

OFFICIAL STATEMENT DATED NOVEMBER 21, 2012

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 net 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 or corporations. Interest on the Bonds is subject to the State of Minnesota franchise tax applicable to corporations, including financial institutions, and is includable in the calculation of certain federal taxes imposed on corporations. The Bonds will not be designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code. (See "TAX EXEMPTION.")

MACALESTER COLLEGE



\$14,730,000

Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-S (Macalester College) (DTC Book Entry Only)

Dated Date: Date of Delivery

**Interest Due: May 1 and November 1,
commencing May 1, 2013**

The Bonds are to mature annually on May 1 as follows:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 60416H</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 60416H</u>
2015	\$ 90,000	2.000%	0.72%	YW 8	2020	\$390,000	3.000%	1.59%	ZB 3
2016	\$180,000	3.000%	0.82%	YX 6	2021	\$400,000	3.000%	1.86%	ZC 1
2017	\$270,000	3.000%	1.00%	YY 4	2022	\$415,000	3.000%	2.04%*	ZD 9
2018	\$365,000	3.000%	1.10%	YZ 1	2023	\$425,000	2.250%	2.37%	ZE 7
2019	\$380,000	3.000%	1.33%	ZA 5	2024	\$435,000	2.375%	2.49%	ZF 4

\$3,955,000 3.000% Term Bond due May 1, 2032 Yield 3.07% CUSIP 60416H ZH 0
\$2,365,000 3.250% Term Bond due May 1, 2036 Yield 3.32% CUSIP 60416H ZJ 6
\$5,060,000 4.000% Term Bond due May 1, 2043 Yield 3.20%* CUSIP 60416H ZK 3

* Yield to the first optional call date of May 1, 2021

The Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-S (Macalester College) (the "Bonds" or the "Issue") are subject to optional redemption prior to maturity, as described herein. See "THE BONDS – Prior Redemption – Optional Redemption." The Bonds are also subject to extraordinary 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 or in whole in case of damage to or destruction of a substantial portion of the facilities of Macalester College (the "College"). The Bonds are also subject to extraordinary optional redemption in whole or in part in the event of a Determination of Taxability, as described herein. See "THE BONDS – Prior Redemption – Extraordinary Optional Redemption" and "THE BONDS – Determination of Taxability." The Bonds maturing on May 1, 2032, May 1, 2036, and May 1, 2043 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 "THE BONDS – Book Entry Only System" herein). Wells Fargo Bank, National Association, Minneapolis, Minnesota will act as Trustee.

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority (the "Authority") payable solely from Loan Repayments made by or on behalf of 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 SHALL THEY CONSTITUTE A DEBT FOR WHICH THE FAITH AND CREDIT OF THE AUTHORITY OR THE STATE OF MINNESOTA, OR THE TAXING POWERS OF THE STATE, ARE PLEDGED. THE AUTHORITY HAS NO TAXING POWERS.

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter named below subject to the opinion as to validity and tax exemption of the Bonds by McGrann Shea Carnival Straughn & Lamb, Chartered, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the College by Nilan Johnson Lewis P.A., Minneapolis, Minnesota, and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota. The Bonds are expected to be available for delivery to the Underwriter at DTC on or about December 12, 2012.

Piper Jaffray & Co.

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, DTC, and the Trustee, has been obtained from the College and is not guaranteed as to accuracy or completeness. Information relating to the Authority, DTC and the Trustee has been obtained from such persons and is not guaranteed as to accuracy or completeness. Information regarding the tax-exempt status of the Bonds has been provided by Bond Counsel. Except for information concerning the Authority, the information contained herein 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 of such documents have not been included as appendices hereto, they will be furnished on request.

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE COLLEGE NOR ANY OTHER PARTY EXPECTS OR INTENDS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers provided in this Official Statement are included for convenience of the holders and potential holders of the Bonds. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds. Neither the Authority, the Underwriter, nor the College takes any responsibility for the accuracy of such CUSIP numbers.

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

MEMBERS

Janet Withoff, Chair	Consultant – Planning and Grant-Writing, Resident of Orono, Minnesota
Tammy L. H. McGee, Vice Chair	Vice President for Finance and Administration and Chief Financial Officer, Augsburg College, Resident of Maple Grove, Minnesota
Michael D. Ranum, Secretary	Chief Financial Officer, BWBR Architects, Inc., Resident of Circle Pines, Minnesota
Gary D. Benson	Project Director, ICS Consulting, Resident of New Brighton, Minnesota
Kathryn Balstad Brewer	Retired Banker and Educator, Resident of New Brighton, Minnesota
Mary F. Ives	Real Estate Business Owner, Resident of Grand Rapids, Minnesota
David D. Rowland	Executive Vice President, The Travelers Companies, Inc., Resident of Edina, Minnesota
Raymond VinZant, Jr.	Retired technical college instructor, Resident of Wyoming, Minnesota
Paul Cerkvenik (Ex Officio)	President, Minnesota Private College Council
Tim Geraghty (Ex Officio)	Chief Financial Officer, Minnesota Office of Higher Education

Marianne T. Remedios, Executive Director

Bond Counsel
McGrann Shea Carnival Straughn & Lamb, Chartered

Financial Advisor
Springsted Incorporated

TABLE OF CONTENTS

	<u>Page</u>
Introductory Statement.....	1
Risk Factors	2
Continuing Disclosure	5
The Bonds.....	6
The Project.....	9
Use of Proceeds	9
Sources and Uses of Funds.....	10
Source of Payment and Security for the Bonds	10
Accounts	11
Future Financing	12
The Authority.....	12
Financial Advisor.....	13
Underwriting	13
Rating.....	14
Litigation.....	14
Legality.....	14
Tax Exemption	14
Not Qualified Tax-Exempt Obligations	17
The College	Appendix I
Proposed Form of Legal Opinion	Appendix II
Information to be Provided as Continuing Disclosure	Appendix III
Definitions of Certain Terms	Appendix IV
Summary of Documents	Appendix V
The Depository Trust Company	Appendix VI
Annual Financial Statements with Auditors' Opinion For the Fiscal Year Ended May 31, 2012	Appendix VII

(This Page is Intentionally Left Blank)

OFFICIAL STATEMENT

\$14,730,000

MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

REVENUE BONDS, SERIES SEVEN-S (MACALESTER COLLEGE)

(DTC Book Entry Only)

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority"), an agency of the State of Minnesota, and Macalester College, a Minnesota non-profit corporation and 501(c)(3) organization and the owner and operator of an institution of higher education with its campus located in Saint Paul, Minnesota (the "College"), in connection with the issuance of the Authority's \$14,730,000 Revenue Bonds, Series Seven-S (Macalester College) (the "Bonds," the "Series Seven-S 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 is 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 (the "Indenture") dated as of December 1, 2012 between the Authority and Wells Fargo Bank, National Association, Minneapolis, Minnesota as trustee (the "Trustee"). The Trustee will also be the Registrar and Paying Agent for the Issue.

