Northwest Area Foundation
Fred R. Salisbury II	Retired President and Board Chair, Salisbury Co.
Earl S. Sanford	Vice President & Resident Manager, Kidder, Peabody & Co.
Diana Pool Scheff, Secretary*	Program Director of Sales Incentives, and Facilities Design Coordinator, CPT Corp.
Boake A. Sells, Treasurer*	President, Dayton Hudson Corp.
Frederick B. Wells	President, Asian Fine Arts
Frank Wilderson, Jr.	Vice President, Students Affairs, University of Minnesota

* *Member, Executive Committee.*

Principal Officers of the Society and the College

Mr. John W. Lottes has served as President of the Society since October, 1983; he had been President of the Kansas City Art Institute for 13 years prior to joining the Society. Mr. Lottes holds an associate of arts degree from Concordia Junior College in Saint Paul, Minnesota, and a bachelor of fine arts degree from the Minneapolis College of Art and Design in Minneapolis, Minnesota. He has received an honorary master of fine arts degree from the Minneapolis College of Art and Design and a honorary doctor of laws degree from William Jewell College.

Mr. Lottes is a past president of the board of directors of the National Association of Schools of Art and Design, and past Chairman of the Board for the Union of Independent Colleges of Art and the Kansas City Regional Council for Higher Education. He has served as a consultant for a variety of institutions including the Pennsylvania Academy of Fine Arts in Philadelphia, Pennsylvania, The Portfolio Center in Atlanta, Georgia and the University of Notre Dame, and is currently serving as a consultant for the National Endowment for the Arts. In 1981, he was named a Fellow and Life Member of the National Association of Schools of Art and Design.

Mr. William S. Halloran is the Society's Vice President for Business Affairs. Prior to taking that position in 1981 he had served as Group Controller in the Finance Division of the State of Minnesota for five years, and as Business and Budget Officer for Macalester College in Saint Paul, Minnesota, for five years. Prior to those positions, Mr. Halloran served as controller for various private sector concerns.

Mr. Halloran is a certified public accountant with a bachelor of science degree in business from Northeastern University in Boston, Massachussetts, and a masters degree in business administration from the University of Minnesota in Minneapolis, Minnesota. He is currently pursuing a bachelor of arts degree in humanities. He is a member of the American Accounting Association and the American Institute of CPA's.

Mr. G. Richard Slade joined the College as President in August, 1982. Prior to joining the College Mr. Slade had spent more than 20 years in banking, most recently as the President and Chief Executive Officer of Northwestern National Bank of Saint Paul (now Norwest Bank Saint Paul), and later as Banking Consultant to the International Finance and Management Group. Mr. Slade has a bachelor of arts degree from Yale University and has attended Harvard Graduate School of Business Administration.

Mr. Slade is a Board member and the vice chairman of the executive committee of the Society. He is on the Board of Regents of St. John's University at Collegeville, Minnesota, and serves as chairman of the finance committee. He sits on the Board of many local organizations including the Arts and Science Council, Minnesota Public Radio, and the University of Minnesota Foundation.

Physical Plant

As of June 30, 1985, and 1984, the land, buildings and equipment owned by the Society had the following book values:

	1985	1984
Land and Land Improvements	$ 1,981,264	$ 1,981,264
Dormitories and Parking Ramp	1,478,727	1,478,727
Buildings and Building Improvements	23,129,977	23,121,558
Furniture, Fixtures and Equipment	5,034,501	4,846,607
	$31,624,469	$31,428,156
Less Accumulated Depreciation	(3,996,695)	(3,734,977)
Depreciated Book Value	$27,627,774	$27,693,179

Employment and Pensions

The Society employs a total of approximately 250 full-time and part-time personnel, including College and Institute of Art employees.

Certain full-time employees of the Society participate in Teachers Insurance Annuity Association - College Retirement Equities Fund (TIAA - CREF). The Society contributes 5% of eligible employees' salaries into individual annuity contracts. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement or termination. Annuity arrangements, such as the above, of certain organizations, exempt under Internal Revenue Code Section 403(b), have automatic Internal Revenue Service approval.

Union Contracts

Security employees and certain clerical and professional employes of the Society are represented by unions as follows:

Union	# of Employees	Contract Expiration Date
Service Employees Local 26 (Security Guards)	40	June 30, 1987
Office Professional Employee International Union	90	June 30, 1986

Historically, negotiations of these contracts has been satisfactory.

Endowment Funds

Following is a five-year history of the ending fund balances of the Society's endowment and similar funds and annuity and life income funds:

Year Ending June 30	Endowment Funds	Quasi-Endowment Funds	Annuity and Life Income Funds
1985	$20,366,603	$5,976,635	$160,063
1984	19,567,951	5,914,662	210,188
1983	15,935,337	5,548,724	210,188
1982	14,795,213	5,616,319	210,188
1981	14,718,217	5,873,145	160,063

The Debt Service Reserve Account for the Bonds is to be maintained with quasi-endowment funds of the Society, as Unrestricted Funds.

Gifts, Grants and Appropriations

Gifts, grants and appropriations from federal, State of Minnesota, City of Minneapolis and private sources received by the Society for the past five fiscal years have been:

Fiscal Year	Current Unrestricted Fund	Current Restricted Fund	Heritage Fund	Endowment and Similar Funds	Plant Funds
1985	$4,291,633	$1,249,224	$ 94,400	$1,271,090	-
1984	4,121,901	3,656,178	98,667	2,729,831	$ 10,000
1983	3,751,961	1,525,825	55,998	397,055	1,755,184
1982	3,633,433	1,405,196	37,706	611,871	72,592
1981	3,225,015	1,707,986	724,606	121,363	72,592

Works of Art

The Society does not include works of art in its balance sheets. At June 30, 1985, the Society owned works of art aggregating approximately $41.7 million determined by purchase costs of approximately $17.9 million and appraised values at dates of gifts of approximately $23.8 million.

Financial Statements

The Society's fiscal year ends on June 30 of each year. Financial records are maintained on the fund accounting basis and financial statements have been prepared on the accrual basis of accounting. Appendix B sets forth the financial statements of the Society for the year ended June 30, 1985, which statements have been examined by Touche Ross & Co. Touche Ross & Co. has not read this Official Statement and expresses no opinion on its contents.

Long-Term Debt of the Society as of June 30, 1985

1. $250,000 The Minneapolis Society of Fine Arts Bonds of 1972 at 3%; purchased by the U.S. Department of Housing and Urban Development; final maturity is July 1, 1997; $140,000 is outstanding. The bonds are secured by net revenues of College dormitories, a repair and replacement reserve and a mortgage on the land and buildings.

2. Capital lease with the City of Minneapolis; $1,095,804 is outstanding. In November, 1978, the Society sold its parking ramp and lot facilities to the City and simultaneously leased the facilities back under a twenty-year lease agreement. Under the terms of the lease, the Society may be required to grant to the City a security interest in assets selected by the Society in the amount of the present value of the remaining lease payments. As of June 30, 1985, the Society has not been requested to pledge any assets.

3. $402,897 (Society share of $18,520,000 total) Minnesota Higher Education Facilities Authority Pooled Revenue Bonds, Series 1983-A, dated September 1, 1983, at various interest rates from 6.75% to 8.50%; principal outstanding is $402,897 due in annual installments from 1986 through 1991. Quasi-endowment assets carried at $242,000 have been pledged as collateral.

4. $83,478.44 mortgage payable at 8% due in 1986. Land and buildings carried at $108,000 are pledged as collateral for the mortgage.

Total long-term debt as of June 30, 1985: $1,712,218.

