

OFFICIAL STATEMENT DATED MAY 13, 1997

NEW ISSUE

Moody's Rating: Aa3

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

**\$11,000,000**  
**Minnesota Higher Education Facilities Authority**  
**Revenue Bonds, Series Four-J**  
**(Macalester College)**  
**(Book Entry Only)**

Dated Date: May 1, 1997

Interest Due: March 1 and September 1,  
commencing September 1, 1997

\$5,795,000 serial bonds to mature annually on March 1 as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
1998	\$280,000	3.90%	100%	2005	\$465,000	5.05%	100%
1999	\$350,000	4.55%	100%	2006	\$485,000	5.15%	100%
2000	\$365,000	4.75%	100%	2007	\$510,000	5.20%	100%
2001	\$380,000	4.85%	100%	2008	\$540,000	5.30%	100%
2002	\$400,000	4.90%	100%	2009	\$565,000	5.40%	100%
2003	\$420,000	4.95%	100%	2010	\$595,000	5.50%	100%
2004	\$440,000	5.00%	100%				

\$1,295,000 5.375% Term Bonds due March 1, 2012 Price 98.243%

\$3,910,000 5.55% Term Bonds due March 1, 2017 Price 97.877%

At the option of the Minnesota Higher Education Facilities Authority (the "Authority"), the Bonds are subject to redemption prior to maturity, as described herein. See "The Bonds - Prior Redemption - Optional Redemption". The Bonds will also be subject to optional redemption in whole or in part in certain cases of damage to or destruction or condemnation of the Project Facilities described in the Loan Agreement and Indenture. The Bonds will be subject to optional redemption in whole or in part in the event of a Determination of Taxability, as described herein. Bonds maturing March 1, 2012 and 2017 are subject to mandatory redemption in installments as described herein.

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

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

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

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter named below subject to the approval of legality by Faegre & Benson LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Moore, Costello & Hart, P.L.L.P., St. Paul and Minneapolis, Minnesota. Bonds are expected to be available for delivery on or about May 28, 1997.

**Dain Bosworth**  
**Incorporated**

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

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

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

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

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

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

## **MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**

### **MEMBERS**

Kathryn Balstad Brewer, Chair	Doctoral Candidate of University of Minnesota; New Brighton, Minnesota; Formerly Senior Vice President With FBS Investment Services, Inc.
Mollie N. Thibodeau, Vice Chair	CFRE, Fund Raising Consultant, Duluth, Minnesota
James R. Miller, Secretary	Owner and CEO, James Miller Investment Realty Company, Saint Paul, Minnesota.
Jack Amundson	Partner, McMahon, Hartmann, Amundson & Co., Saint Cloud, Minnesota.
John S. Hoyt, Jr.	CEO, Effective Golf Course Systems, Inc., Edina, Minnesota
Kenneth Johnson	Principal/Corporate President, the STANIUS JOHNSON architects, inc., Duluth, Minnesota
David B. Laird, Jr. (Ex Officio)	President, Minnesota Private College Council, Saint Paul, Minnesota.
Timothy Medd (Ex Officio)	Minnesota Higher Education Services Office, Saint Paul, Minnesota.
Tom Martinson	Principal, City Planning & Economic Development, Minneapolis, Minnesota
Christopher A. Nelson	Attorney, Pustorino, Pederson, Tilton & Parrington, Minneapolis, Minnesota

J. Luther Anderson, Executive Director

Bond Counsel  
Faegre & Benson LLP

Financial Advisor  
Springsted Incorporated

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## **OFFICIAL STATEMENT**

**\$11,000,000**

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

#### **REVENUE BONDS, SERIES FOUR-J (Macalester College)**

### **INTRODUCTORY STATEMENT**

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

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

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

Pursuant to a Loan Agreement between the College and the Authority, the College will covenant as a general obligation of the College to make Loan Repayments in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. The proceeds of the Issue will be loaned to the College by the Authority to be used, together with other funds of the College, for (a) the construction, furnishing and equipping of a residence hall for approximately 113 beds with recreational and instructional space; (b) acquisition and installation of a boiler, central chiller, heating oil tank and related piping and tunneling; and (c) partial renovation of Wallace and Bigelow Halls to expand capacity by 30 to 35 beds, all owned or to be owned and operated by the College and located on the Project Site. See "PURPOSE OF THE ISSUE," herein.

The Bonds are secured by a pledge of the Loan Repayments. The Loan Repayments are a general obligation of the College.

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

The 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.

## **RISK FACTORS**

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

### No Collateral

The Bonds are secured by a pledge of amounts payable under the Loan Agreement. No mortgage lien on or security interest in any College property has been granted to secure payment of the Bonds. The Bonds are not secured by a reserve fund.

### Adequacy of Revenues

Payment of principal of and interest on the Bonds is intended to be made from Loan Repayments of the College. The College's ability to make Loan Repayments will be dependent on its ability to receive sufficient unrestricted revenues in excess of expenditures. Such revenues and expenditures are subject to many conditions and factors, some of which may be beyond the control of the College and may change in the future to an extent that cannot be presently determined. Certain debt of the College is secured by mortgage liens on the property financed. Certain other indebtedness of the College is secured by liens on revenues. (See "Long-Term Debt of the College," page I-15.)

### Reliance on Tuition

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

### Financial Aid

Approximately 76% of the College's students currently receive some form of financial aid covering tuition and fees or living expenses. No assurance can be given that federal and state financial aid will continue to be funded at current levels or that the College will continue to fund student aid at current levels. Curtailment of such aid could cause a decline in enrollment, which could in turn have an adverse effect on the College's revenues.

### Damage or Destruction

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

### Nature of Pro Forma Debt Service Coverage

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

### Limited Obligation

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

### No Limitation on Indebtedness

Neither the Loan Agreement nor any of the loan documents for the other indebtedness of the College described in Appendix I under the caption "Long-Term Debt of the College" contains any limitation on incurrence by the College of additional long-term or short-term indebtedness. Therefore, the College could incur additional indebtedness in the future, and the additional payments of principal and interest required for such indebtedness could limit the funds available to pay the Loan Repayments and the payments of principal and interest required for the College's existing indebtedness.

### Bankruptcy

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

### Other Possible Risk Factors

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

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

## **CONTINUING DISCLOSURE**

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the College will enter into an undertaking (the "Undertaking") with the Trustee for the benefit of beneficial owners of the Bonds to provide certain financial information and operating data relating to the College to certain information repositories annually, and to provide notices of the occurrence of the eleven events enumerated in the Rule to such repositories or the Municipal Securities Rulemaking Board and to the Minnesota state information depository, if any. The specific nature of the Undertaking, as well as the information to be contained in the annual report or the notices of material events is set forth in the Continuing Disclosure Agreement to be executed by the College at the time the Bonds are delivered, a copy of which

is available from the College or the Trustee. Appendix III contains a summary of the financial information and operating data to be provided annually. The Continuing Disclosure Agreement may be amended under certain circumstances as permitted by the Rule. Furthermore, the College has reserved its right to discontinue providing information required by the Continuing Disclosure Agreement or the Rule, if a final determination is made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful, and to modify the terms of the Continuing Disclosure Agreement if a court of competent jurisdiction or the College determines that such modification is required by the Rule. The College has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the College to comply with the Undertaking will not constitute an event of default on the Bonds (although holders may have other remedies in the event of noncompliance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure, or the information supplied by the College pursuant to the Undertaking, may adversely affect the transferability and liquidity of the Bonds and their market price.

## **THE BONDS**

The Bonds will be dated May 1, 1997 and will mature annually each March 1, commencing March 1, 1998, 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 maturity, and shall be fully registered as to principal and interest. Interest on the Bonds will be payable on each March 1 and September 1, commencing September 1, 1997.

### **Book Entry Only System**

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership of each actual



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

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

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

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

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

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

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

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

## **Prior Redemption**

### **Mandatory Redemption**

Bonds maturing on March 1, 2012 and 2017 shall be called for redemption on March 1 in the years 2011 and 2013 through 2016, respectively, at the principal amount thereof to be redeemed, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account, in the respective amounts set forth below.

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2011	\$630,000	2013	\$700,000
2012*	\$665,000	2014	\$740,000
		2015	\$780,000
		2016	\$820,000
		2017*	\$870,000

\* *Maturity*

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

The Bonds maturing in 2012 and 2017, to be retired pursuant to the mandatory redemption obligations set forth above, may, at the option of the College, be reduced by the principal amount of any Bonds of such maturity which at least 45 days prior to such redemption:

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

### **Optional Redemption**

At the request of the College, the Authority may elect on March 1, 2007, and on any day thereafter, to prepay Bonds due on or after March 1, 2008. Redemption may be in whole or in part and if in part at the option of the Authority and in such manner as the Authority shall determine as directed by the College. If less than all Bonds of a maturity are called for redemption, the Authority will notify DTC of the particular amount of such maturity to be prepaid. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interests in such maturity to be redeemed. All prepayments shall be at a price of par plus accrued interest.

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

### **Partial Redemption**

In the case of Bonds of denominations greater than \$5,000, if less than all of such Bonds then outstanding are to be called for redemption, then for all purposes in connection with redemption, each \$5,000 of principal amount shall be treated as though it was a separate Bond of the denomination of \$5,000 bearing the number borne by such fully registered Bond and a subnumber assigned by the Trustee. If it is determined that one or more, but not all of the

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

#### Notice of Redemption

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

#### **Determination of Taxability**

If a Determination of Taxability is made that the interest payable on the Bonds is subject to federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of issuance, the Bonds shall bear additional interest equal to two percent (2.00%) per annum above the basic interest rate from the Date Of Taxability effective until the respective dates on which the principal of the Bonds is paid. See "Tax Exemption" on pages 13 through 15 and Appendix IV, "DEFINITION OF CERTAIN TERMS."

**If a Determination of Taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the stepped up interest rate on the Bonds.**

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

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

Sources of Funds	
Series Four-J Principal	\$11,000,000
Funds of the College	3,232,878
Accrued Interest	<u>43,384</u>
Total Sources	<u>\$14,276,262</u>
Uses of Funds	
Project Costs	\$14,013,500
Discount and Costs of Issuance	157,000
Original Issue Discount	<u>105,762</u>
Total Uses	<u>\$14,276,262</u>

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

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

## **PURPOSE OF THE ISSUE**

Net proceeds of the Bonds and additional funds of the College will finance the following:

- A new 113 bed residence hall to replace Dayton Hall. The new residence is expected to be completed in July 1997.
- The remodeling and expansion of Wallace and Bigelow Halls to increase housing capacity by 30 to 35 beds. This work will be done during the summer 1997.
- The acquisition and installation of boiler, central chiller, heating oil tank and related piping and tunneling. The majority of the improvements have already been completed; the balance is expected to be completed by August 1999.

The entire cost of the projects will be approximately \$14,013,500. The College will finance the balance of costs not paid from Bond proceeds from other funds of the College.

Kraus-Anderson Construction Company is the general contractor under a guaranteed maximum price contract for construction of the new residence hall and the installation of the equipment. No construction contracts have been let concerning the expansion and remodeling of Wallace and Bigelow Halls. The College expects to obtain a guaranteed maximum price contract for that work.

## **FUTURE FINANCING PLANS OF THE COLLEGE**

The College regularly improves and expands its physical plant and issues long-term financing as needed to supplement the receipt of gifts for capital improvements. The College intends to construct a 68,000 square foot campus center to replace the Student Union building constructed in 1950. Construction is planned to begin when fund raising goals have been met, which may be as soon as spring 1998. The total estimated cost of the new campus center is \$14 million. The College currently plans to finance a portion of the cost with debt issued through the Authority.