Pursuant to a Loan Agreement (the "Loan Agreement") dated as of December 1, 2012 between the College and the Authority relating to the Bonds, 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 Authority will loan Bond proceeds to the College that will, together with available College funds, be used to (a) renovate and expand the Studio Art portion of the Janet Wallace Fine Arts Center, replace boilers in the sub-basement of the building (the "Project") and (b) pay certain costs of issuance. See "USE OF PROCEEDS" herein.

The Bonds are secured by a pledge of the Loan Repayments, which is a general obligation of the College. Under the Loan Agreement, the College will agree to provide the funds necessary to make timely payment of the Loan Repayments.

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

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

RISK FACTORS

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

Lack of Collateral

The Bonds are secured solely by (a) a pledge by the Authority to the Trustee of amounts payable by the College under the Loan Agreement, and (b) amounts in accounts and funds which will be held by the Trustee and applied to the payment of principal of, premium, if any, and interest on the Bonds. The Bonds are not secured by a debt service reserve fund or a mortgage on or security interest in any real property or personal property.

Obligation of the College

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 performance of other College obligations under such documents. Accordingly, for payment of principal, interest, and premium, if any, on the Bonds, holders of the Bonds must look solely to the Loan Repayments to be made by the College under the Loan Agreement and other funds, if any, the Trustee holds under the Indenture.

Adequacy of Revenues

Payment of principal of and interest on the Bonds is intended to be made from the College's Loan Repayments. 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.

Reliance on Tuition

The adequacy of the College's revenues will depend in part on the amount of future tuition revenue the College receives. Such revenue in turn will depend primarily on the College's ability to charge sufficient rates for tuition and to maintain enrollment levels. Future enrollment levels will depend on the number of students applying to the College and accepting offers of admission. A number of factors, including, without limitation, levels of tuition rates and other fees, competition from other colleges, a change in the number of college age students and changing general economic conditions will influence the number of applicants to the College.

Competition

There is intense competition among institutions of higher education for students both nationally and within the upper Midwest region. Universities and colleges compete principally based on location, net tuition rates, degree offerings, and academic reputation. To the extent that competitors have or achieve an advantage with respect to any of these factors, the College could be adversely affected. In addition, competitive pressures could result in tuition reductions, the inability to raise tuition, or increases in financial aid in the form of discounted tuition, which could adversely affect the College's unrestricted net assets.

Changes in demographics, such as a decrease in the overall number of high school graduates or a decrease in the number of high school graduates who elect to go to college, could adversely affect the College's efforts to attract students.

Financial Aid

Approximately 75% of the College's students currently receive some form of federal, State or College financial aid covering some portion of tuition and fees and living expenses. No assurance can be given that federal, State or College financial aid will continue to be funded 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. See Appendix I, "THE COLLEGE – Financial Aid" herein.

No assurance can be given that student loans will continue to be available to students and their parents at historical levels. Reductions in availability of such loans may cause a decline in enrollment, which may in turn have an adverse effect on the College's revenues.

Damage or Destruction

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

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.

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.

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 "Estimated Maximum Annual Debt Service and Pro Forma Coverage." The pro forma coverage is merely an arithmetical computation as reflected in the applicable table and constitutes no assurance as to the future sufficiency of College revenues to satisfy College operations and debt service requirements, including Loan Repayment obligations.

Construction Risks

The College anticipates entering into a guaranteed price contract for construction of the Project. Construction of the Project is subject to ordinary risks associated with new construction and renovations of existing structures, such as noncompletion and delays due to a variety of factors, including, among other things, site difficulties, necessary design changes or final detailing, labor shortage or strife, delays in and shortages of materials, weather conditions, fire, and casualty. Any delays in construction may affect the College's ability to complete the Project by the expected completion date, which may result in, among other things, additional costs.

Derivative Products

The College has previously entered into interest rate swap agreements. The College may enter into other interest rate swaps or similar arrangements in the future. Under certain market conditions, termination of an interest rate swap agreement prior to its expiration may require the College to pay a termination fee to the counterparty to the agreement and such payment could be material to the College.

Variable Rate Demand Obligations

The College has two outstanding variable rate demand bonds ("VRDBs"). As of November 1, 2012, the outstanding principal amount of the VRDBs is \$21,960,000 out of a total of \$79,148,891 for all of the College's long term debt. See Appendix I, "THE COLLEGE – Long-Term Debt of the College" and Appendix VII, "ANNUAL FINANCIAL STATEMENTS WITH AUDITORS' OPINION FOR THE FISCAL YEAR ENDED MAY 31, 2012".

The holders of the VRDBs have the right to tender their bonds to the College for purchase on any business day upon seven days' notice. In the event the VRDBs are tendered for purchase but not remarketed, the College will be required to pay the purchase price of the tendered VRDBs from College funds. There is no independent or third party source of liquidity or payment for the VRDBs, such as a letter of credit. The College presently maintains custodial accounts to facilitate the availability of liquid funds to pay the purchase price of tendered VRDBs, but is not required to continue that practice. See Appendix I, "THE COLLEGE – Long-Term Debt of the College."

The Bonds are not VRDBs. However, the obligation of the College to pay the purchase price of the tendered VRDBs out of its own funds may limit funds available to make Loan Repayments on the Bonds.

In addition, while the College has entered into an interest rate swap agreement with respect to a substantial part of its VRDBs, for the portion of the VRDBs not subject to the interest rate swap agreement, sustained increases in interest rates could increase interest expense for the College.