Annual Debt Service By Fiscal Year

		The Bonds		
Fiscal Year	Outstanding Debt Service	Principal	Principal & Interest	Total Debt Service
1986	$ 248,436.71	$ -	$ -	$ 248,436.71
1987	217,165.76	-	78,537.20	295,702.96
1988	213,460.61	30,000	97,317.50	310,778.11
1989	209,530.12	35,000	100,367.50	309,897.62
1990	225,793.10	40,000	103,005.00	328,798.10
1991	220,938.75	40,000	100,205.00	321,143.75
1992	215,963.82	45,000	102,305.00	318,268.82
1993	129,460.00	50,000	103,930.00	233,390.00
1994	150,080.00	55,000	105,055.00	255,135.00
1995	144,430.00	60,000	105,710.00	250,140.00
1996	138,780.00	65,000	105,910.00	244,690.00
1997	133,130.00	70,000	105,547.50	238,677.50
1998	132,480.00	75,000	104,597.50	237,077.50
1999	126,240.00	80,000	103,147.50	229,387.50
2000		90,000	106,187.50	106,187.50
2001		95,000	103,312.50	103,312.50
Total	$2,505,888.87	$830,000	$1,525,134.70	$4,031,023.57

SUMMARY OF CURRENT UNRESTRICTED FUND
REVENUES, EXPENDITURES AND OTHER TRANSFERS
FOR THE YEARS ENDING JUNE 30
(AUDITED)

	1981	1982	1983	1984	1985
Revenues:					
Program Activities:					
Tuition & Fees	$2,054,196	$2,005,868	$2,069,872	$2,309,272	$ 2,764,011
Admissions	673,441	219,563	242,799	244,599	180,093
Membership Dues	285,378	317,348	321,727	358,919	337,006
Other	373,866	403,433	274,215	371,801	306,515
	3,386,881	2,946,212	2,908,613	3,284,591	3,587,625
Gifts, Grants & Appropriations:					
Private	1,041,345	1,216,509	1,207,565	1,258,474	1,371,189
Federal Government	35,000	33,460	38,417	50,023	50,000
State Government	233,404	180,256	147,169	132,000	132,000
Local Government	1,915,266	2,203,208	2,358,810	2,681,404	2,738,444
	3,225,015	3,633,433	3,751,961	4,121,901	4,291,633
Endowment Income:	470,064	631,846	521,992	567,507	738,160
Auxiliary Enterprises	1,495,650	1,259,712	1,137,655	1,232,865	1,169,607
Total Revenues	$8,577,610	$8,471,203	$8,320,221	$9,206,864	$ 9,787,025
Expenditures:					
Administrative & Supporting Services:					
President's Office	$ 93,959	$ 103,298	$ 132,923	$ 162,730	$ 220,095
Business Operations	360,228	369,986	372,880	510,494	588,636
Development & Public Relations	495,433	534,122	540,968	619,527	1,003,475
General Institutional	360,513	376,388	487,556	442,821	535,343
Physical Plant					1,131,157*
	1,310,113	1,383,794	1,534,327	1,735,572	3,478,706
Less Allocated Expenditures	(1,177,745)	(1,246,336)	(1,367,127)	1,536,152)	(3,478,706)
	132,388	137,458	167,200	199,420	-
Auxiliary Enterprises (Including Institutional Allocated Expenditures)	345,899	399,408	457,626	350,664	*
College of Art & Design	3,416,820	3,588,338	3,784,660	4,419,005	5,208,086
Institute of Arts	4,593,969	4,152,408	4,096,986	4,627,640	4,977,028
	8,489,076	8,277,612	8,506,472	9,596,729	10,185,114
Building Exterior Costs	236,889	536,842	426,474	48,419	*
Recovery of Building Exterior Costs	-	-	(1,284,300)	-	*
Total Expenditures	$8,725,965	$8,814,454	$7,648,646	$9,645,148	$10,185,114
Revenue Over (Under) Expenditures Before Other Transfers	$ (148,355)	$ (343,251)	$ 671,575	$ (438,284)	$ (398,089)
Other Transfers:					
Transfers (to) from Heritage Fund - Net	130,000	410,000	(754,076)	399,047	523,693
Transfers (to) from Endowment Fund - Net	-	(42,894)	88,563	13,768	1,403
Transfers to Plant Fund - Net	-	-	-	(38,623)	(115,952)
Transfers (to) from Current Restr. Fund - Net	-	-	-	84,127	-
	130,000	367,106	(665,513)	458,319	409,144
Revenues Over Expenditures & Other Transfers	$ (18,355)	$ 23,855	$ 6,062	$ 20,035	$ 11,055
Fund Balance - Beginning of Year	$ (2,308)	$ (20,663)	$ 3,192	$ 9,254	$ 29,289
Fund Balance - End of Year	$ (20,663)	$ 3,192	$ 9,254	$ 29,289	$ 40,344

** For the year ending June 30, 1985, physical plant and auxiliary expenditures were allocated differently than in prior years.*

THE COLLEGE

The Minneapolis College of Art and Design is a four-year institution of higher education and was established by the Society in 1886. The College does not discriminate on the basis of age, sex, race, color, national and ethnic origin, religious preference or handicap.

The College's current mission statement is: "The Minneapolis College of Art and Design is an accredited, private, specialized institution offering a professional education for artists and designers. The degree program integrates the liberal arts into studio based curricula in Fine Arts, Media Arts, and Design. The continuing programs offer introductory, advanced, and specialized learning opportunities for degree candidates, graduates, and the community at large."

The College awards the Bachelor of Fine Arts degree, with majors in fine arts, design, media arts, and interdisciplinary studies. The College awarded 85 degrees in 1985.

As a member of the Alliance of Independent Colleges of Art, the College can offer its students special study opportunities at other arts and design colleges in the United States and Japan.

Student Body

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

(Fall) Year	Head Count	FTE's
1985	540	506
1984	607	495
1983	513	489
1982	509	475
1981	527	505

Tuition and Fees

The following lists the schedule of tuition and fees charged to a full-time student for the past five years:

	1981/82	1982/83	1983/84	1984/85	1985/86
Tuition:					
Continuing Student	$3,600	$4,060	$4,500	$5,000	$5,600
Entering Student	3,600	4,060	4,500	5,500	6,100
Student Activity Fee	9	10	20	20	20
Housing:					
2-Bedroom Apt.	920	1,040	1,240	1,400	1,400
1-Bedroom Apt.	1,000/ 1,080	1,120/ 1,200	1,320/ 1,400	1,450/ 1,550	1,450/ 1,550
Efficiency Apt.	1,201/ 1,520	1,440/ 1,680	1,640/ 1,640	1,800/ 2,160	1,800/ 2,160
Total For An Entering Student In A 2-Bedroom Apt.	$4,529	$5,110	$5,760	$6,920	$7,520

Each student is also responsible for lab fees ranging from $25 to $60 per semester, depending on the course of study and other miscellaneous fees.

Faculty

The student-faculty ratio is approximately 9 to 1. The College has 40 full-time and 20 part-time faculty member. Approximately 11% are tenured.

Financial Aid

The following table is a five-year trend of College and non-College financial aid received by students.

	1980/81	1981/82	1982/83	1983/84	1984/85
NDSL	$ 35,353	$ 29,992	$ 39,853	$ 51,405	$ 49,700
SEOG	70,444	44,520	41,985	43,533	41,432
Pell	223,001	177,141	219,604	286,354	275,506
College Work Study:					
Federal	36,067	24,152	22,822	35,830	27,220
Institute Matching	12,731	12,125	5,155	8,824	6,642
State	15,568	12,986	11,527	11,135	11,122
Endowment	21,802	17,087	29,781	26,258	19,758
MHECB	388	264	3,826	1,711	2,400
Scholarships:					
Unrestricted	83,940	121,150	132,908	143,775	351,750
Endowment	39,050	50,500	74,320	84,020	91,534
Gifts	35,000	36,250	35,400	38,554	14,911
Alliss	-	-	45,400	44,750	48,390
Total	$573,344	$526,167	$662,581	$776,149	$940,365

THE MINNEAPOLIS SOCIETY OF FINE ARTS

REPORT OF EXAMINATION OF FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

Touche Ross & Co.