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

The Bonds will be special obligations of the Authority payable solely from Loan Repayments made by the College as required by the Loan Agreement.

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

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

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

## **ACCOUNTS**

### **Summary**

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

### **Construction Account**

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

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

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

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

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

Initially there shall be deposited into the Bond and Interest Sinking Fund Account any amount of Bond proceeds representing accrued interest, which is to be used to pay interest on the Bonds. Deposits shall be made to the Bond and Interest Sinking Fund Account from transfers of amounts in other accounts, as permitted by the Indenture, and from Loan Repayments made by the College. A separate Sinking Fund Subaccount will be maintained within the Bond and Interest Sinking Fund Account for the retirement of Term Bonds on each Sinking Fund redemption date. Deposits into the Sinking Fund Subaccount shall be made at least 10 Business Days prior to each March 1 on which a sinking fund payment is due in amounts equal to the redemption price of the principal specified for mandatory redemption. The moneys and investments in the Bond and Interest Sinking Fund Account will be irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of and interest on the Bonds as and when such principal and interest shall become due and payable and for that purpose only.

### **Redemption Account**

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

### **General Bond Reserve Account**

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

## **Authorized Investments**

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

## **THE AUTHORITY**

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

J. Luther Anderson has been the Executive Director of the Authority since June 30, 1995, at which time he replaced Joseph E. LaBelle, who retired after serving as Executive Director since the inception of the Authority. Mr. Anderson was formerly a Senior Vice President with Springsted Incorporated.

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$350 million. The Authority is seeking authority from the State legislature to increase the maximum to \$500 million. The Authority has had 98 issues (including refunded and retired issues) totaling \$489,994,189 of which \$253,344,723 (excluding the Bonds) is outstanding as of May 1, 1997. An additional \$55,150,000 is authorized but unissued as of this date. Bonds issued by the Authority are payable only from the rentals, revenues and other income, charges and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State of Minnesota.

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

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

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

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

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

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

### **FINANCIAL ADVISOR**

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

### **UNDERWRITING**

The Bonds are being purchased by Dain Bosworth Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$10,817,237.55 (representing the aggregate principal amount of the Bonds less an Underwriter's discount of \$77,000 and original issue discount of \$105,762.45.)

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

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

### **RATING**

As noted on the cover page hereof, Moody's Investors Service has given the Bonds a rating of "Aa3." The rating reflects only the view of such rating agency. There is no assurance that such rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.



## **LITIGATION**

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

## **LEGALITY**

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

Certain legal matters will be passed upon for the College by Moore, Costello & Hart, P.L.L.P., of St. Paul and Minneapolis, Minnesota.

## **TAX EXEMPTION**

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

The Loan Agreement and Indenture contain provisions (the "Tax Covenants") including covenants of the Authority and the College, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph. If a Determination of Taxability occurs, however, whether or not as a result of violation of any of the Tax Covenants, the outstanding Bonds are subject to optional redemption without premium, and the Bonds shall bear additional interest at a rate of two percent (2%) per annum from the Date Of Taxability until the respective dates on which the principal of the Bonds is paid. (See "THE LOAN AGREEMENT-Determination of Taxability" in Appendix IV). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

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

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

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

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

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

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

The dollar amount of the initial offering price to the public of the Bonds with stated maturities in 2012 and 2017 (the "Discount Bonds") is less than the principal amount of Bonds of such maturity. The difference between the initial public offering price of each such Discount Bond (assuming a substantial amount of the Discount Bonds is sold at such price) and its principal amount represents original issue discount. Under existing laws, regulations, rulings and decisions, Bond Counsel is of the opinion with respect to the Discount Bonds that the amount of original issue discount constitutes tax-exempt interest to the extent that it is deemed to accrue to an owner for federal and State of Minnesota income tax purposes (other than Minnesota corporate franchise taxes measured by taxable income and the alternative minimum tax base). Original issue discount is deemed to accrue for such purposes on the basis of a constant yield to maturity taking into account semiannual compounding. The amount of original issue discount that accrues during any accrual period to a holder of a Discount Bond who acquires the Discount Bond in this offering generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably

on each day of the accrual period, will be excluded from gross income for federal income tax purposes to the same extent as stated interest and will increase the holder's tax basis in such Discount Bond. Any gain realized by a holder from a sale, exchange, payment or redemption of a Discount Bond would be treated as gain from the sale or exchange of such Discount Bond.

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

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

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

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## THE COLLEGE

Macalester College is a four-year, co-educational, liberal arts institution located in Saint Paul, Minnesota. The legislature of the State of Minnesota granted a charter to the College in 1874 and the College opened on September 15, 1885. The College is affiliated with the Presbyterian Church (USA). The College does not unlawfully discriminate on the basis of age, sex, race, color, national and ethnic origin, sexual orientation, marital status, disability, religious preference or status as disabled veterans or veterans of the Vietnam era.

The College offers a variety of four year programs leading to a Bachelor of Arts degree and is accredited by the North Central Association of Colleges and Secondary Schools and the National Council for Accreditation of Teacher Education. The College is also registered with the Minnesota Higher Education Services Office in accordance with Minnesota Statutes.

### Governance

The College is governed by a Board of Trustees which consists of such number of members as may be determined from time to time by the Board. Currently there are 32 members, including the President of the College, who is a full voting member of the Board of Trustees. Except for the President, who serves as an ex-officio Trustee, the Board elects its own members. Elected Board members serve three-year overlapping terms.

#### Board of Trustees

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Joan Adams Mondale	Potter and Arts Advocate, Minneapolis, Minnesota
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Ruth Stricker-Dayton	Executive Director/Owner, The Marsh Minnetonka, Minnesota

Mark A. Vander Ploeg	Managing Director, Merrill Lynch & Co. San Francisco, California
Mary W. Vaughan	Community Volunteer Minneapolis, Minnesota
F. T. Weyerhaeuser	Chairman of the Board (Retired), Clearwater Management Co. St. Paul, Minnesota
Leah Wortham	Associate Professor of Law, Columbus School of Law The Catholic University of America, Washington, D.C.

### The President

Michael S. McPherson was appointed President of Macalester College in July 1996. From 1994 to 1996 he was Dean of the Faculty at Williams College. Earlier, he served as Chair of the Economics Department at Williams College, as a Senior Fellow in Economic Studies at the Brookings Institution and as a Fellow of the Institute for Advanced Study in Princeton. President McPherson has written widely on topics in ethics and economics and in the economics of higher education. He served as one of the founding editors of the journal *Economics and Philosophy*, published by Cambridge University Press. He is co-author of three recent books, *Keeping College Affordable: Government and Educational Opportunity* (Brookings, 1991), *Paying the Piper: Productivity, Incentives and Financing in American Higher Education* (University of Michigan Press, 1993) and *Economic Analysis and Moral Philosophy* (Cambridge University Press, 1996).

### Treasurer of the College

Craig H. Aase is Vice President for Administration and Treasurer of the College and has been at the College for 20 years. Mr. Aase reports to the President and is responsible for coordinating the construction and control of the College's budget, cash management, financial aid, physical plant and off-campus properties, human resources, and the business office. He staffs the President's advisory committee on Long Range Planning & Budget as well as the Trustee committees on finance, investment and audit. Mr. Aase holds a B.A. from Macalester College and an MBA from the University of Rochester. He is a past director of the Central Association of College and University Business Officers.

### Members of the Senior Staff

Craig H. Aase, Vice President for Administration  
 Richard A. Ammons, Vice President for College Advancement  
 Joel G. Clemmer, Vice President for Library and Information Services  
 Laurie B. Hamre, Dean of Students  
 Alexander G. Hill, Assistant to the President and Secretary to the Board of Trustees  
 A. Wayne Roberts, Provost  
 William M. Shain, Dean of Admissions

### **Campus and Buildings**

The College campus occupies approximately 54 acres in a residential neighborhood five miles west of downtown St. Paul. There are 26 buildings on the main campus. The oldest is Old Main, which was built in 1885, and the most recent is DeWitt Wallace Library, which was completed in 1988.

The College owns and maintains 11 other buildings adjacent to campus which are used for a variety of functions ranging from administrative to an international student center to language residence houses.

The following is a brief description of the College campus buildings grouped by category. The year in parenthesis indicates the year of building construction.

### Academic Buildings

*Athletic Facilities* - The athletic facilities are comprised of three interconnected buildings: the Gymnasium (1923), the Field House (1955), and the Natatorium (1983), a six-lane 25-meter swimming pool. Additionally, the Stadium (1964) can accommodate 4,000 spectators for football, soccer and track events.

*Carnegie Hall (1909)* - Completely renovated in 1990, Carnegie Hall houses the departments of Anthropology, Economics, Geography, Political Science and Sociology.

*Janet Wallace Fine Arts Center (1965)* - The five-building Janet Wallace Fine Arts Center provides facilities for the Art Department, Humanities, Music and Theatre, with a central core building connecting the other four buildings. A two-story addition and remodeling of the Humanities wing was recently completed.

*DeWitt Wallace Library (1988)* - State of the art library having a collection of approximately 450,000 books and bound periodicals. The \$10 million building was paid for entirely from gifts and grants.

*Old Main (1885)* - The oldest building on campus was renovated completely during 1992-93, and houses the departments of Education, History, Philosophy and Religion.

*Olin (1961)/Rice (1970) Science Complex* - renovated and enlarged in 1996/97, this Complex houses the departments of Chemistry, Math/Computer Science, Physics/Astronomy, Biology, Geology, and Psychology, as well as an observatory.

### Administrative Support Buildings

*Kagin Dining Commons (1962)* - Central dining facilities for campus student residents.

*Student Union (1950)* - The College campus community center that provides space for the Grille and the campus Post Office, as well as offices for Campus Programs, Career Development, Residential Life, and the student-run newspaper, radio station, and student government offices. The College plans to construct a new campus center to replace the Student Union when fund raising goals have been met.

*Weyerhaeuser Chapel (1969)* - This building functions not only as a chapel, but also as a gathering place for lectures and meetings.

*Weyerhaeuser Hall (1941)* - Originally constructed as the library, this building was completely remodeled in 1989 to provide support facilities for the College's administration.

*Winton Health Center (1952)* - This building houses the health service as well as psychological counseling services.

*77 Mac (1917)* - An administrative support building housing the Business Office, Human Resources and Registrar. The building was totally renovated in 1995.



## Residence Halls

*Bigelow Hall (1946)* - 65 rooms, housing 117 students. Total renovation was completed in 1991.

*Dayton Hall (1956)* - 61 rooms, housing 113 residents. (Will be demolished to provide a site for a planned campus center).

*Doty Hall (1962)* - 87 rooms, housing 152 students.

*Dupre Hall (1962)* - 192 rooms, housing 271 students. Lounge renovation was completed in the summer of 1994.

*Kirk Hall (1926)* - 97 rooms, housing 154 students. Total renovation was completed in 1993.

*New Residence Hall (1997)* - 20 suites, housing 113 students, to be completed in July 1997, as a replacement for Dayton Hall.

*Stadium (1964)* - In addition to its athletic role, there are 11 student rooms which house 21 residents.

*Turck Hall (1956)* - 72 rooms, housing 139 students.

*Wallace Hall (1906)* - 69 rooms, for 145 students.

*37 Macalester* - Small apartment building adjacent to campus, which was remodeled in 1986 to house 26 students.

*Language Houses* - Four houses near campus for language programs, housing 31 students.

## Deferred Maintenance

As a result of ten years of extensive campus renovation projects (\$57 million in Fiscal Years 1992-93 through 1996-97 alone), deferred maintenance on campus buildings is estimated to be less than \$5 million.