Potential Limitation of Tax Exemption of Interest

On September 12, 2011, President Obama announced a legislative proposal entitled the American Jobs Act of 2011 (the "American Jobs Act of 2011"). The American Jobs Act of 2011 was introduced in the United States Senate on September 13, 2011, as Senate Bill 1549. The American Jobs Act of 2011, if enacted, would, among other things, subject interest on tax-exempt bonds (including the Series Seven-S Bonds) to federal income taxation for taxpayers with incomes above certain thresholds for tax years beginning after 2012. The American Jobs Act of 2011 or other legislative proposals, if enacted into law, or court rulings on existing tax laws may cause interest on the Series Seven-S Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise

prevent Bondholders from realizing the full current benefit of the tax status of such interest, and would likely affect the market price for, or marketability of, the Series Seven-S Bonds. Prospective purchasers of the Series Seven-S Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See "TAX EXEMPTION -- Changes in Federal and State Tax Law."

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) 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.
- (2) Adoption of federal, State or local legislation or regulations, such as limitations on tuition increases, having an adverse effect on the future operating or financial performance of the College.
- (3) International events, including any acts of war and terrorism, which may have adverse effects on enrollment and investments.

See also "TAX EXEMPTION – Federal Tax Considerations" and "TAX EXEMPTION -- Minnesota Tax Considerations" herein.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC"), 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 annually, and to provide notices of the occurrence of any of the events enumerated in the Rule to the Municipal Securities Rulemaking Board (the "MSRB"). 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, "INFORMATION TO BE PROVIDED AS CONTINUING DISCLOSURE," 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 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 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. 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

General

The Bonds will be dated as of the date of delivery and will mature annually each May 1, commencing May 1, 2015, 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 May 1 and November 1, commencing May 1, 2013.

Book Entry Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

For further detail on DTC, see Appendix VI, “THE DEPOSITORY TRUST COMPANY.”

Prior Redemption

Mandatory Redemption

Term Bonds shall be called for redemption on May 1 in the years set forth below in the principal amounts thereof to be redeemed, without premium, plus accrued interest to the date fixed for redemption, from moneys in the Bond and Interest Sinking Fund Account, in the respective amounts set forth as follows.

Term Bond Maturing <u>May 1, 2032</u>	
<u>Year</u>	<u>Amount</u>
2025	\$445,000
2026	\$460,000
2027	\$470,000
2028	\$485,000
2029	\$500,000
2030	\$515,000
2031	\$530,000
2032*	\$550,000
* <i>Final Maturity</i>	

Term Bond Maturing
May 1, 2036

<u>Year</u>	<u>Amount</u>
2033	\$565,000
2034	\$580,000
2035	\$600,000
2036*	\$620,000

* *Final Maturity*

Term Bond Maturing
May 1, 2043

<u>Year</u>	<u>Amount</u>
2037	\$640,000
2038	\$665,000
2039	\$695,000
2040	\$720,000
2041	\$750,000
2042	\$780,000
2043*	\$810,000

* *Final Maturity*

The Term 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 Term Bonds 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 Bond and Interest Sinking Fund) and canceled by the Trustee and not theretofore applied as a credit against such mandatory redemption obligations.

Optional Redemption

The Bonds maturing on or after May 1, 2022 are subject to optional redemption at the College's direction on May 1, 2021 and on any day thereafter at par plus accrued interest. Redemption may be in whole or in part and if in part in such order of maturity as the College directs and selected by random means within a maturity, in integral multiples of \$5,000.

Extraordinary Optional Redemption

1. The Bonds are subject to extraordinary 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. In the event the Project Facilities are damaged such that the claim for loss exceeds \$1,000,000, the College may elect to repair, rebuild or restore the Project Facilities or may elect, pursuant to the terms of the Loan Agreement, to redeem all or part of the outstanding Bonds.
2. The Bonds are subject to extraordinary optional redemption in the event that:
 - (i) A substantial portion of the College's facilities are destroyed to such extent that, in the College's sole judgment, it is not practical to rebuild, repair and restore the same and operate the College in the general manner now operated; or

- (ii) Upon condemnation of all or substantially all of such facilities or the taking by eminent domain of such use or control of the facilities renders the facilities unsatisfactory to the College for their intended use.

Upon any such event, all of the Bonds shall be subject to extraordinary optional redemption in whole and not in part, on any Business Day at a price of par plus accrued interest to the redemption date.

- 3. The Bonds are subject to extraordinary optional redemption at par and accrued interest upon a Determination of Taxability as provided in the Loan Agreement. See “THE BONDS – Determination of Taxability,” Appendix V, “SUMMARY OF DOCUMENTS – The Loan Agreement – Damage or Destruction,” and Appendix V, “SUMMARY OF DOCUMENTS – Determination of Taxability.”

Partial Redemption

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

In the case of Bonds of denominations greater than \$5,000, if fewer 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. 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 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 twenty (20) days, and if more than 60 days, then again not less than 20 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 affected 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 date on which the principal of the Bonds is paid. **If a Determination of Taxability should occur, any monetary damages or loss resulting from or incident thereto shall be limited to the additional interest on the Bonds.** See “TAX EXEMPTION” and Appendix IV, “DEFINITIONS OF CERTAIN TERMS.”

The College will have the option to prepay the Loan on the next 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) and without a premium.

THE PROJECT

The College constructed the Janet Wallace Fine Arts Center in 1964-65. It houses spaces serving all three major artistic disciplines: Studio Art, Music, and Theater. The integration of the three disciplines into a single facility is seen as a strength of the program. The fourth section of the complex is the home of the Humanities Department and the College's IT operations.

The renovated and expanded Music portion of the complex recently opened after an 18 month construction period, financed in part by proceeds from the College's 2010 Series Seven-I Bonds. That project also included the relocation and expansion of the College's art gallery and Art History program facilities, and complete renovation and expansion of the College's Facilities Services offices and shops.

The Project will completely renovate and expand the College's Studio Art facilities. The existing two story space will be redone and a new third level will be added covering half of the existing roof area. In addition, about half of the capacity in the College's central heating plant, located underneath the Studio Art building, has reached the end of its useful life and will be replaced as well.