September 9, 1985

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

We have examined the balance sheets of The Minneapolis Society of Fine Arts as of June 30, 1985 and 1984, and the related statements of Current Funds revenues, expenditures and transfers and changes in fund balances for the years then ended. Our examinations were 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.

In our opinion, the financial statements referred to above present fairly the financial position of The Minneapolis Society of Fine Arts at June 30, 1985 and 1984, and the results of its financial activities for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

900 PILLSBURY CENTER - MINNEAPOLIS, MINNESOTA 55402-1483 - (612) 333-2301

Touche Ross & Co.

THE MINNEAPOLIS SOCIETY OF FINE ARTS

BALANCE SHEETS

ASSETS

	June 30 1985	June 30 1984
CURRENT FUNDS:		
Unrestricted:		
Cash	$ 67,991	$ 42,410
Temporary investments, at cost which approximates market	1,701,167	3,500,000
Accounts receivable:		
Tax levy	1,310,087	771,626
Annual Campaign pledges	285,347	142,636
Students	88,401	91,388
Interest	43,135	83,636
Miscellaneous	200,250	343,490
	1,927,220	1,432,776
Less provision for possible losses in collection	98,000	93,000
	1,829,220	1,339,776
Prepaid expenses	300,632	169,290
Inventories (Note A)	249,137	273,544
	4,148,147	5,325,020
Restricted:		
Grants and gifts receivable	940,692	1,162,191
Investment income receivable on funds held in trust	207,953	188,001
Due from other funds	1,423,261	1,002,249
	2,571,906	2,352,441
	$6,720,053	$7,677,461
LOAN FUND:		
Cash	$ 13,516	$ 3,097
Student loans (less provision for possible losses in collection of $67,500 and $60,000, respectively)	187,545	172,885
	$ 201,061	$ 175,982
HERITAGE FUND (Note A):		
Pledges receivable		$ 262,000
Notes receivable		312,400
Investments in securities		3,000
Due from other funds		1,104,076
		$1,681,476

LIABILITIES AND FUND BALANCES

	June 30 1985	June 30 1984
CURRENT FUNDS:		
Unrestricted:		
Accounts payable and accrued expenses	$ 875,715	$ 906,646
Deferred tuition and other revenue	226,179	186,428
Due to other funds	3,005,909	4,202,657
	4,107,803	5,295,731
Fund balance	40,344	29,289
	4,148,147	5,325,020
Restricted:		
Accounts payable:		
Works of art		368,000
Other	5,436	25,936
	5,436	393,936
Fund balance (Note A)	2,566,470	1,958,505
	2,571,906	2,352,441
	$6,720,053	$7,677,461
LOAN FUND - fund balance	$ 201,061	$ 175,982
	$ 201,061	$ 175,982
HERITAGE FUND (Note A):		
Borrowings from Endowment and Similar Funds		$ 831,215
Fund balances:		
Restricted as to use		158,500
Unrestricted as to use		691,761
		850,261
		$1,681,476

See notes to financial statements

Touche Ross & Co

THE MINNEAPOLIS SOCIETY OF FINE ARTS

BALANCE SHEETS (CONTINUED)

ASSETS

	June 30 1965	June 30 1984
ENDOWMENT AND SIMILAR FUNDS:		
Investments in securities (Notes A and C):		
Vested in the Society	$16,409,796	$13,354,063
Held in trust	9,762,520	9,1[illegible],543
Receivable from estate		536,763
Due from other funds	170,922	1,614,029
Loans to Heritage Fund		831,215
	$26,343,238	$25,482,613
ANNUITY AND LIFE INCOME FUNDS:		
Investments in securities (Notes A and C):		
Vested in the Society	$ 400,216	$ 368,540
Held in trust		50,125
	$ 400,216	$ 418,665
PLANT FUNDS:		
Deposits with trustees (Note E)	$ 102,884	$ 454,629
Pledges receivable (Notes A and B)	607,133	697,255
Notes receivable	162,025	158,249
Investment in securities (Note C)	3,000	
Deferred bond expenses	22,258	25,820
Due from other funds	1,419,631	490,208
Land, buildings and equipment (Notes A, D, E and F)	27,627,774	27,693,179
	$29,944,705	$29,519,340

See notes to financial statements.

LIABILITIES AND FUND BALANCES

	June 30 1985	June 30 1984
ENDOWMENT AND SIMILAR FUNDS:		
Fund balances (Note A):		
Endowment:		
Restricted as to use of income	$13,643,760	$12,922,092
Unrestricted as to use of income	6,722,843	6,645,859
	20,366,603	19,567,951
Quasi-endowment:		
Designated as to use	4,254,115	4,172,477
Undesignated as to use	1,722,520	1,742,185
	5,976,635	5,914,662
	$26,343,238	$25,482,613
ANNUITY AND LIFE INCOME FUNDS:		
Annuities payable	$ 232,248	$ 200,572
Due to other funds	7,905	7,905
Fund balance	160,063	210,188
	$ 400,216	$ 418,665
PLANT FUNDS:		
Accounts payable	$ 78,204	$ 299,396
Accrued interest payable	42,665	44,794
Long-term debt (Notes E, F and J)	1,712,218	1,784,193
Deferred gain (Note F)	144,341	150,902
	1,977,428	2,279,285
Fund balances:		
Renewals and replacements:		
Restricted	34,922	28,506
Unrestricted	15,617	15,617
	50,539	44,123
Retirement of indebtedness	325,727	271,161
Investment in plant	25,730,730	25,718,683
Unexpended (includes unrestricted funds of $625,649 and $110,938, respectively)	1,860,281	1,206,088
	27,967,277	27,240,055
	$29,944,705	$29,519,340

Touche Ross & Co.