## **Academic Information**

Macalester College follows the early semester academic calendar of two 14-week semesters during the academic year. The normal student course load is considered to be four courses for 16 hours of credit during each of the fall and spring semesters. The Bachelor of Arts degree is awarded in 36 departmental and interdepartmental programs. Programs leading to licensure for pre-kindergarten, kindergarten, elementary and secondary teaching are offered by the education department in cooperation with other departments of the College.

Macalester expects its applicants to have completed a secondary school curriculum consisting of: four years of English; three years of history or social science; three years of mathematics; three years of laboratory science; three years of a foreign language; and to have taken honors or advanced courses available to them. The College uses no minimum grade point average as a threshold for admission; freshmen candidates are required to take either the SAT test of the College Entrance Examination Board or the ACT test of the American College Testing program.

## Student Enrollment

The actual full-time equivalent (FTE) enrollment is:

	<u>Fall Term</u>	<u>Total FTE</u>	<u>Total Head Count</u>
Actual:	1992	1,765	1,838
	1993	1,761	1,836
	1994	1,740	1,796
	1995	1,719	1,768
	1996	1,742	1,797

## Geographical Distribution of Student Body

Following is the geographic distribution of full-time students for Fall Term, 1996:

<u>Place of Origin</u>	<u>Number of Students</u>
Minnesota	439
Wisconsin	125
Illinois	74
Iowa	71
New York	70
Massachusetts	67
California	55
Washington	44
Ohio	42
Michigan	37
Other States	525
International	<u>166</u>
Total	1,715

## Freshmen Applications, Admissions and Enrollments

<u>Fall Semester</u>	<u># Applications Received</u>	<u># of Offers of Admission</u>	<u>Percent Admitted</u>	<u>Freshmen Enrolled</u>	<u>Percent of Admitted Enrolled</u>	<u>Mean Composite SAT Scores</u>
1990	2,331	1,312	56%	431	33%	1,220
1991	2,360	1,361	58	403	30	1,230
1992	2,749	1,453	53	475	33	1,213
1993	2,939	1,496	51	452	30	1,230
1994	2,752	1,597	58	452	28	1,241
1995	2,880	1,562	54	437	28	1,259
1996	3,132	1,718	55	491	29	1,282

## Student Retention

The College reports the following student retention rates, based on tracking incoming freshmen through to graduation.

Fall Semester	New Freshmen	Percent of Students Returning			Percent of Graduates	
		2nd Year	3rd Year	4th Year	4 Years	By 5th Year
1984	400	86%	77%	75%	57%	71%
1985	402	87	79	75	53	70
1986	452	91	81	77	61	73
1987	442	89	80	77	61	73
1988	435	91	83	82	67	76
1989	424	90	82	78	65	78
1990	431	93	86	80	70	78
1991	403	88	82	80	69	77
1992	475	91	81	79	69	
1993	452	89	79	78		
1994	452	88	80			
1995	437	89				

## Tuition, Fees, Room and Board

The College meets the cost of educational programs primarily through tuition and fees. The following table lists the schedule of fees charged full-time undergraduate students from the academic years 1991-92 through 1996-97.

	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>
Tuition and Fees*	\$13,331	\$14,125	\$15,107	\$16,010	\$16,686	\$17,708
Room	2,064	2,188	2,340	2,480	2,585	2,740
Full Board	<u>1,906</u>	<u>2,020</u>	<u>2,162</u>	<u>2,292</u>	<u>2,390</u>	<u>2,535</u>
Total	\$17,301	\$18,333	\$19,609	\$20,782	\$21,661	\$22,983

\* Certain other fees may be charged depending on activity or course of study.

## 1996-97 Undergraduate Tuition, Fees, Room and Board Comparison

The following table compares the College's charges for tuition, fees, room and board to highly selective private four-year liberal arts colleges to which the College generally compares itself. The colleges are listed in order of total cost.

	<u>Tuition</u>	<u>Fees</u>	<u>Room</u>	<u>Board</u>	<u>Total</u>
Swarthmore College	\$20,846	\$298	\$3,688	\$3,488	\$28,320
Williams College	21,759	151	3,050	3,090	28,050
Wesleyan University (Connecticut)	21,190	720	3,560	2,470	27,940
Amherst College	21,640	367	2,910	2,910	27,827
Bowdoin College	21,410	340	2,670	3,340	27,760
Oberlin College	21,425	151	3,074	3,100	27,750
Haverford College	20,692	198	3,710	3,100	27,700
Pomona College	19,530	180	7,860*		27,570
Reed College	21,330	160	3,000	3,000	27,490
Smith College	20,380	158	6,920*		27,458
Wellesley College	20,174	380	3,270	3,146	26,970
Carleton College	20,988	132	1,857	2,433	25,410
Occidental College	18,190	310	3,100	2,850	25,160
Colorado College	19,026	0	2,520	2,304	23,850
Lawrence College	18,744	135	1,954	2,259	23,092
<b>Macalester College</b>	<b>17,580</b>	<b>128</b>	<b>2,740</b>	<b>2,535</b>	<b>22,983</b>
Grinnell College	16,724	410	2,262	2,664	22,060
St. Olaf College	15,700	0	1,700	2,050	19,450

\* Room and board.

Source: Higher Education Data Survey and individual colleges.

## Faculty and Staff

The teaching student-faculty ratio for 1996-97 was 10.8 to 1. There are no religious or denominational prerequisites or any participatory religious requirements for faculty membership. The College subscribes to the 1940 Statement of Principles on Academic Freedom of the American Association of University Professors ("AAUP") and the Association of American Colleges.

The College employs 143 full-time and 67 part-time teaching faculty. The total faculty payroll for Fiscal Year 1996-97 was approximately \$11,900,000 including benefits.

### Salaries of Full-Time Instructional Faculty – 1996-97

<u>Academic Rank</u>	<u>Number of Faculty</u>	<u>Average Total Compensation</u>
Professor	53	\$85,863
Associate Professor	39.5	66,857
Assistant Professor	44.5	53,677
Instructor	6	40,959

\* Includes salary, life and health insurance, pension, long-term disability, unemployment insurance and workers compensation insurance.

Of the full-time faculty reported on an AAUP salary survey, 133 hold Ph.D's or the highest degree in their field. Approximately 58% are tenured.

## Collective Bargaining Units

The International Union of Operating Engineers, Local 70, AFL-CIO, St. Paul, Minnesota represents employees in two collective bargaining agreements at the College. The maintenance unit, composed of 44 employees, represents custodians, groundspersons, and skilled crafts positions. The engineer unit, composed of 10 employees, represents maintenance and operating engineers. The two current agreements both expire on August 31, 1997. These are the only two bargaining units at the College.

## Pension Plans

The College provides retirement benefits to substantially all employees, subject to certain minimum age and service requirements. Certain academic and non-academic personnel are covered under a defined contribution plan described in Section 403(b) of the Internal Revenue Code. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. Both of these plans are defined contribution plans. Therefore, other than the obligation to make the required contributions to these plans, the College has no liability for the benefits payable under the plans. The College has an unfunded pension plan which supplements retirement benefits of certain faculty and staff employees not fully covered by other plans. The unfunded liability under the supplemental plan at May 31, 1996 was approximately \$273,000. Total pension expense for the year ended May 31, 1996 was approximately \$1,458,000 including \$69,000 paid under the unfunded supplemental plan.

## Financial Aid

Approximately 76% of the current student body receives some form of federal, state and College financial aid. For the past five years, the average total financial aid to Macalester students, which includes Macalester grants, loans and student employment, represents 42% to 50% of total costs of attendance. For the 1995/96 Fiscal Year, less than 10% of the total grant awards to students were funded from federal and state sources. Including loans and grants, approximately 25% came from federal and state sources. No assurance can be given that federal and State student financial aid or College aid will continue to be funded at current levels.

On the following page is a five-year history of financial aid awarded to students of the College from all sources, except this table does not include non-need based aid such as SELF and PLUS loans.

	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>
Grants	\$ 7,268,000	\$ 8,664,000	\$ 9,940,000	\$11,168,000	\$12,639,000
Loans	1,972,000	1,966,000	2,380,000	2,306,000	2,341,000
Work-Study	<u>1,298,000</u>	<u>1,383,000</u>	<u>1,412,000</u>	<u>1,410,000</u>	<u>1,498,000</u>
Total	\$10,538,000	\$12,013,000	\$13,732,000	\$14,884,000	\$16,478,000
Percent of Full-Time Students Receiving Aid	73%	74%	75%	76%	76%
Average Award Per Recipient	\$8,370	\$9,392	\$10,610	\$11,379	\$12,797

## **The DeWitt Wallace Fund for Macalester College**

The DeWitt Wallace Fund for Macalester College (the "Wallace Fund") is a New York nonprofit corporation which was formed in 1981 as a tax-exempt supporting organization under Section 509(a)(3) of the Internal Revenue Code exclusively for the purpose of supporting the College. It was funded with gifts of stock of The Reader's Digest Association, Inc. ("Reader's Digest"). In furtherance of its purpose, the Wallace Fund may expend its assets and income in support of or to benefit the College or make distributions of assets and income to the College to support College programs and activities. The Wallace Fund is governed by a board consisting of six directors, two of whom are required to be the President of the College and the Chair or a past Chair of the College's Board of Trustees. Currently, the governing board of the Wallace Fund consists of the President of the College, three past Chairs of the College's Board of Trustees, one of whom continues to serve as a Trustee of the College and chairs the College's Investment Committee, one director of Reader's Digest and one director of the DeWitt Wallace-Reader's Digest Fund.

As of May 31, 1996, the market value of the net assets of the Wallace Fund was estimated at \$388,827,000 (see Note 3 to the Financial Statements of the College included in Appendix VI of this Official Statement).

During fiscal years 1982 through 1989, the College received the dividends from the Reader's Digest stock held by the Wallace Fund. In February 1990, the stock of Reader's Digest began being publicly traded, thus establishing a market and a market value for the Wallace Fund assets. Beginning with the fiscal year of the College ended May 31, 1990, the assets of the Wallace Fund were reported on the College's balance sheet, although legal title to the assets remains with the Wallace Fund and the assets also appear on the balance sheet of the Wallace Fund. As of May 31, 1996, approximately one-third of the principal amount of the Wallace Fund assets, valued at market, were held in diversified investments managed by the College, with the remainder of the assets invested in Reader's Digest stock.

The College's 1996-97 operating budget includes \$17,297,000 in distributions from the Wallace Fund. Distributions for operations for fiscal year 1995-96 totaled \$16,500,000. The President of the College has regularly requested, and the governing board of the Wallace Fund has agreed to, restrictions on the annual distribution which require that the distribution be used for such purposes as student aid, faculty salaries, recruiting expenses, and other purposes which relieve the College of the need to expend its unrestricted funds for those purposes. As a result, unrestricted funds of the College which would otherwise be required for such purposes are freed up for other purposes, including the payment of indebtedness.

Because of the makeup of the governing board of the Wallace Fund, and because the Wallace Fund exists exclusively for the support of the College, the College expects that distributions will continue in the future to be made to the College in a similar manner. It is possible, however, that the governing board of the Wallace Fund could make distributions in support of or to benefit the College, or make distributions to the College, for purposes which do not result in freeing up unrestricted funds of the College. Because the College does not have title to the Wallace Fund assets, no assurance can be given that the Wallace Fund assets will be available to pay Loan Repayments or to pay claims of the College's creditors, except to the extent made available for such purposes through action taken by the governing board of the Wallace Fund.

## Market Value of Endowment Assets

Following is the combined market value of the College's endowment assets and the Wallace Fund assets (excluding annuities and life income) as of May 31 for the past five fiscal years. (See notes to financial statements and Schedule 1 in Appendix VI.)