The College expects to engage McGough Construction as general contractor. McGough Construction is the same general contractor that successfully built the last three major campus projects: the Leonard Center athletic complex (\$42.0 million total cost), Markim Hall, the home of the Institute for Global Citizenship (\$7.7 million total cost), and the Music/Art/Facilities project described above (\$36.8 million approximate final cost).

Project construction is expected to commence in December of 2012 and be completed by March 1, 2014.

USE OF PROCEEDS

The Bond proceeds will be loaned to the College by the Authority and, together with College funds, will be used to finance the Project and to pay certain costs of issuance.

The total cost of the Project is estimated to be \$26,500,000. Of the project costs, \$15,000,000 will be financed by Bond proceeds, with the balance of \$11,500,000 to be paid by the College. Of the College portion, approximately \$7.5 million will be from gifts and approximately \$4.0 million from College accumulated reserves. The College is conducting fundraising for the Project separate from a general capital campaign. To date, a total of \$6.0 million has been received or committed towards the \$7.5 million fundraising goal.

SOURCES AND USES OF FUNDS

Sources of Funds	
Par Amount of the Bonds	\$14,730,000
Net Premium	436,520
College contribution – gifts and reserves	<u>11,500,000</u>
Total Sources	<u>\$26,666,520</u>
Uses of Funds	
Deposit to Construction Account:	
Studio Art portion	\$20,000,000
Boiler replacement	6,500,000
Costs of Issuance, including Underwriter's discount	<u>166,520</u>
Total Uses	<u>\$26,666,520</u>

SOURCE OF PAYMENT AND SECURITY FOR THE BONDS

Payment of the Bonds

The Bonds will be special obligations of the Authority. The principal of and interest on the Bonds are payable solely from Loan Repayments, which consist of payments to be made by the College pursuant to the Loan Agreement. The Loan Repayments have been pledged to the Trustee for the benefit of the Bondholders.

The Loan Agreement is a general obligation of the College to make payments to satisfy the principal of and interest on the Bonds. The College will agree pursuant to the terms of the Loan Agreement and the Indenture to make such payments out of its general funds or any other moneys legally available.

Payments by the College in respect of interest on the Bonds are to be made at least one (1) Business Day before each Interest Payment Date in an amount equal to the interest coming due on such interest payment date. Payments by the College in respect of principal on the Bonds are to be made at least one (1) Business Day before each principal payment date in an amount equal to the principal coming due on such principal payment date. The Loan Agreement also requires the College to pay, no less than one (1) Business Day prior to a redemption date of Bonds called for redemption, the amount required to pay the Redemption Price of such Bonds.

Pursuant to the Loan Agreement, the College will make such payments directly to the Trustee. The Trustee is to apply such payments to the payment of the principal of and interest on the Bonds.

Security for the Bonds

The Bonds are secured by the pledge of the Loan Repayments, which are a general obligation of the College, and funds the Trustee holds under the Indenture. The College will covenant and agree to charge tuition, other fees, rentals and charges which, together with the College's general funds or any other moneys legally available, will be sufficient at all times to make the Loan Repayments and other payments required under the Loan Agreement; to meet current operation and maintenance expenses of the Project Facilities; and to pay all other obligations of

the College as they become due. No contributions or pledges of gifts to the College are pledged to the payment of Loan Payments.

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

ACCOUNTS

Summary

The Indenture will provide for the creation of certain trust accounts into which the proceeds from the sale of the Bonds and revenues received as Loan Repayments under the Loan Agreement 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 as described below. 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 and used, to the extent needed, to redeem or pay the principal of and interest on the Bonds when due.

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. The College will agree in the Loan Agreement to provide for payment of all costs of the Project in excess of the proceeds of the Bonds available therefor and to pay out of available general funds all costs of issuance of the Bonds (including underwriting discount) in excess of 2.00% of the proceeds of the Bonds (principal adjusted for net original issue discount or net original issue premium according to the reoffering scale). Upon receipt of proper documentation, the Trustee will reimburse or pay for the account of the College costs incurred in connection with the Project. When work on the Project has been completed and the Project Equipment has been installed and a certificate to that effect has been furnished to the Trustee, any balance in the Construction Account shall be deposited into the Redemption Account or the Bond and Interest Sinking Fund Account under certain conditions.

Bond and Interest Sinking Fund Account

There shall be deposited into the Bond and Interest Sinking Fund Account accrued interest, if any, received from the sale of the Bonds, transfers of amounts in other accounts as permitted by the Indenture, and Loan Repayments made by the College. 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

There shall be deposited into the Redemption Account all other amounts required to be deposited therein pursuant to any provision of the Loan Agreement or the Indenture.

Amounts on deposit in the Redemption Account shall be used, first, to make up deficiencies in the Bond and Interest Sinking Fund Account, and second, for the redemption of outstanding Bonds at the request or direction of the College for the purchase of outstanding Bonds on the market at prices not exceeding the redemption price on the next available date for redemption. Notwithstanding the foregoing, the Trustee is authorized in its discretion 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.

Authorized Investments

Moneys on deposit to the credit of the Construction Account, the 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. For more detail on authorized investments, see Appendix V, "SUMMARY OF DOCUMENTS – The Indenture – Accounts."

FUTURE FINANCING

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

THE AUTHORITY

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

Marianne T. Remedios has been the Executive Director of the Authority since 2000.

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

The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$1.3 billion. The Authority has had 192 issues (including refunded and retired issues) totaling over \$1.9 billion, of which approximately \$934 million is outstanding as of November 1, 2012. Bonds issued by the Authority are payable only from the loan repayments, rentals, and other revenues and moneys pledged for their payment. The bonds of the Authority do not represent or constitute a debt or pledge of the faith or credit or moral obligation of the State.

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

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

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

The Authority is also authorized to issue revenue bonds for the purpose of refunding bonds of the Authority and to refinance other debt for capital improvements.

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

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

FINANCIAL ADVISOR

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

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$15,110,553.01 (representing the aggregate principal amount of the Bonds less underwriter's discount of \$55,966.94 and adjustment for net original issue premium of \$436,519.95).