THE MINNEAPOLIS SOCIETY OF FINE ARTS

STATEMENTS OF CURRENT FUNDS, REVENUES, EXPENDITURES AND OTHER TRANSFERS

	Year ended June 30, 1985			Year ended June 30, 1984		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
REVENUES:						
Program activities:						
Tuition and fees	$ 2,764,011	$ 76,511	$ 2,840,[illegible]	$ 2,309,272	$ 128,079	$ 2,437,351
Admissions	180,093	4,261	184,354	244,599	50,278	294,877
Membership dues	337,006		337,006	358,919		358,919
Other	306,515	58,026	364,541	371,801	34,176	405,977
	3,587,625	138,818	3,726,443	3,284,591	212,533	3,497,124
Gifts, grants and appropriations:						
Private	1,371,189	864,196	2,235,385	1,258,474	1,994,282	3,252,756
Federal government	50,000	198,015	248,015	50,023	179,669	229,692
State government	132,000	28,435	160,435	132,000	24,965	156,965
Local government (Note I)	2,7[illegible]		2,7[illegible]	2,661,404		2,661,404
	4,2[illegible]	1,090,646	5,362,[illegible]	4,121,901	2,198,916	6,320,817
Endowment income (Note A)	738,160	622,670	1,360,830	567,507	646,330	1,213,837
Auxiliary enterprises	1,169,607	570	1,170,177	1,232,865	1,092	1,233,957
TOTAL REVENUES	9,787,025	1,857,704	11,6[illegible]	9,206,864	3,058,871	12,265,735
EXPENDITURES:						
Administrative and supporting services:						
President's office	220,095		220,095	162,730		162,730
Business operations	588,636		588,636	510,494		510,494
Development and public relations	1,003,475		1,003,475	837,004	4,650	841,654
General institutional expenditures	535,343	7,203	542,546	467,939	1,808	469,747
Physical plant	1,131,157		1,131,157	1,531,475		1,531,475
	3,478,706	7,203	3,485,909	3,509,642	6,458	3,516,100
Less allocated expenditures (Note A)	(3,478,706)	(7,203)	(3,485,909)	(3,509,642)	(6,458)	(3,516,100)
	-	-	-	-	-	-
College of Art and Design:						
Instruction	1,446,510		1,446,510	1,290,434		1,290,434
Sponsored programs		220,806	220,806	508	307,380	307,888
Academic support	391,170	2,257	393,427	469,495	2,430	471,925
Student services	374,136		374,136	317,103		317,103
Supporting services	604,915	20,485	625,400	506,933	10,659	517,592
Institutional allocated expenditures	1,056,397	3,241	1,059,638	928,905	3,035	931,940
Physical plant (includes allocations of $473,253 and $623,862, respectively)	599,214		599,214	690,586		690,586
Financial aid	350,858	256,859	607,717	145,000	285,790	430,790
Auxiliary enterprises	384,850		384,850	399,883		399,883
	5,208,086	503,644	5,711,730	4,748,647	609,294	5,358,141
Institute of Arts:						
Work of art acquisitions		579,796	579,796		1,698,665	1,698,665
Collections and exhibits	869,378	684,872	1,554,250	831,776	538,544	1,370,320
Educational programs	292,676	11,680	304,356	248,581	14,109	262,690
Community services	195,007	25,973	220,980	164,287	35,497	199,784
Supporting services	704,131	[illegible]	[illegible]	553,758	68,038	621,796
Institutional allocated expenditures	1,291,[illegible]	[illegible]	[illegible],114	1,049,262	3,423	1,052,685
Physical plant allocated	657,904		657,904	907,613		907,613
Security	472,218		472,218	434,276		434,276
Auxiliary enterprises	494,532	13,199	507,731	706,748	7,174	713,922
	4,977,028	1,349,060	6,326,088	4,896,301	2,365,450	7,261,751
TOTAL EXPENDITURES	10,185,114	1,852,704	12,037,818	9,645,148	2,974,744	12,619,892
REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER TRANSFERS	(398,089)	-	(398,089)	(438,284)	84,127	(354,157)
OTHER TRANSFERS:						
Transfers from Heritage Fund - net	513,693		513,693	399,047		399,047
Transfers from Endowment Fund - net	1,403		1,403	13,768		13,768
Transfers to Plant Fund - net	(115,952)		(115,952)	(38,623)		(38,623)
Transfers to Current-Restricted from Unrestricted Fund				64,127	(64,127)	
	409,144		409,144	458,319	(64,127)	374,192
REVENUES OVER EXPENDITURES AND OTHER TRANSFERS	$ 11,055	$ -	$ 11,055	$ 20,035	$ -	$ 20,035

See notes to financial statements.

Touche Ross & Co.

THE MINNEAPOLIS SOCIETY OF FINE ARTS

STATEMENTS OF CHANGES IN FUND BALANCES

	Current Funds						Plant Funds			
	Unrestricted	Restricted	Loan Fund	Heritage Fund	Endowment and Similar Funds	Annuity and Life Income Fund	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Unexpended
FUND BALANCES at June 30, 1983	$ 9,254	$ [illegible]	$156,[illegible]	$[illegible]	$21,[illegible]	$[illegible]	$[illegible]	$[illegible],047,564	$23,546,544	$1,470,077
Additions:										
Current Funds revenues - unrestricted*	9,206,864									
Government grants and appropriations - restricted (Note A)		196,634								
Private gifts and grants - restricted (Note A)		3,4[illegible]9,544		98,66[illegible]	2,720,831					10,000
Endowment income - restricted (Note A)		1,074,603								
Interest and dividend income			[illegible]				1,6[illegible]	64,77[illegible]		
Gain on sale of securities, net					[illegible],306,4[illegible]					
Changes in present value discount of pledges receivable				1[illegible],092						
Additions to Plant Funds							[illegible],000	[illegible]		149,755
Expended for plant facilities (including $240,897 charged to Current Funds expenditures)									268,572	
Proceeds from sale of property - unrestricted										66,000
Retirement of indebtedness (Note J)									2,[illegible]37,745	
Federal government award			[illegible],156							
Other additions			[illegible]5,794						8,017	
	9,206,864	4,730,981	[illegible]1,665	111,[illegible]	4,036,304		2,[illegible]	[illegible]	2,614,334	225,755
Deductions:										
Current Funds expenditures	9,645,148	[illegible],974,944								
Transfer of unexpended plant funds to Current Funds - restricted										150,000
Transfer of Heritage Fund pledges to Current Funds - restricted				[illegible],000						
Retirement of indebtedness (Note J)								[illegible],[illegible]7,745		
Interest and debt expense (Note J)								[illegible],587		
Pledges satisfied by gifts of works of art				[illegible],66[illegible]						
Expended for plant facilities				[illegible]96						24,379
Disposals of property									27,735	
Building exterior repair costs										688,388
Depreciation and amortization									415,014	
Increase in provision for possible losses in collection			10,000							
Other deductions		2,676	4,355	11,850	23,984					
	9,645,148	2,977,620	14,355	146,813	2[illegible],984			2,573,332	442,749	862,767
Transfers:										
Transfers from Endowment Fund	13,768				(1[illegible],768)					
Transfers to Heritage Fund				806,450				(806,450)		
Transfers from Heritage Fund	399,047			(915,058)				177,371	554	338,086
Transfers to Plant Fund	(38,623)							3,686		34,937
Transfers from Current-Restricted Fund	84,127	(84,127)								
FUND BALANCES at June 30, 1984	$ 29,289	$1,958,505	$175,982	$850,261	$2[illegible],48[illegible],[illegible]12	$210,186	$44,1[illegible]	$[illegible],271,161	$25,718,683	$1,206,088

See notes to financial statements.

Touche Ross & Co.

THE MINNEAPOLIS SOCIETY OF FINE ARTS

STATEMENTS OF CHANGES IN FUND BALANCES (CONTINUED)

	Current Funds Unrestricted	Current Funds Restricted	Loan Fund	Heritage Fund	Endowment and Similar Funds	Annuity and Life Income Funds	Plant Funds: Renewal and Replacements	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment in Plant	Plant Funds: Unexpended
FUND BALANCES at June 30, 1984	$ 29,289	$1,956,105	$[illegible]	$ 850,261	$[illegible]	$[illegible]	$[illegible]	$271,161	$25,718,683	$1,206,088
Additions:										
Current Funds revenues - unrestricted	9,787,025									
Government grants and appropriations - restricted (Note A)		[illegible]56,388								
Private gifts and grants - restricted (Note A)		[illegible]		94,400	1,271,090					
Endowment income - restricted (Note A)		1,176,271								
Interest and dividend income			[illegible]				[illegible]	49,255		41,530
Gain on sale of securities, net					[illegible]					
Changes in present value discount of pledges receivable										
Additions to Plant Funds							[illegible]	57,241		96,456
Expended for plant facilities (including $67,779 charged to Current Funds expenditures)									197,840	
Retirement of indebtedness (Note J)									71,975	
Federal government award			[illegible],000							
Other additions			4,100	[illegible]					6,561	
	[illegible]	[illegible]	[illegible]	[illegible]	1,619,[illegible]		[illegible]	106,596	276,376	139,988
Deductions:										
Current Funds expenditures	10,185,114	1,8[illegible],704								
Transfer of Life Income Fund to Endowment Fund						50,1[illegible]				
Transfer of Heritage Fund pledge to Endowment Fund				[illegible],000						
Retirement of indebtedness (Note J)								71,975		
Interest and debt expense (Note J)								138,586		
Pledges satisfied by gifts of works of art				[illegible]						
Expended for plant facilities										506
Building exterior repair costs										370,724
Depreciation and amortization									265,279	
Increase in provision for possible losses in collection			[illegible],500							
Other deductions		118,226	4,263	5,650	26,031					
	10,185,114	1,971,030	11,763	105,050	26,031	50,125		210,561	265,279	371,230
Transfers:										
Transfers from Endowment Fund	1,403			731,215	(732,618)					
Transfers from Heritage Fund	523,693	153,500		(1,606,157)				136,624	950	791,390
Transfers to Plant Fund	(115,952)							21,907		94,045
FUND BALANCES at June 30, 1985	$ 40,344	$2,566,470	$201,061	$ —	$[illegible]	$160,063	$50,539	$325,727	$25,730,730	$1,860,281