<u>Fiscal Year</u>	<u>Wallace Fund</u>	<u>College Endowment</u>	<u>Total</u>
1996	\$384,175,380	\$123,646,774	\$507,822,154
1995	371,619,602	112,807,584	484,427,186
1994	365,619,134	105,318,667	470,937,801
1993	373,275,594	103,080,382	473,355,976
1992	395,547,673	84,694,314	480,241,987

A major portion of the Wallace Fund is invested in Reader's Digest non-voting common stock. As of May 31, 1996, the Reader's Digest stock held in the Wallace Fund had a market value of approximately \$252.5 million, which declined to approximately \$137 million as of April 30, 1997. As a result of the decline in market value of the Reader's Digest stock, which was offset in part by the appreciation of other investments, the combined market value of the Wallace Fund assets and the College's endowment assets is estimated at approximately \$410 million as of April 30, 1997 as compared to a combined market value of \$507,822,154, for the same funds, as of the most recently completed audit, May 31, 1996.

According to a survey conducted by the National Association of College and University Business Officers (NACUBO), the College ranked 48th among 446 higher education institutions and foundations reporting on the total market value of total endowment assets at the end of Fiscal Year 1996 and is the sixth highest ranked in that list of any independent liberal arts college. The rankings take into account the Wallace Fund.

## Gifts and Grants

Gifts and grants revenues, exclusive of distributions from the Wallace Fund, received by fund for the past six years as reported in the annual financial statements of the College have been:

<u>Year Ended</u>	<u>Current Funds</u>		<u>Endowment</u>	<u>Deferred</u>	<u>Plant</u>	<u>Total</u>
<u>May 31</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Funds</u>	<u>Gift Funds</u>	<u>Funds</u>	
1991	\$2,186,969	\$1,239,971	\$2,623,477	\$1,232,121	\$ 799,598	\$8,082,136
1992	2,146,526	1,276,718	1,277,216	8,151	416,977	5,125,588
1993	1,690,528	1,366,782	1,925,698	130,107	437,836	5,550,951
1994	1,484,167	835,193	313,891	463,556	164,614	3,261,421
1995	1,238,885	845,010	144,152	433,788	1,169,051	3,830,886
1996	1,390,127	793,092	864,272	1,237,578	659,182	4,944,251

## Presentation of Financial Statements

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

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

actual cash or property was received. The College prospectively adopted the provisions of SFAS #116, which is shown as a cumulative effect of change in accounting principals. The total amount reported as pledges receivable year ended May 31, 1996, was \$5,292,000. This amount includes \$1,528,000 from prior years.

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

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

SFAS #117 permitted much flexibility in the presentation of the statement of activities. The College chose a presentation which is more compatible with prior years because it more closely follows management practices at the College. Therefore, the prior years' current funds equate to the operations category, endowment equates to the current investments category, and prior years plant funds equate to plant category.

SFAS #124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, requires that the College report investments on a current market basis.

The College adopted SFAS #117 and SFAS #124 effective June 1, 1995, and restated its originally reported fiscal year 1995 financial statements to conform to the new standards, with the exception of Statement of Cash Flows, which is presented for the current fiscal year only.

Note 2 in the Notes to Financial Statements date May 31, 1996, includes an explanation of the restatement of the fund balances for SFAS #117 and SFAS #124 as previously reported at June 1, 1994. There is also further discussion of the accounting policies related to the changes brought about by the new SFAS statements.

Appendix VI sets forth the financial statements of the College for the year ended May 31, 1996, audited by KPMG Peat Marwick, Certified Public Accountants, Minneapolis, Minnesota and prepared in accordance with SFAS No. 116 and SFAS No. 117. The firm has not participated in the preparation of this Official Statement and expresses no opinion on its contents.

### **Summaries of Current Funds Revenues, Expenditures and Other Changes for Fiscal Years 1992 through 1995**

The following two tables set forth summaries of revenues, expenditures and other changes for the College's Unrestricted Current Fund, and the total Unrestricted and Restricted Current Funds for Fiscal Years 1992 through 1995 which were maintained and presented on the fund accounting system.



**MACALESTER COLLEGE**  
**SUMMARY STATEMENT OF UNRESTRICTED CURRENT FUND**  
**REVENUES, EXPENDITURES AND OTHER CHANGES**

For the Years Ended May 31,

	1992	1993	1994	1995	1996
<b>REVENUES:</b>					
Tuition and fees	\$23,548,465	\$24,516,708	\$26,303,292	\$27,503,695	
Private Gifts, Grants and Contracts	2,146,526	1,690,528	1,484,167	1,238,885	
Endowment Income	801,121	621,239	938,348	1,131,176	
Investment Income	411,128	274,004	309,497	358,640	See
Realized Net Gains (Losses) on Investments	(2,839)	419,935	(10,714)	(11,139)	
Sales and Services of Aux. Enterprises	4,897,441	4,870,949	4,941,526	5,168,038	"Statement
Other Sources	238,193	231,561	204,083	226,791	
Matured Annuity	<u>25,921</u>	<u>49,285</u>	<u>—</u>	<u>12,712</u>	of
Total Revenue	<u>32,065,956</u>	<u>32,674,209</u>	<u>34,170,199</u>	<u>35,628,798</u>	Activities",
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>					
Educational and General					Operations
Instruction	4,848,496	4,930,509	5,583,719	4,456,288	
Public Service	176,485	164,814	207,399	218,339	Column
Academic Support	1,583,682	1,708,298	2,116,361	2,376,344	
Student Services	3,319,121	3,493,243	3,836,261	4,130,950	in
Institutional Support	4,514,595	4,791,474	5,656,488	5,705,224	
Operation and Maintenance	2,273,442	2,446,988	2,605,785	2,595,350	Appendix
Student Aid, Scholarships and Prizes	<u>2,657,584</u>	<u>1,507,865</u>	<u>1,615,901</u>	<u>2,515,513</u>	
Educational and General Expenditures	<u>19,373,405</u>	<u>19,043,191</u>	<u>21,621,914</u>	<u>21,998,008</u>	VI,
Mandatory Transfers for:					
Endowment	—	—	—	—	
Prior Year Gift Redesignation	—	—	—	—	Financial
Principal and Interest	<u>446,938</u>	<u>1,027,449</u>	<u>776,979</u>	<u>890,595</u>	
Total Educational and General	<u>19,820,343</u>	<u>20,070,640</u>	<u>22,398,893</u>	<u>22,888,603</u>	Statements
Auxiliary Enterprises					for the year
Expenditures	3,889,470	3,785,134	3,938,358	4,125,347	
Mandatory Transfers for					ended
Principal and Interest	200,328	207,163	206,652	203,411	
Renewals and Replacements	<u>38,802</u>	<u>38,802</u>	<u>38,802</u>	<u>38,802</u>	May 31, 1996.
Total Auxiliary Enterprises	<u>4,128,600</u>	<u>4,031,099</u>	<u>4,183,812</u>	<u>4,367,560</u>	
Total Expenditures and Mandatory Transfers	<u>23,948,943</u>	<u>24,101,739</u>	<u>26,582,705</u>	<u>27,256,163</u>	
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):</b>					
Transfer to Current Restricted Fund	—	(115,000)	—	—	
Transfers to Plant Fund	(7,004,638)	(1,025,264)	(7,098,204)	(8,006,852)	
Transfers To Quasi-Endowment Funds	<u>(1,083,197)</u>	<u>(7,380,779)</u>	<u>(361,512)</u>	<u>(1,307,577)</u>	
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<u>29,178</u>	<u>51,427</u>	<u>127,778</u>	<u>(941,794)</u>	
<b>FUND BALANCE—BEGINNING OF YEAR</b>	<u>1,223,731</u>	<u>1,252,909</u>	<u>1,304,336</u>	<u>1,432,114</u>	
<b>FUND BALANCE—END OF YEAR</b>	<u>\$1,252,909</u>	<u>\$1,304,336</u>	<u>\$1,432,114</u>	<u>\$490,320</u>	

Source: Audited financial statements of the College.

**MACALESTER COLLEGE**  
**SUMMARY STATEMENT OF UNRESTRICTED AND RESTRICTED CURRENT FUNDS**  
**REVENUES, EXPENDITURES AND OTHER CHANGES**

For the Years Ended May 31,

	1992	1993	1994	1995	1996
<b>REVENUES:</b>					
Tuition and fees	\$23,576,388	\$24,617,876	\$26,433,352	\$27,631,165	
Federal Grants and Contracts	1,363,001	1,856,506	1,604,673	1,527,071	
State Grants and Contracts	50,759	55,618	688,847	644,868	
Private Gifts, Grants and Contracts	3,369,861	2,972,226	2,539,815	2,183,769	
Endowment Income	12,876,886	15,986,489	18,200,322	20,434,858	
Investment Income	448,552	316,813	351,912	410,766	
Realized Net Gains (Losses) on Investments	(2,839)	419,935	(10,714)	(11,139)	See
Sales and Services of Aux. Enterprises	4,902,886	4,879,055	4,949,001	5,171,982	"Statement
Matured Life Income	25,921	49,285	-	12,712	of
Other Sources	381,453	463,320	372,227	455,474	
Total Revenue	46,992,868	51,617,123	55,129,435	58,461,526	Activities",
<b>EXPENDITURES AND MANDATORY TRANSFERS:</b>					Operations
Educational and General					Column
Instruction	12,035,747	12,727,805	13,836,011	14,271,752	in
Research	482,644	541,724	527,482	546,400	Appendix VI,
Public Service	251,940	232,334	291,261	285,393	Financial
Academic Support	2,311,735	2,494,518	2,837,690	3,161,043	Statements
Student Services	4,368,447	4,645,231	5,191,756	5,485,437	for the year
Institutional Support	4,774,725	5,219,594	6,064,888	6,117,211	ended
Operation and Maintenance	2,343,899	2,569,254	2,692,066	2,684,372	May 31, 1996.
Student Aid, Scholarships and Prizes	7,662,669	9,101,893	11,049,006	12,224,384	
Educational and General Expenditures	34,231,806	37,532,353	42,490,160	44,775,992	
Mandatory Transfers for:					
Endowment	36,543	59,897	-	41,127	
Principal and Interest	446,938	1,027,449	776,979	890,595	
Plant Fund	-	345,455	-	-	
Total Educational and General	34,715,287	38,965,154	43,267,139	45,707,714	
Auxiliary Enterprises					
Expenditures	3,921,438	3,833,534	4,029,348	4,138,964	
Mandatory Transfers for					
Principal and Interest	200,328	207,163	206,652	203,411	
Renewals and Replacements	38,802	38,802	38,802	38,802	
Total Auxiliary Enterprises	4,160,568	4,079,499	4,274,802	4,381,177	
Total Expenditures and Mandatory Transfers	38,875,855	43,044,653	47,541,941	50,088,891	
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):</b>					
Excess of Restricted Additions					
Over Expenditures	3,135,017	1,067,573	366,384	1,163,680	
Transfers to Plant Fund	(7,004,638)	(1,025,264)	(7,098,204)	(8,006,852)	
Transfers To Quasi-Endowment Funds	(3,877,547)	(8,354,687)	(833,129)	(1,967,346)	
<b>NET INCREASE (DECREASE) IN FUND BALANCES</b>	369,845	260,092	22,545	(437,883)	
<b>FUND BALANCES-BEGINNING OF YEAR</b>	4,580,827	4,950,672	5,210,764	5,233,309	
<b>FUND BALANCES-END OF YEAR</b>	\$4,950,672	\$5,210,764	\$5,233,309	\$4,795,426	

Source: Audited financial statements of the College.

## Long-Term Debt of the College

As of April 1, 1997, the College's total long-term debt outstanding, adjusted to include the Bonds, is \$45,405,000.