The Underwriter intends to offer the Bonds to the public initially at the offering prices that result in the yields 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 Underwriter and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, have entered into an agreement which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to the Underwriter, including the Bonds. Under the agreement, the Underwriter will share a portion of the fee or commission with Pershing LLC.

The College has agreed in the Bond Purchase Agreement for the Bonds 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 ("Moody's") has assigned a long-term rating of "Aa3" to the Bonds. The rating reflects only the view of such rating agency. Any explanation of the significance of such rating may be obtained only from Moody's.

There is no assurance that the 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 litigation that is pending or overtly threatened in writing which would affect the validity of the Bonds, the tax-exempt nature of the Bonds, the authority of either party to enter into the Bond-related documents or the ability of either to perform as described therein, 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 McGrann Shea Carnival Straughn & Lamb, Chartered, Minneapolis, Minnesota, as Bond Counsel. A legal opinion in substantially the form set out in Appendix II herein will be delivered at Bond Closing.

Certain legal matters will be passed upon for the College by Nilan Johnson Lewis P.A., Minneapolis, Minnesota and for the Underwriter by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota.

TAX EXEMPTION

Federal Tax Considerations

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 income taxation

retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained.

The Loan Agreement and the Indenture contain provisions (the “Tax Covenants”) including covenants of the Authority and the College, pursuant to which, in the opinion of Bond Counsel, such requirements can be satisfied. The Tax Covenants do not relate to all the continuing requirements referred to in the preceding paragraph. 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 “SUMMARY OF DOCUMENTS – The Loan Agreement – Determination of Taxability” in Appendix V). A determination that interest on the Bonds is includable in the computation of the alternative minimum tax imposed on individuals under the Code is not a Determination of Taxability.

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Bond Counsel, under present laws and rulings, interest on the Bonds is not includable in gross income for federal 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. However, 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.

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 are 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.

Minnesota Tax Considerations

Assuming compliance with the Tax Covenants and on the basis of the certifications to be furnished at Bond Closing, in the opinion of Bond Counsel, under present laws and rulings, interest on the Bonds is not includable 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 the Minnesota alternative minimum tax applicable to individuals, estates and trusts. However, the interest is subject to the Minnesota franchise tax imposed on corporations, including financial institutions, measured by taxable income and the alternative minimum tax base.

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

Changes in Federal and State Tax Law

Purchasers of the Series Seven-S Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Seven-S Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series Seven-S Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series Seven-S Bonds will not have an adverse effect on the tax status of interest or other income on the Series Seven-S Bonds or the market value of the Series Seven-S Bonds. Such adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction of the benefit) of the exclusion of interest on the Series Seven-S Bonds from gross income for federal or State income tax purposes. See "RISK FACTORS – Potential Limitation of Tax Exemption of Interest."

Original Issue Premium

The Bonds maturing in the years 2015 through 2022, inclusive, and in 2043 were sold to the public at an amount in excess of their stated redemption price at maturity. Such excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

Original Issue Discount

The dollar amount of the initial offering price to the public of Bonds maturing in the years 2023, 2024, 2032, and 2036 (the "Discount Bonds") are less than the principal amount of such maturities. 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. Bondholders who acquire the Bonds at a discount should consult their tax advisors with respect to the state and local tax consequences of owning the Discount Bonds.

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

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds will not be designated "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.

(This Page is Intentionally Left Blank)

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. Historically, the College has been affiliated with the Presbyterian Church (USA). The College has a diverse student body and does not discriminate on the basis of religious preference or any other prohibited basis.

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. 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 34 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 – Officers and Members

David J. Deno, Chair	Executive Vice President and Chief Financial Officer, Bloomin' Brands, Inc., Tampa, Florida
Jerry Crawford, Vice Chair	Senior Partner, Crawford Mauro Law Firm, Des Moines, Iowa
Peter H. Fenn, Vice Chair	President, Fenn Communications Group, Washington, D.C.
Timothy D. Hart-Andersen, Vice Chair	Pastor, Westminster Presbyterian Church Minneapolis, Minnesota
John C. Law, Vice Chair	Managing Director, Warland Investments Company, Santa Monica, California
Patricia R. Hurley, Treasurer	Senior Vice President and Deputy General Counsel, Fidelity Investments, Boston, Massachusetts
Carrie Norbin Killoran, Secretary	Vice President & Chief Compliance/Integrity Officer, Aurora Health Care, Milwaukee, Wisconsin

Board of Trustees - Members

Peter W. Ahn	Partner, Hemisphere Companies, Minneapolis, Minnesota
Paul A. Anderson	Senior Consultant, Yarnell Inc., San Francisco, California

Anne Crandall Campbell	Coach/Leader, Wholesome Adventures, Londonberry, Vermont
Melvin Collins	Employment Relations Consultant, Securian Financial Group, Saint Paul, Minnesota
Ruth Stricker Dayton	Executive Director/Founder, The Marsh, A Center for Balance and Fitness, Minnetonka, Minnesota
R. Lawrence Dessem	Professor, University of Missouri-Columbia School of Law, Columbia, Missouri
Maura G. Donovan	Vice President, Corporate R&D, Medtronic Inc., Minneapolis, Minnesota
Steven C. Euller	Retired Corporate Vice President, General Counsel and Corporate Secretary, Cargill Inc., Minneapolis, Minnesota
Michael A. Huber	President and Managing Principal, Quadrangle Group LLC, New York, New York
Michael J. Klingensmith	Publisher, Star Tribune, Minneapolis, Minnesota
Jeffrey B. Larson	Boston, Massachusetts
Mark G. Leonard	Retired Engineer, Hewlett Packard Corporation, Los Altos, California
Lee A. Nystrom	Managing Director, Pen-Cal, Minneapolis, Minnesota
Paul L.H. Olson	Board Director and Executive Advisor, Liaison Technologies, North Oaks, Minnesota
Sandra R. Ortiz	Vice President of Corporate Capital Markets, Wilmington Trust, Wilmington, Delaware
Sara L. Peterson	Principal Counsel and Manager of Insured Litigation, Bechtel Corporation, San Francisco, California
Juan F. Rada	Senior Vice President, Public Sector and Education, Oracle Corporation, Geneva, Switzerland
James L. Reissner	Chairman, Activar, Inc., Minneapolis, Minnesota
Brian C. Rosenberg (Ex Officio)	President, Macalester College, Saint Paul, Minnesota
Susan Dunst Schwartz	Senior Editor, Wolters Kluwer Financial Services, Riverwoods, Illinois
Michael E. Sneed	Vice President, Global Corporate Affairs, Johnson & Johnson, New Brunswick, New Jersey