See notes to financial statements.

THE MINNEAPOLIS SOCIETY OF FINE ARTS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1985 AND 1984

A. Summary of significant accounting policies:

Fund accounting:

Fund accounting is the procedure by which resources for various purposes are combined into groups of funds with similar characteristics for accounting and reporting functions. This is done to ensure that activities or objectives are supported in accordance with regulations, restrictions or limitations specified by donors or other revenue sources outside The Minneapolis Society of Fine Arts (the Society), or in accordance with directions issued by the Society's Board of Trustees.

Fund balances restricted by outside sources are so designated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Trustees. Restricted current funds are reported as revenues to the extent of expenditures when expended. Restricted gifts and grants are added to the restricted fund balance at the date of the award.

The Heritage Fund was established in 1971 to account for funds raised primarily for the construction and remodeling of the fine arts complex. During the year ended June 30, 1985 the remaining balances of the Heritage Fund were transferred to other funds.

Endowment funds are monies received subject to gift instrument restrictions which require that the principal amount be invested in perpetuity and only the income be utilized. Quasi-endowment funds are funds which the Board of Trustees, rather than a donor or other outside agency, has determined are to be retained and invested. These funds can be expended upon Board approval.

Endowment income is accounted for as an addition to the Current Funds restricted fund balance if restricted or, if unrestricted, as Current Funds unrestricted revenues. Substantially all income earned on Endowment and Similar Funds is recorded as an addition to Current Funds.

Inventories:

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

Pledges receivable:

Pledges receivable are recorded at the date the pledges are made except for contingent pledges which are recorded when the contingency is resolved. Pledges which are receivable over a period of years are discounted to present value using the prime interest rate at the date of the pledge.

Gifts:

Gifts received by the Society are recorded at market value at the date of gift. Gifts subject to certain contingencies are recorded when the contingency is resolved.

Investments:

Investments in purchased marketable securities and properties are recorded at cost. Investments acquired by gift are recorded at fair market or appraised value at date of gift. Real estate taxes on investment properties are charged to Current Funds expenditures as incurred.

Gains and losses on the sale of securities in the Society's pooled endowment funds are allocated between quasi-endowment undesignated and designated, and pure endowment unrestricted and restricted fund balances based upon the percentage of investments at cost in each subgroup.

Physical properties:

Land recorded in the financial statements at $250,000 was granted to the Society by the Park Board of the City of Minneapolis, Minnesota for use as a public museum, a gallery of art, a school of arts or crafts and an auditorium for such period as the Society shall continue to carry out the objectives and purposes as defined in its Articles of Incorporation. Title to this land remains with the City of Minneapolis.

Land, buildings and equipment, used in Society operations, are recorded at cost or appraised value at date of gift. Depreciation on dormitories, parking ramp, furniture, fixtures and equipment, computed on the straight-line method over the estimated useful lives of the assets which range from 10 to 33 years, is charged to the Plant Funds. Depreciation is not recorded on the other buildings and improvements. Minor additions and replacements are charged to Current Funds expenditures.

Works of art:

The Society does not include works of art in its balance sheets. At June 30, 1985, the Society owned works of art aggregating approximately $41,700,000 determined by purchase costs of approximately $17,900,000 and appraised values at dates of gift of approximately $23,800,000. Works of art received as gifts totaled approximately $1,569,000 and $1,621,000 for the years ended June 30, 1985 and 1984, respectively.

Expenditure allocation:

Physical plant expenditures for operation and maintenance of the fine arts complex are allocated to the College of Art and Design and the Institute of Arts, based upon relative budgeted expenditures (as defined) of the College of Art and Design and the Institute of Arts and actual usage where determinable. Physical plant expenditures include $209,451 and $209,683, for the years ended June 30, 1985 and 1984, respectively, relating to auxiliary enterprises.

Expenditures of administrative and supporting services are allocated to the College of Art and Design and the Institute of Arts based upon budgeted expenditures (as defined) of the College of Art and Design and the Institute of Arts.

Contributed services:

Unpaid volunteers have made contributions of their time to develop the Society's program services and fund-raising projects. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Income taxes:

The Society is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision has been made for income taxes.

Account reclassifications:

Certain financial statement account classifications for the year ended June 30, 1984 have been reclassified to conform to classifications and expenditure allocation methods used in 1985. These reclassifications did not affect revenues over expenditures before other transfers as previously reported.

B. Pledges receivable:

Pledges receivable of the Plant Fund are projected for collection during the following fiscal periods:

Year ending June 30:	
1986	$ 190,978
1987	140,978
1988	140,978
1989	140,976
1990	75,000
1991 and thereafter	156,250
	845,160
Less discount to present value	238,027
	$ 607,133

C. Investments in securities:

Investments in securities are composed of the following:

	June 30, 1985		June 30, 1984	
	Book amount	Market	Book amount	Market
Investments vested in the Society, generally at cost:				
Bonds and notes	$5,745,937	$5,869,392	$ 5,600,544	$ 5,179,612
Common stocks	8,450,157	9,719,846	5,564,769	5,723,855
Investment in McKnight Arts Partnership	2,615,387	3,505,507	2,557,128	2,785,037
Uninvested cash	1,531	1,531	3,162	3,162
	$16,813,012	$19,096,276	$13,725,603	$13,691,666
Whereof:				
Endowment and Similar Funds	$16,409,796	$18,616,096	$13,354,063	$13,300,984
Plant Fund	3,000	3,000	3,000	3,000
Annuity Fund	400,216	477,180	368,540	387,682
	$16,813,012	$19,096,276	$13,725,603	$13,691,666
Investments held in trust (Endowment and Similar Funds and Life Income Fund):				
Bonds and notes	$ 2,018,231	$ 2,272,041	$ 2,848,754	$ 2,855,556
Common stocks	6,434,566	8,410,956	6,352,767	7,188,589
Uninvested cash	1,309,723	1,309,723	(6,853)	(6,853)
	$ 9,762,520	$11,992,720	$ 9,194,668	$10,037,292

The McKnight Arts Partnership, a Minnesota general partnership, was formed by the McKnight Foundation to assist The Minneapolis Society of Fine Arts, the Guthrie Theatre Foundation, the Minnesota Orchestral Association and the Walker Art Center in financing the cost of their programs. The program extends over a ten year period ending in 1991. The contribution of each partner was matched by the Foundation and deposited with an investment manager.