1. \$2,850,000 Macalester College Dormitory Bonds of 1962 at 3-3/8%; purchased by U.S. Department of Housing and Urban Development; final maturity due May 1, 2002; \$720,000 is outstanding. The bonds are secured by mortgage liens on and a security interest in revenues of three residence halls and the dining room facilities; the College is required to annually transfer \$30,000 to a repair and replacement reserve.
2. Two College Housing Program loans purchased by the U.S. Department of Housing and Urban Development. The first of such loans, obtained in 1979, was in the original principal amount of \$198,200 and is secured by a pledge of the gross revenues of Macalester College Stadium (the "Stadium") and a mortgage on the Stadium, the furniture, furnishings and equipment therein and a portion of the track and field facilities. The second of such loans, obtained in August of 1980, was in the original principal amount of \$682,000 and is secured by a second mortgage on the same mortgaged property and a pledge of the first \$36,879.15 of revenues derived from annual student tuition. The principal balance outstanding at May 31, 1996 under both loans is \$640,000. Both loans bear interest at 3% per annum, and the aggregate annual debt service for both loans is \$38,044.00.
3. \$15,670,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Three-J (Macalester College), dated June 1, 1992, at 6.33% average interest rate; final maturity due March 1, 2022. The Series Three-J Bonds are secured by the full faith and credit of the College and a debt service reserve fund of \$1,300,120. \$15,485,000 is outstanding.
4. \$6,660,000 Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Three-Z (Macalester College), dated September 15, 1994. Holders may tender bonds on seven days' notice; interest is re-set weekly; final maturity due 2024. \$6,660,000 is outstanding.
5. \$11,245,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-C (Macalester College), dated November 1, 1995, at 5.48% average interest rate; final maturity due March 1, 2016. The Series Four-C Bonds are secured by the full faith and credit of the College. \$10,900,000 is outstanding.
6. The Bonds

## Annual Debt Service by Fiscal Year and Coverage Statement

The table on page I-17 sets forth the debt service on the Bonds and debt service on the College's currently outstanding long-term debt for each fiscal year during the term of the Bonds. Column 6 shows coverage of such annual debt service by the amount of College revenue that was available for debt service for the year ended May 31, 1996, as further detailed in footnote (c) of the table. Actual long-term debt of the College is expected to increase in the future as additional capital projects are undertaken.

**This table is intended merely to show the relationship of historic annual revenues of the College available for the payment of debt service to a proforma statement of combined annual debt service of the College after giving effect to the issuance of the Bonds based on an assumed interest rate and amortization schedule with respect to the Bonds and an assumed interest rate and amortization on the Series Three-Z Bonds. The table is not**

**intended and should not be considered a projection of future revenues, expenses, debt service or debt service coverage of the College. There is no assurance that the future revenues, expenses, debt service and debt service coverage of the College or the respective relationships thereof will correspond to the revenues, expenses and debt service or the respective relationships thereof shown by or reflected in the following table.**

**Minnesota Higher Education Facilities Authority**  
**Series Four-J, Macalester College**  
**Annual Debt Service by Fiscal Year and Coverage Statement**

Fiscal Year Ending May 31,	Debt Service on the Bonds	Existing Long Term Debt Service (a)	Combined Long Term Debt Service	Amount Available For Debt Service (b)	Coverage (Times)
(1)	(2)	(3)	(4)	(5)	(6)
1996	0	\$ 1,854,497	\$ 1,854,497	\$ 9,815,000	5.29
1997	0	2,664,559	2,664,559	9,815,000	3.68
1998	762,042	2,776,324	3,538,366	9,815,000	2.77
1999	917,529	2,765,906	3,683,435	9,815,000	2.66
2000	916,604	2,668,299	3,584,903	9,815,000	2.74
2001	914,266	2,862,526	3,776,792	9,815,000	2.60
2002	915,836	2,768,706	3,684,542	9,815,000	2.66
2003	916,236	2,771,817	3,688,053	9,815,000	2.66
2004	915,446	2,774,959	3,690,405	9,815,000	2.66
2005	918,446	2,774,122	3,692,568	9,815,000	2.66
2006	914,964	2,769,422	3,684,386	9,815,000	2.66
2007	914,986	2,771,054	3,686,040	9,815,000	2.66
2008	918,466	2,772,272	3,690,738	9,815,000	2.66
2009	914,846	2,769,289	3,684,135	9,815,000	2.66
2010	914,336	2,775,369	3,689,705	9,815,000	2.66
2011	916,611	2,771,344	3,687,955	9,815,000	2.66
2012	917,749	2,777,494	3,695,243	9,815,000	2.66
2013	917,005	2,772,882	3,689,887	9,815,000	2.66
2014	918,155	2,767,457	3,685,612	9,815,000	2.66
2015	917,085	2,776,262	3,693,347	9,815,000	2.66
2016	913,795	2,777,279	3,691,074	9,815,000	2.66
2017	918,285	1,841,259	2,759,544	9,815,000	3.56
2018	0	1,839,927	1,839,927	9,815,000	5.33
2019	0	1,843,667	1,843,667	9,815,000	5.32
2020	0	1,842,007	1,842,007	9,815,000	5.33
2021	0	1,806,725	1,806,725	9,815,000	5.43
2022	0	1,808,445	1,808,445	9,815,000	5.43
2023	0	508,590	508,590	9,815,000	19.30
2024	0	510,240	510,240	9,815,000	19.24
<b>Totals:</b>	<b>\$ 18,172,688</b>	<b>\$ 69,182,699</b>	<b>\$ 87,355,387</b>		

(a) Includes the Series Three-Z Bonds which are in a variable interest rate mode. Although there is no required amortization of principal on the Series Three-Z Bonds before their maturity on March 1, 2024, debt service is shown here as if the Series Three-Z Bonds were amortized with level debt service as fixed-rate serial bonds at 6.15%, which is the rate the College, upon advice of the financial advisor, expects the Series Three-Z Bonds could be refinanced at the present time on a fixed-rate, tax-exempt basis.

(b) Calculation of Amount Available for Debt Service for Fiscal Year Ended May 31, 1996:

Increase in Unrestricted Net Assets:	<u>\$ 9,503,000</u>
Plus:	
Depreciation	2,011,000
Debt Service Interest	1,579,000
Less:	
Cumulative Effect of Accounting Change	(552,000)
Unrealized Gains on Investments	<u>(2,726,000)</u>
<b>Amount Available for Debt Service:</b>	<b><u>\$ 9,815,000</u></b>

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## PROPOSED FORM OF LEGAL OPINION

## FAEGRE &amp; BENSON LLP

2200 NORWEST CENTER, 90 SOUTH SEVENTH STREET  
 MINNEAPOLIS, MINNESOTA 55402-3901  
 TELEPHONE 612-336-3000  
 FACSIMILE 612-336-3026

\$ \_\_\_\_\_  
 Minnesota Higher Education Facilities Authority  
 Revenue Bonds, Series Four-J  
 (Macalester College)

We have acted as bond counsel in connection with the issuance by the Minnesota Higher Education Facilities Authority (the "Authority") of its fully registered (initially book-entry) Revenue Bonds, Series Four-J (Macalester College), in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds"), dated May 1, 1997, in the denomination of \$5,000 each and integral multiples thereof, maturing on March 1 in the years and amounts and bearing interest at the basic rates per annum as follows:

<u>March 1</u> <u>of the Year</u>	<u>Amount</u>	<u>Basic</u> <u>Interest</u> <u>Rate</u>	<u>March 1</u> <u>of the Year</u>	<u>Amount</u>	<u>Basic</u> <u>Interest</u> <u>Rate</u>
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The Bonds are subject to optional redemption prior to the stated maturities thereof as provided in the Bonds and the Indenture. The Bonds due in the years \_\_\_\_\_ and \_\_\_\_\_ shall be redeemed through operation of the mandatory Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account provided for in the Indenture, as defined below. Interest on the Bonds is payable on each March 1 and September 1, commencing September 1, 1997. In the event of a Determination of Taxability (as defined in the Loan Agreement and Trust Indenture referred to below), the Bonds are subject to additional interest and optional redemption. Interest is payable by check or draft mailed or sent by wire transfer to the registered owner, and principal is payable at the principal corporate trust office of Norwest Bank Minnesota, National Association, in Minneapolis, Minnesota, as Trustee (the "Trustee"). The Bonds are issued for the purpose of funding a loan from the Authority to Macalester College, a Minnesota nonprofit corporation and institution of higher education located in the City of St. Paul, Minnesota (the "College"), in order to finance improvement of existing facilities and acquisition, construction and installation of new facilities, all owned or

to be owned and operated by the College and located on its main campus in St. Paul, Minnesota. We have examined executed counterparts of the Loan Agreement (the "Loan Agreement") between the Authority and the College and the Trust Indenture (the "Indenture") between the Authority and the Trustee each dated as of May 1, 1997, one or more opinions of Moore, Costello & Hart P.L.L.P. as counsel to the College, the form of the Bonds prepared for execution, and such other documents as we deemed necessary for the purpose of the following opinion.

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

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

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

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

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

3. The Bonds are secured by the assignment of the loan repayments payable by the College under the Loan Agreement to the Trustee, scheduled to be made in amounts and at times sufficient (if timely paid in full) to pay the principal of and interest on the Bonds when due, and by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payment held by the Trustee, as assignee, under the Loan Agreement.



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

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

Dated at Minneapolis, Minnesota, \_\_\_\_\_, 1997.

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**ANNUAL REPORT INFORMATION  
TO BE PROVIDED AS CONTINUING DISCLOSURE**

The Annual Report Date will be 270 days after each fiscal year end, commencing with the fiscal year ended May 31, 1997. The Annual Report will contain:

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

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DEFINITION OF CERTAIN TERMS

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

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

*Authority:* The Minnesota Higher Education Facilities Authority.

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

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

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

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

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

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

*Bond Resolution:* The Series Resolution of the Authority adopted on April 16, 1997, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

*Bonds:* Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-J (Macalester College).

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

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

*College:* Macalester College, a Minnesota nonprofit corporation, its successors and assigns.

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

*Date of Taxability:* The date as of which the interest on the Series Four-J Bonds is determined to be includable in the gross income of the Owners thereof, provided that no Series Four-J Bond shall bear additional interest for any period for which the statute of limitations shall be a bar to the assertion or collection of a deficiency of federal income taxes from the Owner of such Bond.

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

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

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

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

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

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

*Indenture:* The Trust Indenture between the Authority and Norwest Bank Minnesota, National Association, as Trustee, dated as of May 1, 1997, under which the Bonds are authorized to be issued, and including any indenture supplemental thereto.

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

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

*Issue:* The Bonds.

*Loan Agreement:* The Loan Agreement between the Authority and the College dated as of May 1, 1997, as amended or supplemented from time to time.

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

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

*Permitted Encumbrances:* As of any particular time, (i) liens for ad valorem taxes and special assessments not then delinquent, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that an independent engineer certifies will not interfere with or impair the use of or operations being conducted in the Project Facilities, (iii) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to properties similar in character to the Project Facilities (including, with respect to Project Equipment, purchase money security interests and equipment

leases), and as do not in the aggregate, in the opinion of independent counsel, materially impair the property affected thereby for the purposes for which it was acquired or is held by the College and (iv) those additional encumbrances set forth in Exhibit C to the Loan Agreement.

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

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

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

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

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

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

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

*Series Four-J Bonds:* The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Four-J (Macalester College).