Bruce L. Soltis	Retired Senior Vice President, Canadian Foodservice Operations, SYSCO Corporation, Metairie, Louisiana
Rebecca B. Van Dyck	Head of Consumer Marketing, Facebook, Menlo Park, California
Mark A. Vander Ploeg	Retired Senior Managing Director, Evercore Partners, Menlo Park, California
Per von Zelowitz	New York, New York
Jon M. Walton	Pastor, The First Presbyterian Church, New York, New York
Jennifer (Jo) Opdyke Wilhelm	Ecologist, King County Water and Land Resources Division, Department of Natural Resources and Parks, Seattle, Washington

President

Brian C. Rosenberg is the 16th President of Macalester College and has held this position since August 2003. From 1998 to 2003, Dr. Rosenberg was Dean of the Faculty and professor of English at Lawrence University, Appleton, Wisconsin. Previous to that, Dr. Rosenberg was a professor of English and chair of the English Department at Allegheny College in Meadville, Pennsylvania from 1983 to 1998.

Dr. Rosenberg received his Bachelors degree in English from Cornell University, his Masters degree in English from Columbia University, and his Ph.D. in English from Columbia University. Dr. Rosenberg is a scholar on Charles Dickens, and served on the board of trustees of the Dickens Society from 2000-2004.

Provost and Dean of the Faculty

Dr. Kathleen M. Murray is the Provost and Dean of the Faculty and has held this position since July 2008. From 2005 to 2008, Dr. Murray was the Provost and Vice President for academic affairs at Birmingham-Southern College, Birmingham, Alabama. Previous to that, Dr. Murray was the Dean of Faculty and a professor of Music at Lawrence University from 2003 to 2005 and Dean of the Lawrence Conservatory and a professor of Music at Lawrence University from 1999 to 2004. Dr. Murray also served as an associate professor of Music and chair of the Piano Department from 1992 to 1999 and as an assistant professor from 1986 to 1992, all at Lawrence University.

Dr. Murray received her Bachelor of Music degree from Illinois Wesleyan University, her Master of Music in piano performance from Bowling Green State University and her Doctor of Music in piano performance and pedagogy from Northwestern University.

Vice President of Administration and Finance/Chief Financial Officer

Mr. David Wheaton is the Vice President of Administration and Finance/Chief Financial Officer and has held this position since 2002. Previously, Mr. Wheaton served as the Vice President for Administration and Finance for the William Mitchell College of Law. Mr. Wheaton reports to the President and serves on the senior staff of the College. He is responsible for development and control of the College's budget, cash management, physical plant and off-campus properties, human resources, business services, and information technology. Mr. Wheaton chairs the task force on the budget, and serves as liaison to the resources and planning

committee, as well as the trustee committees on finance, audit, and infrastructure. Mr. Wheaton holds a Bachelors degree from the University of Notre Dame, and a Masters of Management (MBA) from Northwestern University.

Chief Investment Officer

Mr. Mansco Perry III became the College's Chief Investment Officer in 2010. Previously, Mr. Perry served as the Chief Investment Officer for the Maryland State Retirement Agency and has held positions with the Minnesota State Board of Investment, the Minnesota Department of Revenue, the Federal Reserve Bank of Minneapolis, Target Corporation, Cargill, Citibank and Carleton College. Mr. Perry holds a Bachelors degree from Carleton College, a Masters of Business Administration from the University of Chicago, and a Juris Doctorate from William Mitchell College of Law.

Members of the Senior Staff

Thomas P. Bonner	Vice President for College Advancement
Laurie B. Hamre	Vice President for Student Affairs
Kathleen M. Murray	Provost and Dean of the Faculty
Mansco Perry III	Chief Investment Officer
Lorne T. Robinson	Dean of Admissions and Financial Aid
David Wheaton	Vice President of Administration and Finance/Chief Financial Officer

Campus and Buildings

The College campus occupies approximately 53 acres in a residential neighborhood four miles west of downtown Saint Paul. There are 62 buildings on the campus. The insured value of the campus buildings is estimated by the College to be approximately \$320 million.

The College recently completed Phase I of the Janet Wallace Fine Arts Center renovation (\$39.8 million, opened in 2012) affecting the music portion of the complex and which included relocation and expansion of the College's art gallery and Art History program facilities and complete renovation and expansion of the College's Facilities Services offices and shops. Markim Hall (\$7.7 million, opened in 2009), is the home of the Institute for Global Citizenship and was awarded the Platinum Level of the Leadership in Energy and Environmental Design (LEED) program. The Leonard Center (\$42 million, opened in 2008), is an athletic and wellness complex which was designed to promote significant energy reductions for the College.

Additional projects undertaken by the College over the past 15 years have included: construction of the Ruth Stricker Dayton Campus Center (\$18.5 million, opened in 2001), renovation of Kagin Commons (\$7.5 million, opened in 2002); a major renovation and expansion of two science halls (\$22 million, opened in 1997), and a new residence hall (\$6 million, opened in 1997).

The College owns and maintains 14 other buildings adjacent to its campus that are used for a variety of functions ranging from administrative offices to an international student center to language residence houses.

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 54 departmental and interdepartmental programs. Programs leading to licensure for

secondary teaching are offered by the education department in cooperation with other departments of the College.

Student Enrollment

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

<u>Fall Term</u>	<u>Total FTE</u>	<u>Total Number of Students</u>
2008	1,872	1,900
2009	1,971	1,996
2010	2,002	2,033
2011	1,987	2,005
2012	2,047	2,070

Geographical Distribution of Student Body

Following is the geographic distribution of full-time students for the Fall Term 2012:

<u>Place of Origin</u>	<u>Number of Full-time Students</u>
Minnesota	341
Wisconsin	176
California	176
Illinois	123
New York	113
Massachusetts	81
Washington	60
Oregon	58
Iowa	44
Pennsylvania	44
Maryland	43
Other States	492
International*	<u>296</u>
Total	2,047

* Includes U.S. citizens living abroad.