The impact of the contribution by the McKnight Foundation has been to increase the earnings of the Endowment and Similar Funds by $144,570 and $130,498 during the years ended June 30, 1985 and 1984, respectively.

D. Land, buildings and equipment:

	June 30 1985	June 30 1984
Land and land improvements	$ 1,981,264	$ 1,981,264
Dormitories and parking ramp	1,478,727	1,478,727
Buildings and building improvements	23,129,977	23,121,558
Furniture, fixtures and equipment	5,034,501	4,846,607
	31,624,469	31,428,156
Less accumulated depreciation	3,996,695	3,734,977
	$27,627,774	$27,693,179

E. Plant Funds long-term debt:

	June 30 1985	June 30 1984
Obligations under capital lease (Note F)	$1,095,804	$1,150,453
Note payable - Series 1983-A requiring varying annual principal payments beginning September 1, 1986 through 1991, plus monthly interest payments varying from 6.75% to 8.5%	402,897	402,897
Dormitory bonds requiring annual principal payments of $10,000 through 1993 and $15,000 from 1994 through 1997, plus semi-annual interest payments at 3%	140,000	150,000
Mortgage payable at 8% due in 1986	73,517	80,843
	$1,712,218	$1,784,193

Note payable - Series 1983-A consists of the principal amount due on Minnesota Higher Education Facilities Authority, Pooled Revenue Bonds - Series 1983-A. The proceeds were obtained during 1984 to finance the acquisition and installment of audio-visual and computer equipment. Quasi-endowment assets carried at $242,000 (U.S. Treasury Bill, maturity value $250,000) have been pledged as collateral for the note.

Dormitory bonds consist of the principal amount due on The Minneapolis Society of Fine Arts Bonds of 1972. Under terms of the indenture, the Society is to make semi-annual payments of approximately $6,500 to a sinking fund for bond principal and interest. Certain other fund depository accounts are required for the deposit of net revenues from the operation of the dormitories and the maintenance of a repair and replacement reserve. The bonds have a call premium of 3% and are collateralized by land and buildings carried at $210,000 at June 30, 1985, net revenues from their operations as dormitories and sinking fund and depository accounts of $52,000.

Land and buildings carried at $108,000 are pledged as collateral for the mortgage payable.

The following is a schedule, by years, of approximate principal payments required under long-term debt agreements (excluding the lease obligations in Note F) as of June 30, 1985:

Year ending June 30:	
1986	$ 83,518
1987	65,795
1988	69,634
1989	73,856
1990	78,847
1991 and thereafter	244,765
	$616,415

F. Capital leases:

In November 1978, the Society sold its parking ramp and lot facilities to the City of Minneapolis and simultaneously leased the facilities back under a twenty-year lease agreement. Included in the lease provisions is an option to purchase the related property at the end of the lease term. The transaction resulted in a gain of $188,034 which was deferred and is being amortized over the remaining life of the assets. The unamortized portion of the gain is $144,341 at June 30, 1985.

Under the terms of this lease agreement with the City of Minneapolis, the Society may be required to grant to the City a security interest in assets selected by the Society in the amount of the present value of the remaining lease payments. As of June 30, 1985, the Society has not been requested to pledge any assets.

Land, buildings and equipment include assets under capital leases of:

	June 30	
	1985	1984
Parking ramp and lot	$1,500,000	$1,500,000
Less accumulated amortization	278,470	236,614
	$1,221,530	$1,263,386

Amortization of leased assets for each of the years ended June 30, 1985 and 1984 was $41,856.

The following is a schedule, by years, of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 1985:

Year ending June 30:	
1986	$ 118,780
1987	115,720
1988	112,660
1989	129,600
1990	125,520
1991 and thereafter	1,000,437
Total minimum future payments	1,602,717
Less amount representing interest	506,913
Present value of net minimum lease payments	$1,095,804

G. Children's Theatre Company:

The Children's Theatre Company (CTC), an independently incorporated entity, utilizes the Society's theatre building and reimburses the Society for a portion of the costs of operation and maintenance of the building, exclusive of retirement of indebtedness and interest expense. Costs of operation and maintenance of the theatre building were $205,424 and $186,773 during the years ended June 30, 1985 and 1984, respectively, and the lease charges to CTC were $154,068 and $140,084, respectively.

H. Pension plan:

Certain full-time employees of the Society participate in Teachers Insurance Annuity Association - College Retirement Equities Fund (TIAA - CREF). The Society contributes 5% of eligible employees' salaries into individual annuity contracts. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement or termination. Annuity arrangements, such as the above, of certain organizations, exempt under Internal Revenue Code Section 403(b), have automatic Internal Revenue Service approval.

Pension contributions included in Current Funds expenditures for the years ended June 30, 1985 and 1984 were $153,101 and $135,923, respectively.

I. Additional information on Current Funds expenditures and mandatory transfers:

	Current Funds expenditures		Assigned to Park Museum Fund	
	Year ended June 30		Year ended June 30	
	1985	1984	1985	1984
Salaries	$ 5,249,021	$ 4,813,803	$1,701,600	$1,578,381
Fringe benefits	746,802	648,757	246,729	233,308
Cleaning	167,744	125,796	86,192	120,192
Security	85,000	79,153	50,000	47,495
Other services and fees	781,038	751,908	216,768	163,016
Insurance, general	147,776	109,069	117,175	81,119
Insurance, works of art	43,950	98,738	25,572	47,238
Utilities	545,152	521,928	364,752	354,911
Other property expenses	500,671	849,533	181,013	266,388
Supplies and materials	432,464	472,533	122,196	146,849
Office expenses	1,251,163	992,829	178,943	265,322
Travel	187,148	182,921		
Advertising and promotion	209,452	156,584		
Purchases for resale	472,153	625,402		
Financial aid	608,306	414,637		
Accessions	579,796	1,698,665		
Other expenses	30,182	77,636	21,860	4,223
	$12,037,818	$12,619,892	$3,312,800	$3,308,442
Park Museum Fund income (local government revenues)			$2,738,444	$2,631,404

Under an agreement dated December 15, 1971, the Society receives annually from the City of Minneapolis funds on deposit in the City's Park Museum Fund. Such funds are paid to the Society only to the extent the request for such funds is supported by invoiced costs which are allowed under the agreement. The Society has assigned costs to the Park Museum Fund as reflected in the above table based on allowable costs as defined in the agreement. During the years ended June 30, 1985 and 1984, allowable costs have exceeded amounts received and deposited in the City's Park Museum Fund.

J. Retirement of indebtedness and interest and debt expense:

	Year ended June 30 1985	Year ended June 30 1984
Retirement of indebtedness:		
Obligations under capital lease	$ 54,649	$ 247,934
Dormitory bonds payable	10,000	10,000
Mortgages payable - investment in plant	7,326	22,241
Lease obligations - Series G		2,007,971
Installment note payable		49,599
	$ 71,975	$2,337,745
Interest and debt expense:		
Obligations under capital lease	$ 65,062	$ 111,615
Note payable - Series 1983-A	31,515	21,798
Endowment and Similar Funds loan	31,359	70,885
Mortgages payable - investment in plant	6,150	6,840
Dormitory bonds payable	4,500	4,800
Lease obligations - Series G		16,187
Installment note payable		3,462
	$ 138,586	$ 235,587

The loan from the Endowment and Similar Funds to the Heritage Fund was forgiven during 1985 and the elimination of indebtedness was effected through a $731,215 transfer of undesignated quasi-endowment funds.

DEFINITION OF CERTAIN TERMS

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

Additional Bonds: Any Additional Bonds issued pursuant to Section 2.09 of the Indenture. (See "THE BONDS - Additional Bonds").