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

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

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

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**SUMMARY OF DOCUMENTS****THE LOAN AGREEMENT**

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

**Construction of Project**

The College represents that the acquisition, construction and installation of the Project are to be substantially completed by no later than August 31, 1999, although Bond proceeds are expected to be expended by August 31, 1998, subject only to "force majeure," as provided in the Loan Agreement. The College may apply to the Authority at any time to delete from the Project any building, system or equipment proposed to be acquired, constructed or improved as part of the Project, or to add any building, system or equipment to the Project, or both, and upon approval of the Authority, the description of the Project shall accordingly be amended by a supplement to the Loan Agreement executed by the Authority and the College, a copy of which shall be furnished to the Trustee, provided that no such amendment of the description of the Project shall be approved if the Project, as so amended, will not constitute an authorized "project" under the Act or will adversely affect the tax exempt status of interest on the Bonds and an opinion of counsel to such effects is furnished. The College agrees that it has previously paid or will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs exceed the proceeds of the Bonds, including investment earnings in the Construction Account.

**Loan Repayments**

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

- (a) At least 10 business days prior to each March 1 and September 1, commencing September 1, 1997, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest, or as principal and interest, on the Series Four-J Bonds on the next succeeding interest payment date, provided however, that there shall be credited against such obligations (i) the net amount of funds and investments then on deposit to the credit of the Bond and Interest Sinking Fund Account, and (ii) any credits permitted by Sections 5.02, 5.03 or 5.04 of the Indenture (relating to the transfer to the Bond and Interest Sinking Fund Account of certain investment earnings and certain excess funds); and
- (b) on or prior to a date established for the redemption and prepayment of the Bonds, into the Redemption Account such amount, if any, as shall be necessary and sufficient to provide for the redemption of any Series Four-J Bonds called for redemption from the Redemption Account; and

- (c) forthwith into the Bond and Interest Sinking Fund Account or Redemption Account, as appropriate, the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account or Redemption Account on any Bond principal or interest payment date are for any reason insufficient to pay principal, premium (if any) and interest on the Series Four-J Bonds then due or then to become due (whether at maturity, or by call for redemption, or by acceleration of maturity); and
- (d) into any fund or account designated by the Trustee funds in the amount determined by the Trustee to be necessary to comply with the provisions of Section 6.09(f) of the Loan Agreement and Section 5.05 of the Indenture (relating to arbitrage rebate); and
- (e) at least 10 business days prior to each March 1, commencing March 1, 2011 into the Sinking Fund Subaccount of the Bond and Interest Sinking Fund Account, the amount, if any, as shall be necessary and sufficient to redeem on the next succeeding March 1, at par plus accrued interest, the amount of the Series Four-J Bonds specified in the Indenture.

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

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

### **Use of Project Facilities**

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

### **Maintenance of Project Facilities**

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

### **Title to Property and Liens**

Except for Permitted Encumbrances, the College will not permit any liens to be established or to remain against the Project Facilities including any mechanics liens for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the College may in good faith contest any liens filed or established against the Project Facilities and may permit the items so contested to remain

undischarged and unsatisfied during the period of such contest unless the Authority or Trustee shall notify the College that, in the opinion of independent counsel, by nonpayment of any such items the Project Facilities will be subject to loss or forfeiture, in which event the College shall promptly pay all such items. To the extent certain Project Equipment become fixtures of College buildings which are not Project Buildings, liens and encumbrances may be placed on such Project Equipment.

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

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

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

### **Insurance**

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

- (a) Insurance against loss and/or damage to the Project Facilities and contents, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to \$250,000.
- (b) Comprehensive general public liability insurance against liability for personal injury in the minimum amount for each occurrence of \$5,000,000 and aggregate for each year of \$5,000,000, with a deductible amount of not more than \$250,000 per occurrence, and against liability for property damage in the minimum amount for each occurrence of \$100,000.
- (c) Workers' compensation insurance in such amount as is customarily carried by organizations in like activities of comparable size and liability exposure to the College.

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

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

## **Damage or Destruction**

If the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than \$250,000, the College will promptly repair, rebuild or restore the property damaged or destroyed with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the claim for loss resulting from such damage or destruction exceeds \$250,000, the College shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

If the Bonds are redeemed, the available Net Proceeds or (if less) the prorata portion in respect of any Project Building shall be used for redemption or purchase of outstanding Bonds. For purposes of the provision, "prorata portion" shall mean the following percentages of the principal amount of outstanding Bonds: all or parts of the new residence hall 40%; and all or parts of Wallace and Bigelow Halls 10%.

## **Condemnation**

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

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

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

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

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

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

### **Indemnification**

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

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

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

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

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

The College has represented that the sum of the principal amount of the Bonds, plus the respective outstanding aggregate principal amounts of all tax-exempt non-hospital bonds issued on behalf of or for the benefit of the College and all organizations under common management or control with the College (other than qualified hospital bonds), within the meaning of Section 145 of the Internal Revenue Code, does not exceed \$150,000,000. Under the Loan Agreement, unless the College obtains an opinion of nationally recognized bond counsel that the tax-exempt status of the Bonds will not be affected, in no event will the College affiliate or consolidate with or merge into another corporation or sell or otherwise transfer to another institution all or substantially all of its assets as an entirety if the effect of any such transaction would be to cause the sum of the principal amount of the Bonds, plus the respective

outstanding aggregate principal amounts of all tax-exempt bonds issued by or on behalf of the College or such other resulting entity, and all organizations under common management or control with the College or such resulting entity (other than qualified hospital bonds), within the meaning of Section 145 of the Internal Revenue Code, to exceed \$150,000,000 and if the effect of exceeding such amount would be to adversely affect the tax-exempt status of the Bonds.

### **Federal Income Tax Status**

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

### **Institution To Be Nonsectarian**

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

### **Determination of Taxability**

In the event a Determination of Taxability is made that interest payable on the Bonds is includable in gross income for purposes of federal income taxation under the provisions of the Internal Revenue Code and regulations thereunder as in effect at the date of issuance of the Bonds, the Bonds shall bear additional interest at the rate of two percent (2.00%) per annum from the Date of Taxability until the respective dates on which the principal of the Bonds is paid. In addition, in the event of such Determination of Taxability, the Bonds shall be subject to optional redemption, in integral multiples of \$5,000, as a whole or in part on the next date for which due notice can be given or any date thereafter and the redemption price in either event shall be equal to par plus accrued interest (including additional interest from the Date of Taxability). If a Determination of Taxability should occur, any monetary damage or loss resulting from or incident thereto shall be limited to the stepped-up interest rate, as more fully set forth in the Loan Agreement.

### **Other Covenants**

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

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

## Events of Default

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

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

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

## **Remedies on Default**

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

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

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

## **Amendments**

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

## **THE INDENTURE**

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

## **Granting Clauses**

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

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



## **Accounts**

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

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

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

## **Additional Bonds**

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

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

## **Covenants of the Authority**

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

## **Events of Default**

The following are Events of Default under the Indenture:

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

## **Remedies**

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

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

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the

Bonds, to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of its rights or any of the rights of the Bondholders. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of the Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

### **Concerning the Trustee**

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

### **Concerning the Bondholders**

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

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

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

## **Defeasance**

If the Authority and the College shall:

- (a) pay or cause to be paid the principal of, and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal and interest, if any, on the outstanding Bonds by depositing with the Trustee at or at any time before maturity an amount either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due for principal and premium, if any, and interest to maturity of all Bonds outstanding, or
- (c) deliver to the Trustee (1) proof that notice of redemption of all of the outstanding Bonds not surrendered or to be surrendered to it for cancellation has been given or waived, or that arrangements have been made insuring that such notice will be given or waived, or (2) a written instrument executed by the College for the Authority and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Authority, or (3) file with the Trustee a waiver of such notice of redemption signed by the Holders of all such outstanding Bonds, and in any case, deposit with the Trustee before the date on which such Bonds are to be redeemed, the entire amount of the redemption price, including interest accrued and to accrue, and premium, if any, either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of the redemption price on the date such Bonds are to be redeemed and on any interest payment dates, or
- (d) surrender to the Trustee for cancellation all Bonds for which payment is not so provided,

and shall also pay or provide for the payment of the unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148 of the Internal Revenue Code, then at the request of the Authority or the College all the Trust Estate shall revert to the Authority and the College as their interests appear, and the entire estate, right, title and interest of the Trustee, and of registered owners of such Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all such Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent (and, in the case of defeasance under paragraph (b) above, as to effect on tax exempt status), and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

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

## **Supplemental Indentures**

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

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

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

## **Amendments to the Loan Agreement**

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

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

## **Registration**

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

**AUDITED FINANCIAL STATEMENTS**

# KPMG Peat Marwick LLP

4200 Norwest Center  
90 South Seventh Street  
Minneapolis, MN 55402

## Independent Auditors' Report

The Board of Trustees  
Macalester College:

We have audited the accompanying statement of financial position of Macalester College (the College) as of May 31, 1996 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 1996, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 2 to the financial statements, the College adopted the provisions of the Financial Accounting Standards Board's Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, and SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*, during the year.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*KPMG Peat Marwick LLP*

August 2, 1996



**Macalester College**  
**Statement of Financial Position**  
**May 31, 1996 with comparative figures at May 31, 1995**  
(in thousands of dollars)

	Operations	Investments	Plant	1996 Total	1995 Total
<b>Assets</b>					
Cash and cash equivalents	\$ 7,364	1,196	10,514	19,074	\$ 17,799
Accrued investment income	2,215	62	47	2,324	2,355
Prepaid expenses	301	-	706	1,007	760
Notes and accounts receivable, net of allowance for doubtful receivables of \$700 (\$636 in 1995)	1,890	3,402	-	5,292	5,234
Pledges receivable	560	1,994	2,021	4,575	-
Long-term investments	-	141,598	-	141,598	124,624
Real estate	-	1,999	-	1,999	4,938
Land, building and equipment, net of accumulated depreciation	-	-	76,254	76,254	62,437
Investments owned by DeWitt Wallace Fund for Macalester College	-	384,175	-	384,175	371,620
<b>Total assets</b>	<b>\$ 12,330</b>	<b>534,426</b>	<b>89,542</b>	<b>636,298</b>	<b>\$ 589,767</b>
<b>Liabilities and net assets</b>					
Accounts payable and accrued expenses	\$ 6,749	2,077	425	9,251	\$ 8,050
Deposits	388	2	-	390	323
Agency deposits	88	-	-	88	214
Government grants refundable	-	3,045	-	3,045	2,941
Bonds and mortgages payable	-	-	34,959	34,959	23,874
<b>Total liabilities</b>	<b>7,225</b>	<b>5,124</b>	<b>35,384</b>	<b>47,733</b>	<b>35,402</b>
<b>Net assets</b>					
<b>Unrestricted</b>					
For operations	2,241	-	-	2,241	2,016
For investment in plant	-	-	5,906	5,906	5,592
For long term investments	-	40,765	-	40,765	37,863
For debt service	-	-	1,034	1,034	880
Net investment in plant	-	-	43,743	43,743	40,561
Unrealized gain on investments	-	12,074	-	12,074	9,349
<b>Total unrestricted</b>	<b>2,241</b>	<b>52,839</b>	<b>50,683</b>	<b>105,763</b>	<b>96,261</b>
<b>Temporarily restricted</b>					
For operations	2,864	-	-	2,864	2,775
For investment in plant	-	-	3,475	3,475	315
For long term investments	-	9,303	-	9,303	8,952
<b>Total temporarily restricted</b>	<b>2,864</b>	<b>9,303</b>	<b>3,475</b>	<b>15,642</b>	<b>12,042</b>
<b>Permanently restricted</b>					
For long term investments	-	349,225	-	349,225	337,146
Unrealized gain on investments	-	117,935	-	117,935	108,916
<b>Total permanently restricted</b>	<b>-</b>	<b>467,160</b>	<b>-</b>	<b>467,160</b>	<b>446,062</b>
<b>Total net assets</b>	<b>5,105</b>	<b>529,302</b>	<b>54,158</b>	<b>588,565</b>	<b>554,365</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,330</b>	<b>534,426</b>	<b>89,542</b>	<b>636,298</b>	<b>\$ 589,767</b>

See accompanying notes to financial statements.