Freshmen Applications, Admissions and Enrollments

<u>Fall Semester</u>	<u>Applications Received</u>	<u>Offers of Admission</u>	<u>Percent Admitted</u>	<u>Freshmen Enrolled</u>	<u>Percent of Admitted Enrolled</u>	<u>Median Composite SAT Scores</u>
2008	5,041	2,074	41	479	23	2,040
2009	4,565	2,109	46	565	27	2,030
2010	4,317	1,837	43	515	28	2,040
2011	6,111	2,137	35	478	22	2,050
2012	6,030	2,214	37	534	24	2,060

Student Retention

The following student retention rates are based on tracking incoming freshmen through to graduation.

<u>Fall Semester</u>	<u>New Freshmen</u>	<u>Percent of Students Returning</u>			<u>Percent of Graduates</u>	
		<u>2nd Year</u>	<u>3rd Year</u>	<u>4th Year</u>	<u>4 Years</u>	<u>By 5th Year</u>
2007	485	92	88	89	84	87
2008	479	94	91	91	85	
2009	565	96	92	91		
2010	515	94	91			
2011	478	94				
2012	534					

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 for the fiscal years 2008-09 through 2012-13.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Tuition	\$36,304	\$37,974	\$39,846	\$41,800	\$43,472
Room	4,508	4,666	4,854	5,024	5,214
Full Board	3,964	4,102	4,224	4,372	4,512
Student Activity Fees	200	200	200	221	221
Total	\$44,976	\$46,942	\$49,124	\$51,417	\$53,419

Additional fees may be charged depending on activity or course of study.

(The Balance of This Page is Intentionally Left Blank)

2012/2013 Undergraduate Tuition, Fees, Room and Board Comparison (Ranked by Comprehensive Charges)

The College has identified a peer group of colleges and universities, comprised generally of institutions that are ranked similarly to the College by U.S. News and World Report in its report on America's Best Colleges or with which the College has a substantial overlap of applications. The following table is a comparison of that group for tuition, fees, room and board, and comprehensive charges.

<u>College/University</u>	<u>Tuition and Required Fees</u>	<u>Room and Board</u>	<u>Comprehensive Charges</u>
Wesleyan University	\$45,658	\$12,574	\$58,232
Claremont McKenna College	\$44,085	\$13,635	\$57,720
Oberlin College	\$45,800	\$11,830	\$57,630
Vassar College	\$46,270	\$10,800	\$57,070
Carleton College	\$44,445	\$11,553	\$55,998
Colby College*	*	*	\$55,700
Hamilton College	\$44,350	\$11,270	\$55,620
Bryn Mawr College	\$42,246	\$13,340	\$55,586
Colgate University	\$45,408	\$10,165	\$55,573
Smith College	\$41,460	\$13,860	\$55,320
Macalester College	\$43,693	\$ 9,726	\$53,419
Washington & Lee University	\$43,362	\$ 9,450	\$52,812
Grinnell College	\$41,004	\$ 9,614	\$50,618
Lawrence University	\$40,023	\$ 8,247	\$48,270
Beloit College	\$38,474	\$ 7,862	\$46,336
Average:	\$43,306	\$10,995	\$54,394

* Colby College's breakdown of tuition, required fees, and room and board is not available.

Source: Information posted on each institution's website.

Faculty and Staff

The teaching student-faculty ratio for the academic year 2012-13 is 10 to 1. There are no religious or denominational prerequisites or any participatory religious requirements for faculty or staff 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 174 full-time and 63 part-time teaching faculty. The total faculty payroll for Fiscal Year 2011-12 was approximately \$22.8 million including benefits. The total faculty payroll for Fiscal Year 2012-13 is expected to be approximately \$23.2 million including benefits.

Salaries of Full-Time Instructional Faculty – 2012-13 Academic Year

<u>Academic Rank</u>	<u>Number of Faculty</u>	<u>Average Total Compensation*</u>
Professor	60	\$149,828
Associate Professor	42	113,156
Assistant Professor	40	92,572
Instructor	10	76,523
Faculty without academic rank	22	78,327

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

Of the full-time faculty reported on the Fiscal Year 2012-13 AAUP salary survey, 94% hold PhD's or the highest degree in their field. Approximately 59% 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 53 employees, represents custodians, grounds persons, and skilled crafts positions. The engineer unit, composed of 11 employees, represents maintenance and operating engineers. Both agreements expire on May 31, 2015. These are the only two bargaining units at the College. The College considers its relations with its employees to be good.

Pension Plans

The College provides retirement benefits to substantially all employees. Certain academic and non-academic personnel are covered under a defined contribution plan with Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), and Vanguard Fiduciary Trust Company. 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. Total benefit expenses for the fiscal years ended May 31, 2012 and 2011 were approximately \$3.8 million and \$3.7 million, respectively.

Financial Aid

For the 2012-13 academic year, approximately 75% of the student body, receive some form of federal, State and/or College financial aid. No assurance can be given that federal or State student financial aid or College aid will continue to be funded at current levels.

The following table shows a five-year history of financial aid awarded to students of the College from all sources, excluding non-need based aid such as SELF and PLUS loans.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Grants	\$27,995,491	\$31,758,811	\$36,682,659	\$40,815,004	\$42,514,296
Loans	3,146,903	3,057,514	3,219,813	3,625,930	3,216,382
Work-Study	<u>2,306,998</u>	<u>2,285,639</u>	<u>2,526,774</u>	<u>2,713,191</u>	<u>2,821,517</u>
Total	\$33,449,392	\$37,101,964	\$42,429,246	\$47,154,125	\$48,552,195
Percent of Full-Time Students Receiving Aid	73%	72%	73%	75%	76%
Average Award Per Recipient	\$21,733	\$27,709	\$31,432	\$33,234	\$32,739

Market Value of Long-Term Investments

The College treats its long-term investments as the principal component of the College's endowment. The following table shows the market value of the College's long-term investments for the past five fiscal years.