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 Institution and the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by its Chairman, Vice Chairman, Secretary or Executive Director. Such certificate may designate an alternate or alternates.

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

Authorized Investments: Investments authorized for moneys in the accounts created under Article V of the Indenture and described in Section 5.04 thereof.

Board of Trustees: The Board of Trustees of the Society, including the 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.

Bonds: $830,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Two-K (The Minneapolis Society of Fine Arts).

Bond Resolution: The Series Resolution of the Authority adopted on December 18, 1985, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

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

College: Minneapolis College of Art and Design, owned and operated by the Society and located in Minneapolis, Minnesota.

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

Debt Service Reserve Account: The Debt Service Reserve Account established pursuant to the Indenture, into which at closing the Society will put $913,000 of cash and Qualified Investments.

Event of Default: An Event of Default described in the Indenture or Loan Agreement and summarized in this Official Statement in the sections entitled

"THE INDENTURE - Events of Default" and "THE LOAN AGREEMENT - Events of Default."

Fiscal Year: The Society's fiscal year, and shall initially mean the 12-month period commencing on July 1 in each year.

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

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

Indenture: The Trust Indenture between the Authority and Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota, as Trustee, dated as of December 1, 1985, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

Institution: The Minneapolis Society of Fine Arts, a Minnesota non-profit corporation, as owner and operator of the Minneapolis College of Art and Design, a Minnesota non-profit institution of higher education.

Internal Revenue Code: The Internal Revenue Code of 1954 and amendments thereto.

Issue: The Bonds.

Loan Agreement: The Loan Agreement between the Authority and the Institution, dated as of December 1, 1985, as amended or supplemented from time to time.

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

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

Paying Agent: Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota.

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 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 Institution, (iv) encumbrances permitted by any provision of the Loan Agreement (v) any mortgage of Project Facilities with the approval of the Authority pursuant to Section 5.03 of the Loan Agreement, and (vi) those additional encumbrances set forth in Exhibit C of the Loan Agreement.

Project: The acquisition, construction, furnishing and equipping of a bookstore, student gallery and artist work space; remodeling of the main college building; and acqusition and installation of furniture and equipment for an upgraded computer laboratory, all to be located on the campus of the College.

Project Buildings: The buildings constructed or improved as part of the Project, or into which Project Equipment will be installed..

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

Project Equipment: All furnishings, furniture, fixtures, equipment, and other personal property of a capital nature acquired with proceeds of the Bonds and installed and located in or as part of the Project Buildings.

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

Project Site: The land on which the Project Buildings are or will be located.

Qualified Investments: Investments authorized for the Debt Service Reserve Account (see "ACCOUNTS - Debt Service Reserve Account").

Redemption Account: The Redemption Account created under the Indenture for deposit of any moneys received which are not otherwise committed. Moneys in the Redemption Account shall be used (i) to create and maintain the required balance in the Bond and Interest Sinking Fund Account, (ii) to redeem or prepay outstanding Bonds or to purchase outstanding Bonds for redemption and cancellation.

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

Registrar: Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota.

Required Amount: With respect to the Debt Service Reserve Account, Unrestricted Funds of a market value at least equal to 110% of the principal amount outstanding on the Bonds.

Series Two-K Bonds: The Bonds.

Society: The Institution.

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

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

Trustee: Norwest Bank Minneapolis, National Association, Minneapolis, Minnesota.

Underwriter: Piper, Jaffray & Hopwood Incorporated, Minneapolis, Minnesota.

Unrestricted Funds: Funds of the Institution which were derived from gifts or bequests (including the income thereon), were not raised for the purpose of carrying out the Project, are not reasonably expected to be used (directly or indirectly) to pay principal or interest on the Bonds, are held as part of the Institution's permanent capital, and are unrestricted as to use and disposition of principal and income by any term, condition or covenant in any deed of gift, will, trust instrument, loan agreement, or security agreement and are not pledged to secure any indebtedness or obligation of the Institution.

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."

Construction of Project

The Institution represents that it will undertake the acquisition and construction of the Project with due diligence so that the Project will be substantially completed on or before February 1, 1987. In the event the Society is unable to complete the acquisition of the Standard Upholstery Building for remodeling and use as a bookstore, student gallery and artist work space, the Society is permitted to purchase another property for the same purpose with the approval of the Authority. The Institution agrees that it will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs are not met from proceeds of the Bonds in the Construction Account.

Loan Repayments

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

(a) At least ten days prior to each February 1 and August 1, into the Bond and Interest Sinking Fund Account a sum which will be equal to (1) (with respect to the payment to be made at least 10 days prior to August 1, 1987 and each payment thereafter) the amount payable (if any) as principal of the Series Two-K Bonds on such interest payment date, plus (2) the amount payable as interest on the Bonds on the next succeeding interest payment date, after deducting certain permitted credits; and

(b) Forthwith into the Bond and Interest Sinking Fund Account the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account on any interest payment date are insufficient to pay principal of, premium (if any) and interest on the Bonds due on such date; and

(c) At least ten days prior to a date established for the redemption and prepayment of the Series Two-K Bonds, into the Redemption Account such amount, if any, as shall be necessary to provide for the redemption of any of the Series Two-K Bonds called for redemption from the Redemption Account; and

(d) Into the Debt Service Reserve Account forthwith, from Unrestricted Funds, such sum, if any, as is necessary to restore the Debt Service Reserve Account to the Required Amount.

There is reserved to the Institution the right to prepay the Loan and to redeem the Series Two-K Bonds prior to their maturity in certain events as described under "THE BONDS."

As additional payments the Institution agrees to pay the annual fee of the Authority, fees and expenses of the Trustee and certain other expenses.

Use of Project Facilities

The Institution agrees to use the Project Facilities as educational facilities, in compliance with law and ordinance requirements, and not as facilities for sectarian instruction or religious worship, nor primarily in connection with a program of a school or department of divinity for any religious denomination. It agrees not to permit use of the Project Facilities in such manner or to such an extent as would result in loss of the tax exemption of interest on the Bonds under Section 103 of the Internal Revenue Code.

Maintenance of Project Facilities

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

Title to Property and Liens

Except for Permitted Encumbrances, the Institution will not permit any liens to be established or remain against the Project Facilities, including any mechanics liens for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the Institution 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 Institution 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 Institution shall promptly pay all such items. The Society is permitted to execute and deliver a mortgage of or other security interest in the Project Facilities to finance improvements to the Project Facilities with the approval of the Authority evidenced by a certified resolution.

Taxes and Other Governmental Charges

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

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

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 the Institution shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds, as more fully provided in the Loan Agreement.

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 all or part of the Project Facilities shall be taken in any proceeding involving the exercise of the right of eminent domain, the Institution shall either redeem Bonds or rebuild or restore such Project Facilities, as more fully provided in the Loan Agreement.

Indemnification

The Institution 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 or the use thereof, including that caused by any negligence of the Authority or anyone acting in its behalf, provided that the indemnity shall be effective only to the extent of the net proceeds received by the Authority from any insurance carried with respect to the loss sustained.

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

Institution to Maintain its Existence and Accreditation

The Institution agrees that during the term of the Loan Agreement its will maintain its existence as a nonprofit corporation and a nonprofit institution of higher education under the laws of Minnesota and its accreditation as an institution of higher education by recognized accrediting agencies and that it will not consolidate with or merge into another corporation or institution, or permit one or more other corporations or institutions to consolidate with or merge into it, or transfer all or substantially all of its assets to another corporation or institution except upon the following conditions: (i) if the surviving, resulting or transferee institution, as the case may be, is other than the Institution, such surviving, resulting or transferee institution shall assume in writing all of the obligations of the Institution in the Loan Agreement, and shall be either a state university or college or a nonprofit corporation and a nonprofit institution of higher education under the laws of Minnesota, eligible to be a participating nonprofit institution under the Act, and complies and will comply with the provisions of the Loan Agreement against discrimination and requiring that the institution be nonsectarian; and (ii) the Institution 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 Section 103 of the Internal Revenue Code of 1954, as amended, and regulations thereunder.