**Macalester College**
**Statement of Activities**

Year ended May 31, 1996 with

comparative figures at May 31, 1995

(in thousands of dollars)

	Operations	Investments	Plant	1996 Total	1995 Total
Changes in unrestricted net assets:					
Revenue:					
Tuition and fees	\$ 28,500	-	-	28,500	\$ 27,504
Less: Student Aid and Scholarship	(11,602)	-	-	(11,602)	(10,914)
Net tuition and fees	16,898			16,898	16,590
Federal grants and contracts	937	-	-	937	1,184
State grants and contracts	38	-	-	38	23
Private gifts and grants	1,633	-	-	1,633	1,545
Endowment income	1,212	-	-	1,212	1,131
Sales and service of auxiliary enterprises	5,584	-	-	5,584	5,172
Other sources	497	-	20	517	465
Investment income	361	-	237	598	491
Realized gains on investments	(5)	2,072	-	2,067	732
Unrealized gains on investments	-	2,726	-	2,726	2,404
Net assets released from restrictions	22,010	1,940	39	23,989	22,195
Total revenue	49,165	6,738	296	56,199	51,932
Expenses:					
Instruction	14,730	-	744	15,474	14,372
Research	735	-	-	735	546
Public service	366	-	23	389	308
Academic support	3,385	-	283	3,668	3,431
Student services	6,026	-	889	6,915	6,298
Institutional support	6,429	-	919	7,348	7,030
Operation and maintenance of plant	2,853	-	2,890	5,743	4,798
Auxiliary enterprises	4,419	212	563	5,194	5,211
Administration and other expenses	-	41	54	95	127
Paid to beneficiaries	-	1,687	-	1,687	689
Total expenses	38,943	1,940	6,365	47,248	42,810
Transfers among reporting categories:					
Principal and interest	(1,822)	-	1,822	-	-
Renewals and replacements	(39)	-	39	-	-
Capital improvements	(7,940)	-	7,940	-	-
Long-term investments	(748)	830	(82)	-	-
Total transfers	(10,549)	830	9,719	-	-
Increase in unrestricted net assets before cumulative effect of change in accounting principles	(327)	5,627	3,650	8,951	9,122
Cumulative effect of change in accounting principles	552	-	-	552	-
Increase in unrestricted net assets	225	5,627	3,650	9,503	9,122
Unrestricted net assets beginning of year	2,016	47,212	47,033	96,261	87,139
Unrestricted net assets at end of year	\$ 2,241	52,839	50,683	105,764	\$ 96,261

(continued)

See accompanying notes to financial statements.

**Macalester College**  
**Statement of Activities**  
(in thousands of dollars)

	<u>Operations</u>	<u>Investments</u>	<u>Plant</u>	<u>1996 Total</u>	<u>1995 Total</u>
Changes in temporarily restricted net assets:					
Federal grants and contracts	\$ -	-	500	500	\$ -
Private gifts and grants	545	-	1,717	2,262	1,935
Endowment income	21,837	-	19	21,856	20,192
Other sources	4	-	-	4	10
Investment income	51	-	-	51	46
Net assets released from restrictions	(22,010)	-	(39)	(22,049)	(20,888)
Transfers among reporting categories	<u>(351)</u>	<u>351</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in temporarily restricted net assets before cumulative effect of change in accounting principles	76	351	2,197	2,624	1,295
Cumulative effect of change in accounting principles	<u>13</u>	<u>-</u>	<u>963</u>	<u>976</u>	<u>-</u>
Net change in temporarily restricted net assets	89	351	3,160	3,600	1,295
Temporarily restricted net assets beginning of year	<u>2,775</u>	<u>8,952</u>	<u>315</u>	<u>12,042</u>	<u>10,747</u>
Temporarily restricted net assets at end of year	<u>\$ 2,864</u>	<u>9,303</u>	<u>3,475</u>	<u>15,642</u>	<u>\$ 12,042</u>
Changes in permanently restricted net assets:					
Private gifts and grants	\$ -	4,610	-	4,610	\$ 578
Endowment income	-	846	-	846	545
Sales and service of auxiliary enterprises	-	199	-	199	365
Other sources	-	8	-	8	10
Investment income	-	880	-	880	690
Realized gains on investments	-	7,448	-	7,448	1,628
Unrealized gains on investments	-	9,020	-	9,020	6,881
Interest on loans receivable	-	27	-	27	31
Net assets released from restrictions	<u>-</u>	<u>(1,940)</u>	<u>-</u>	<u>(1,940)</u>	<u>(1,307)</u>
Net change in permanently restricted net assets	0	21,098	0	21,098	9,421
Permanently restricted net assets beginning of year	<u>0</u>	<u>446,062</u>	<u>0</u>	<u>446,062</u>	<u>436,641</u>
Permanently restricted net assets at end of year	<u>\$ 0</u>	<u>467,160</u>	<u>0</u>	<u>467,160</u>	<u>\$ 446,062</u>

See accompanying notes to financial statements.

**Macalester College**  
**Statement of Cash Flows**  
**May 31, 1996**  
(in thousands of dollars)

Cash flows from operating activities	
Change in total net assets	\$ 34,200
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,011
Realized gain on sale of investments	(8,204)
Unrealized gain on sale of investments	(11,746)
Net gain on sale of real estate	(1,316)
Increase in payable to annuity and life income beneficiaries	(1,059)
Private gifts, grants and other income restricted for long term investment	(2,637)
Decrease in accrued investment income	31
Increase in prepaid expenses	(87)
Increase in notes and accounts receivable	(58)
Increase in pledges receivable	(4,575)
Increase in accounts payable and accrued expenses	1,201
Increase in deposits	67
Decrease in agency deposits	(126)
Net cash provided by operating activities	<u>7,702</u>
Cash flows from investing activities:	
Proceeds from sale of investments	85,930
Purchase of investments	(94,235)
Purchase of real estate	(64)
Purchase of land, building and equipment	(12,783)
Net cash used in investing activities	<u>(21,152)</u>
Cash flows from financing activities:	
Proceeds from issuance of bond payable	11,245
Principal payments on bonds payable	(160)
Payment of financing costs	(160)
Increase in government grant refundable	104
Increase in payable to annuity and life income beneficiaries	1,059
Private gifts, grants and other income restricted for long term investment	2,637
Net cash provided by financing activities	<u>14,725</u>
Net increase in cash and cash equivalents	1,275
Cash and cash equivalents at beginning of the year	17,799
Cash and cash equivalents at end of the year	<u>\$ 19,074</u>
Supplemental disclosure - cash paid for interest	<u>\$ 1,430</u>

See accompanying notes to financial statements.

# MACALESTER COLLEGE

## Notes to Financial Statements

May 31, 1996

(in thousands of dollars)

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### 1) Background and Organization

Macalester College (the College) is a highly selective, four year, coeducational, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota, and is affiliated with the Presbyterian Church (USA). The College offers a variety of four year programs leading to a Bachelor of Arts degree and is accredited by the North Central Association of Colleges and Secondary Schools and the National Council for Accreditation of Teacher Education.

### 2) Summary of Significant Accounting Policies

#### ***Basis of Presentation***

During fiscal year 1996, the College adopted Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS 116), Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations* (SFAS 117) and Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* (SFAS 124). SFAS 116 generally requires that contributions received, including unconditional promises to give, be recognized as increases in net assets in the period received at their fair values. SFAS 117 requires that the College display its activities and net assets into three classes as follows: unrestricted, temporarily restricted and permanently restricted. Additionally, it is required to present a statement of cash flows. SFAS 124 requires that the College report investments on a current market basis. The College adopted SFAS 117 and SFAS 124 effective June 1, 1995, and restated its originally reported fiscal year 1995 financial statements to conform to the new standards. The College prospectively adopted the provisions of SFAS 116, which is shown as a cumulative effect of change in accounting principles.

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Permanently restricted net assets*--Net assets subject to donor imposed stipulations that they be maintained permanently by the College. Generally the donor of these assets permits the College to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes.

*Temporarily restricted net assets*--Net assets subject to donor imposed stipulations that restrict their use to a specific purpose and/or the passage of time.

*Unrestricted net assets*--Net assets not subject to donor imposed stipulations. Certain of these amounts have been designated by the board for endowment.

(Continued)

# MACALESTER COLLEGE

## Notes to Financial Statements

(in thousands of dollars)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Donor restricted contributions whose restrictions are met in the same year as the gift is made are reported as temporarily restricted contributions in the current year. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and reported in their appropriate net asset group, subject to the existence or absence of donor imposed stipulations. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after the balance sheet date are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor imposed restriction, if any, on the contributions.

Dividends, interest, and net gains, both realized and unrealized, on investments of endowment and similar funds are reported as follows:

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

### ***Restatement of Prior Year Financial Information***

The following summarizes the differences between June 1, 1994, fund balances as previously reported and the June 1, 1994, net assets reported herein:

Fund balances as previously reported at June 1, 1994	\$428,603
Government grants refundable - Perkins Loan Fund	(2,778)
Agency deposits	(276)
Unrealized gain on long-term investments	<u>108,978</u>
Restated net asset balance at June 1, 1994	<u>\$534,527</u>

(Continued)

## **MACALESTER COLLEGE**

### **Notes to Financial Statements**

(in thousands of dollars)

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#### ***Cash and Cash Equivalents***

Cash and cash equivalents include interest bearing money market accounts and short-term investments with an original maturity of less than three months.

#### ***Land Buildings and Equipment***

Constructed and purchased property and equipment are carried at cost. Land, buildings and equipment donated to the College are stated at fair market value at date of donation. Long-lived assets, with the exception of land and artwork, are depreciated using the straight-line method over the estimated useful lives.

#### ***Bond Issue Costs***

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue.

#### ***Tax Status***

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is subject to federal income tax only on net unrelated business income.

#### ***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, and deposits approximate fair value because of the short maturity of these financial instruments. Pledges receivable and annuity contracts payable are recorded at fair value using appropriate discount rates. Long-term investments are carried at fair value, based upon values provided by an external investment manager or quoted market values.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to government for student loans could not be made because the notes receivable are not salable and can only be assigned to the U. S. government or its designees. The fair value of receivables from students under College loan programs approximates carrying value.

The carrying amount of bonds and mortgages payable approximates fair value.

#### ***Prior-year Comparative Information***

The financial statements include certain prior-year comparative information. This comparative information has been restated to reflect the effects of the implementation of SFAS 117 and 124. Such information does not include a statement of cash flows to constitute a presentation in conformity with generally accepted accounting principles.

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

(in thousands of dollars)

#### *Use of Estimates*

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

#### **3) DeWitt Wallace Fund for Macalester College**

The DeWitt Wallace Fund for Macalester College (the Fund) was established for the benefit of the College in 1980. It is governed by an independent Board of Directors, two of whom are representatives of the DeWitt Wallace-Reader's Digest Fund, the Lila Wallace-Reader's Digest Fund or The Reader's Digest Association, Inc., two of whom are representatives of the College, and two of whom are independent directors. It is a separate New York Not-for-Profit Corporation which has been classified by the Internal Revenue Service as a supporting organization under Section 509(a)(3) and recognized as tax exempt under Section 501(c)(3).

As of May 31, 1996, the market value of the net assets of the Fund was approximately \$388,827 (\$384,175 principal investments and \$4,652 of undistributed income). Income from the Fund is granted annually to support College programs as may be agreed upon by the College and the Directors of the Fund. Grants made by the fund to the College from 1982 to 1996 total \$92,500. This sum includes a grant of \$17,300 for fiscal year ended May 31, 1996.