Institution to be Nonsectarian

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

Federal Income Tax Status

The Institution 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 federal income taxes under Section 501(a) of such Code.

In the event a determination of taxability is made that the Bonds are subject to federal income taxation under the provisions of the Internal Revenue Code and regulations thereunder as in effect at the date of issuance of the Bonds, the Bonds shall be subject to mandatory redemption on a date to be determined by the Trustee following the determination of taxability, and the redemption price therefor shall be equal to par plus accrued interest.

The determination of taxability described above shall be established by a ruling from the National Office of the Internal Revenue Service or a final decision of a court of competent jurisdiction to the effect that interest on the Bonds is subject to federal income taxation under Section 103 of the Internal Revenue Code, as in effect on the date of original issue of the Bonds.

Other Covenants

The Institution further agrees to provide financial statements and other information to the Authority and the Trustee; to comply with all applicable laws and regulations against discrimination, and not to discriminate on account of religion, race, color or creed in the use of the Project Facilities; to provide and file such financing statements and other instruments of further assurance as the Trustee may request; and to observe all applicable State laws and regulations, including those of the Authority and the Minnesota Higher Education Coordinating Board, subject to the right of contest.

Events of Default

The following are Events of Default under Section 7.01 of the Loan Agreement:

(a) If the Institution shall fail to pay (i) any Loan Repayment when due and any payment of principal of, premium, if any, or interest on the Bonds shall not be paid when due, or (ii) any Loan Repayment when due and within two (2) days after notice from the Trustee that such Loan Repayment has not been made; or

(b) The Institution shall default with respect to the provisions of the Loan Agreement relating to consolidation, merger, sale and transfer; or

(c) If the Institution 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, be given to the Institution by the Authority or the Trustee; or

(d) If certain events shall occur with respect to the bankruptcy or insolvency of the Institution or the appointment of a receiver.

The term "force majeure" as used herein includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; order, 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 Institution. The provisions of paragraph (c) of this Section 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 Institution 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 Institution shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The Institution agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the Institution from carrying out its agreements.

Remedies on Default

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

(a) The Trustee may declare all or any amount of Loan Repayments thereafter to become due and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.

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

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

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."

Granting Clauses

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

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

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

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

Accounts

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

Trustee's Right to Payment

The Trustee shall have a lien, with right of payment prior to payment of interest on or principal of the Bonds for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created by the

Indenture and exercise and performance of the powers and duties of the Trustee under the Indenture, and the cost and expenses incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee).

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 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 Bond proceeds.

Events of Default

The following are Events of Default under the Indenture:

(a) If default shall be made in the due and punctual payment of any interest on any Bond outstanding; or

(b) If default shall be made in the due and punctual payment of the principal, or redemption premium, if any, of any Bond outstanding, whether at the stated maturity thereof or at the date fixed for redemption thereof, or upon the maturity thereof by acceleration; or

(c) If default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority in the Indenture, or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof given in the manner provided in the Indenture; or

(d) If an Event of Default on the part of the Institution as that term is defined in the Loan Agreement shall occur; or

(e) If, as a result of certain events of bankruptcy or insolvency of the Authority, any court, receiver or trustee, or the Authority, attempts to obtain possession of any part of the Trust Estate, including Loan Repayments, or to disaffirm or reject any obligations of the Authority under the Indenture, the Bonds or the Loan Agreement, or the Institution attempts to terminate the Loan Agreement or offset claimed damages against or withhold payment of any Loan Repayments.

Remedies

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

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

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

Concerning the Trustee

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at a rate equal to the Trustee's prime rate per annum, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the Institution to the same extent as if it were not Trustee. Provision is made for the addition of an individual co-trustee if necessary or convenient and for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of at least $10 million in event of merger, resignation, or removal by holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court.

Concerning the Bondholders

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

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

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

Defeasance

If the Authority shall:

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

(b) provide for the payment of principal and interest 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 interest to maturity of all Bonds outstanding, or

(c) deliver to the Trustee (1) proof that notice of redemption of all of the outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the Authority under its official seal and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such outstanding Bonds, and in any case, deposit with the Trustee before the date on which 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 prior interest payment dates, or

(d) surrendered to the Trustee for cancellation all Bonds,

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

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

Supplemental Indentures

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

(a) to correct the description of any property conveyed or pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over to the Trustee additional property for the benefit and security of the Holders and Owners of all Bonds under the Indenture;

(b) to add to the covenants and agreements of the Authority or to surrender any right or power reserved to or conferred upon the Authority;

(c) to evidence the succession of any other department, agency, body or corporation to the Authority;

(d) to cure any ambiguity or to correct or supplement any defective or inconsistent provision contained in the Indenture or to make such other provisions in regard to matters or questions arising under the Indenture as the Authority may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture and which shall not impair the security of the same; and

(e) to provide for Additional Bonds.

In addition and subject to the provisions set forth below, the Holders of not less than 65% in aggregate principal amount of the Bonds under the Indenture then outstanding shall have the right to consent to and approve such supplemental indentures as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions of the Indenture or in any supplemental indenture; provided, however, that such provision shall not be construed as permitting without the consent of the Holders of all such Bonds (a) an extension of the maturity of any Bonds, 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 property, funds, investments or revenues ranking prior to or on a parity with the lien or pledge created by the Indenture (except as provided in the Indenture for Additional Bonds), 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.

Additional Bonds

The Authority may (i) in its discretion issue Additional Bonds to provide funds to complete the Project or to refund all the then outstanding Bonds, and (ii) issue Additional Bonds to provide funds for improvements to or alterations, repairs or replacement of the Project Facilities; provided, that no such Additional Bonds shall be issued or shall be secured by the Trust Estate on a parity with the Bonds then outstanding unless:

(1) The interest on the outstanding Bonds and the Additional Bonds shall be exempt from federal income taxation and the Trustee shall have been furnished an opinion of bond counsel, acceptable to the Authority, to such effect;

(2) The Institution shall deposit in the Debt Service Reserve Account, from Unrestricted Funds, such additional cash and Qualified Investments that immediately following the issuance of the Additional Bonds, the current market value of cash and Qualified Investments in the Debt Service Reserve Account shall at least equal the Required Amount;

(3) Additional Bonds issued pursuant to clause (ii) above shall be for a project authorized by the Act; and

(4) No default on the part of the Institution shall exist under the Loan Agreement and the Institution shall have certified to the Trustee that no such default exists.

Amendments to the Loan Agreement

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

Except for amendments, changes or modifications provided for in the preceding paragraph, neither the Authority nor the Trustee may consent to any amendment, change or modification of the Loan Agreement without the written approval or consent of the Holders of not less than 65% 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 payments under the Loan Agreement without the consent of the Holders of all the Bonds then outstanding.

Registration

The Bonds shall be fully registered as to principal and interest at the office of the Trustee, which shall also perform the functions of Registrar and Paying Agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Owner or the Owner's authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Owner, except as to any taxes or other governmental charges required to be paid. Bonds may be exchanged only for new Bonds of the same maturity, which may be of diffferent denominations so long as the aggregate principal amount thereof equals the aggregate principal sum of the Bonds surrendered. Payment of principal will be at the corporate office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, pursuant to an agreement with the Trustee, by wire transfer) to the registered Owner at the Owner's address as shown on the registration books of the Trustee.