As of May 31, 1996, \$131,734 (at current market value) of the Fund's assets were invested in the College's pooled endowment fund. This represented 8,176,982 unitized shares of the pooled endowment fund. The College acts as an investment manager for these assets of the Fund pursuant to an agreement date May 24, 1990.

#### **4) Long-term Investments, Including Those Assets Owned by The DeWitt Wallace Fund for Macalester College**

The long-term investments include funds traditionally considered the endowment of the College as well as assets of funds for annuity and life income and loan funds. The allocations shown at market values are as follows:

	<u>1996</u>	<u>1995</u>
Macalester College (at market)		
Cash equivalents	\$ 7,837	\$ 7,501
Common stocks	86,628	68,768
International equity	18,960	16,790
Preferred stock	5,706	5,176
Corporate bonds	28,400	34,696
U.S. Government obligations	102,831	98,046
Real estate, private equity, other	<u>22,970</u>	<u>17,294</u>
Subtotal market	\$273,332	\$248,271

(Continued)



## MACALESTER COLLEGE

### Notes to Financial Statements

(in thousands of dollars)

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Less units of Macalester endowment owned by DeWitt Wallace Fund for Macalester College	<u>(131,734)</u>	<u>(123,647)</u>
Total market	<u>\$141,598</u>	<u>\$124,624</u>
DeWitt Wallace Fund for Macalester College (at market)		
Common stock	\$252,441	\$247,973
Units in the Macalester College endowment	<u>131,734</u>	<u>123,647</u>
Total market	<u>\$384,175</u>	<u>\$371,620</u>
Total market of long-term investments	<u>\$525,773</u>	<u>\$496,244</u>
Total cost	<u>\$396,894</u>	<u>\$380,000</u>

Included in the market value of preferred stocks at May 31, 1996, is \$5,176 relating to 89,685 shares of the Reader's Digest Association, Inc. preferred stock which is not publicly traded. Additionally, the College has agreed not to sell such shares of stock without first offering the shares to The Reader's Digest Association, Inc.

#### 5) Funds Held in Trust by Others

The College is the income beneficiary of a trust with an estimated value of \$9,944 which is controlled by independent trustees. For the year ended May 31, 1996, the College received \$346 from this trust. These assets do not appear on the financial statements of the College.

#### 6) Valuation and Performance of Long-term Investment Funds, Including Those Assets Owned by DeWitt Wallace Fund for Macalester College

The majority of the assets of the endowment funds have been placed in an investment pool, on a market value basis, with each individual fund within the pool subscribing to or disposing of units on the basis of the market value per unit at the beginning of the month within which the transaction takes place.

Since 1983, the College has followed an endowment spending policy that requires endowment income over a predetermined level (excess endowment earnings) to be transferred to quasi-endowment. Quasi-endowment are funds designated by the Board of Trustees action to function as endowment.

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

(in thousands of dollars)

Each year the Board of Trustees sets a spending rate which is used to allocate endowment income under the terms of the endowments. For the year ended May 31, 1996, a spending rate approximating 5.58% was used based upon a sixteen-quarter moving average of investment market value. Endowment income in excess of the spending rate is transferred to quasi-endowment, where it is unitized. Endowment income is shown at actual earnings on the Statement of Activities.

Earnings of \$407 in excess of the spending rate for the year ended May 31, 1996 (\$56 of unrestricted funds and \$351 of temporarily restricted funds) have been transferred from operating funds to quasi-endowment.

Excess income of the DeWitt Wallace Fund's participation in the pooled endowment is granted annually to the College. The 1995/96 grant was \$800, reported as endowment income in the activity of permanently restricted net assets.

Additional information pertaining to market values and earnings of the pooled endowment funds is included in Schedule 1.

#### 7) Pledges Receivable

Pledges receivable consisted of the following at May 31, 1996:

Unconditional promises expected to be collected in:

Less than one year	\$ 742
One year to five years	4,427
Greater than five years	20
Less: Discount to present value	(614)
	<u>\$ 4,575</u>

#### 8) Land, Building and Equipment

The following is a summary of the College's property and equipment::

	<u>1996</u>	<u>1995</u>
Land and land improvements	\$ 1,414	\$ 1,224
Buildings	80,690	77,007
Equipment	2,032	1,907
Construction in progress	11,720	-
	<u>\$95,856</u>	<u>\$80,138</u>
Less: Accumulated depreciation	<u>(19,602)</u>	<u>(17,701)</u>
	<u>\$76,254</u>	<u>\$62,437</u>

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

(in thousands of dollars)

#### 9) Bonds and Mortgages Payable

Bonds and mortgages payable consist of the following:

	<u>1996</u>	<u>1995</u>
Macalester College Dormitory Bonds of 1956, 2-3/4%, final series due November 1, 1996 (original amount \$800)	\$ 24	\$ 56
Macalester College Dormitory Bonds of 1962, 3-3/8%, final series due May 1, 2002 (original amount \$2,850)	720	830
College Housing Program Mortgages at 3%, due in semi- annual installments of \$19,022 including interest, through 2020 (original amount \$880)	640	658
Minnesota Higher Education Facilities Authority Mortgage Revenue Bonds of 1992, 6.33% average, final series due 2022 (original amount \$15,670)	15,670	15,670
Minnesota Higher Education Facilities Authority variable rate demand revenue bond of 1994, weekly maturity and rate reset, 3.81% average for current fiscal year, total principal due 2024 (original amount \$6,660)	6,660	6,660
Minnesota Higher Education Facilities Authority Revenue Bond of 1995, 5.48% average, final series due 2016 (original amount \$11,245)	<u>11,245</u>	<u>—</u>
	<u>\$ 34,959</u>	<u>\$23,874</u>

To secure the required annual principal and interest payments on the 1962 bonds, the College has: (a) granted a mortgage lien and pledged the revenue from certain dormitories and dining room facilities (the aggregate carrying value of such pledged facilities approximated \$4,347 at May 31, 1996 and 1995) and (b) met the sinking fund requirements of the bond indentures by depositing with a trustee certain Wallace Endowment Fund securities having a carrying value of \$452 and \$453 at May 31, 1996 and 1995, respectively. The 1962 indenture also requires the College to transfer \$30 annually to a repair and replacement reserve.

The College is involved in the College Housing Program of the Department of Housing and Urban Development. The funds received under this program have been used to rehabilitate student dormitories and dining areas. The mortgages under this program are secured by a lien on the College's stadium carried at approximately \$652 at May 31, 1996 and 1995, and by pledges of gross stadium and tuition revenues.

(Continued)

## MACALESTER COLLEGE

### Notes to Financial Statements

(in thousands of dollars)

In June of 1992, \$15,670 of revenue bonds were issued on behalf of the College by the Minnesota Higher Education Facilities Authority (MHEFA). The average maturity of the issued bonds was 21 years, at an average rate of 6.33%. The bonds were secured by a pledge by MHEFA and a reserve account of \$1,300, funded by bond sale proceeds.

The balance of the proceeds, net of issuance costs and issuance discounts of \$372, were used to retire the balance of MHEFA Revenue Bonds of 1985, and to finance campus improvements totaling \$9,738.

In September of 1994, \$6,660 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were initially issued with a weekly maturity and rate reset, but longer maturities as well as a fixed rate are optional.

Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds will be general obligations of the College, with interest payable monthly (semi-annual if converted to fixed), and principal payable at maturity, on March 1, 2024.

In November of 1995, \$11,245 of revenue bonds were issued on behalf of the College by MHEFA. The average maturity of the issued bonds was 12.4 years, at an average rate of 5.48%. The bonds were secured by a pledge by MHEFA.

Proceeds of the issue were used to finance renovation and expansion of the Rice/Olin Halls Science Facility.

Annual debt commitments (principal) at May 31, 1996, are as follows:

<u>Fiscal year ending May 31,</u>	<u>Amount</u>
1997	683
1998	685
1999	710
2000	636
2001	866
after 2001	<u>31,379</u>
	<u>\$34,959</u>

Total interest costs on plant funds debt aggregated \$1,579 and \$1,332 during the year ended May 31, 1996 and 1995, respectively.

#### (10) High Winds Fund

Included in the permanently restricted net assets are funds of High Winds. The High Winds Fund is subject to the provisions of an agreement between the College and a major

(Continued)

## **MACALESTER COLLEGE**

### **Notes to Financial Statements**

(in thousands of dollars)

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benefactor which provides, among other things, for physical segregation and administration of such funds in accordance with the provisions of such agreement. The purpose of the High Winds Fund is to maintain and improve the beauty, serenity and security of the area surrounding the College campus. As of May 31, 1996, the High Winds Fund owned nine properties surrounding the College campus.

#### **11) Retirement Plan**

The College provides pension benefits to substantially all employees. Certain academic and non-academic personnel are covered under contributory plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund, Vanguard Fiduciary Trust Company and Fortis Investors, Inc. A plan covering union employees is funded by deposits with trustees based on a fixed rate of contribution per hour worked. The College has no liability for these pension plans once deposits are made to the administrators. The College has an unfunded pension plan which supplements retirement benefits of certain professional and staff employees not fully covered by other plans. The unfunded liability under the supplemental plan at May 31, 1996 and 1995, was approximately \$273 and \$294, respectively.

Total pension expense for the year ended May 31, 1996, was \$1,458 including \$36 paid under the unfunded supplemental plan and for the year ended May 31, 1995, was \$1,417 including \$37 paid under the unfunded supplemental plan.

**MACALESTER COLLEGE**  
**Endowment Investment Performance\***  
**Year Ended May 31, 1996**  
(in thousands of dollars except per unit value)

Schedule 1

	Pooled Funds		Nonpooled Funds		Total Endowment Funds	
	Market	Cost	Market	Cost	Market	Cost
Net assets at May 31, 1996:						
Common stock	\$ 97,526	72,683	252,466	157,140	349,992	229,823
Preferred stocks	5,706	4,565	-	-	5,706	4,565
Corporate bonds	25,067	24,052	-	-	25,067	24,052
U.S. Government obligations	101,930	98,644	66	66	101,996	98,710
Real estate	5,737	5,750	-	-	5,737	5,750
Other (including uninvested cash)	19,324	18,511	-	-	19,324	18,511
	<u>\$ 255,290</u>	<u>224,205</u>	<u>252,532</u>	<u>157,206</u>	<u>507,822</u>	<u>381,411</u>
Net assets at May 31, 1995	<u>236,376</u>		<u>248,051</u>		<u>484,427</u>	
Increase in net assets	\$ 18,914		4,481		23,395	
Less:						
Initial market value of additions	3,419		12		3,431	
Net gains for year	<u>\$ 15,495</u>		<u>4,469</u>		<u>19,964</u>	
Net gains for the year consist of:						
Realized net gains	\$ 7,001		0		7,001	
Unrealized net gains	8,494		4,469		12,963	
Total net gains for year	<u>\$ 15,495</u>		<u>4,469</u>		<u>19,964</u>	
Pooled investments:						
Market value per unit, including excess endowment earnings funds:						
May 31, 1996	\$ 16.11					
May 31, 1995	15.12					
Net gain per unit	\$ 0.99					
Percent gain per unit	6.54%					
Total earnings, exclusive of gains	<u>\$ 13,062</u>					
Total earnings per current year average units outstanding	<u>\$ 0.83</u>					
Total earnings as a percent of average current market values	5.25%					
Total performance for year	<u>11.79%</u>					

\* - Including the DeWitt Wallace Fund for Macalester College (note 3)

See accompanying independent auditors' report.