<u>Fiscal Year</u>	<u>Long-Term Investments*</u>
2008	\$740,069,000
2009	559,849,000
2010	613,022,000
2011	686,363,000
2012	641,163,000

* Includes beneficial interest in perpetual trust.

The value of the College's long-term investments at September 30, 2012, as estimated by the College, was \$648,000,000.

According to the most recent survey conducted by the National Association of College and University Business Officers (NACUBO), the College ranked 116th among 839 higher education institutions and foundations reporting on the market value of total endowment assets at the end of Fiscal Year 2011.

The College's total net assets and assets by asset class for the past five fiscal years are as follows:

<u>Fiscal Year</u>	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
2008	198,487,000	286,228,000	350,876,000	835,591,000
2009*	139,239,000	202,534,000	340,560,000	682,333,000
2010*	145,364,000	253,222,000	344,444,000	743,030,000
2011	154,654,000	317,090,000	349,748,000	821,492,000
2012	154,271,000	280,768,000	348,281,000	783,320,000

* The Board of Trustees adopted FSP 117-1/UPMIFA beginning with Fiscal Year 2009 and reclassified certain assets to conform with the required presentation. Under UPMIFA, the gains related to

permanently restricted endowment funds are now held in temporarily restricted net assets. Prior to Fiscal Year 2009, the combined gains and losses were accounted for as unrestricted net assets.

Endowment Draw Policy and Investment Objectives

The College has a total return endowment draw policy, and utilizes a draw from endowment rule that provides 5% of a trailing 16 quarter average market value of long-term investments. The College's Finance Committee determines the disposition of the funds drawn from the endowment. Historically, the vast majority of the funds have been used to support current operations, including student aid. For further information, please see Appendix VII of this Official Statement containing the College's audited financial statements for the fiscal years ended May 31, 2012 and 2011.

Private Gifts and Grants

Private gifts and grants revenues received by fund for the past five years as reported in the annual financial statements of the College have been:

<u>Fiscal Year</u>	<u>Current Funds</u>		<u>Endowment Funds</u>	<u>Deferred Gift Funds</u>	<u>Plant Funds</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>				
2008	\$4,637,000	\$2,104,000	\$ 612,000	\$671,000	\$8,372,000	\$16,396,000
2009	3,570,000	1,021,000	6,208,000	202,000	5,823,000	16,824,000
2010	4,616,000	1,710,000	1,831,000	520,000	2,017,000	10,694,000
2011	3,339,000	2,948,000	936,000	545,000	6,679,000	14,447,000
2012	3,212,000	2,115,000	3,939,000	152,000	4,452,000	13,870,000

Statement of Unrestricted Activities for Fiscal Years 2008 through 2012

The following two tables summarize the College's statements of unrestricted activities for the Fiscal Years ended May 31, 2008 through 2012. Fiscal Years 2008 and 2009 appear in the first following table and Fiscal Years 2010 through 2012 appear in the second following table. For more complete information of the College for the Fiscal Years ended May 31, 2012 and 2011, see Appendix VII of this Official Statement containing the College's audited financial statements for such period.

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

Macalester College
Statement of Unrestricted Activities
Years Ended May 31,
(in thousands of dollars)

	2008	2009
Revenue:		
Tuition and fees	\$ 63,147	\$ 67,545
Less: Student aid and scholarship	(28,037)	(29,629)
Net tuition and fees	35,110	37,916
Federal grants and contracts	1,449	1,201
State grants and contracts	131	156
Private gifts and grants	4,647	3,574
Sales and service of auxiliary enterprises	11,648	11,981
Other sources	915	1,031
Investment income	1,293	663
Endowment payout	3,138	3,268
Realized and unrealized gains (losses) on:		
Investments, net of gains used in endowment payout	3,449	(13,098)
Change in value of planned giving arrangements	(64)	(60)
Change in value in interest rate swap	(622)	(796)
Net assets released from restrictions	34,775	44,430
Total revenue	95,869	90,266
Expenses:		
Instruction	30,581	32,606
Research	682	933
Public service	1,260	751
Academic support	7,460	8,204
Student services	15,750	19,482
Institutional support	17,746	9,036
Auxiliary enterprises	9,645	19,838
Total expenses	83,124	90,850
Loss on disposal of fixed assets	(132)	0
Reclassification of net assets	0	(58,664)
Change in unrestricted net assets before cumulative effect of change in accounting principle	12,613	(59,248)
Cumulative effect of change in accounting principle	0	0
Change in unrestricted net assets	12,613	(59,248)
Unrestricted net assets beginning of year	185,874	198,487
Unrestricted net assets at end of year	\$ 198,487	\$ 139,239

Source: audited financial statements of the College.

Macalester College
Statement of Unrestricted Activities
Years Ended May 31,
(in thousands of dollars)

	2010	2011	2012
Operating Activities			
Revenue and other additions:			
Tuition and fees	\$ 74,097	\$ 78,676	\$ 82,333
Less: Student aid and scholarship	(33,945)	(37,819)	(39,854)
Net tuition and fees	40,152	40,857	42,479
Federal grants and contracts	3,463	2,398	2,136
State grants and contracts	330	230	464
Private gifts and grants	4,616	3,339	3,212
Sales and service of auxiliary enterprises	12,950	13,611	13,387
Other sources	1,040	1,013	1,128
Endowment payout	3,383	3,402	3,440
Realized and unrealized gains (losses) on:			
investments	123	9	(7)
Gain (loss) on disposal of fixed assets	0	(1,441)	81
Net assets released from restrictions	29,529	33,514	34,142
Total operating revenue and other additions	95,586	96,932	100,462
Expenses:			
Program			
Instruction	32,311	32,234	35,010
Research	1,142	1,506	2,108
Public service	730	902	1,014
Academic support	8,142	11,072	10,803
Student services	21,011	19,382	19,497
Auxiliary enterprises	9,001	9,932	10,355
Institutional support	18,258	19,038	19,654
Total expenses	90,595	94,066	98,441
Change in net assets from operating activities	4,991	2,866	2,021
Nonoperating Activities			
Investment-related:			
Realized and unrealized gains on investments	\$ 7,489	\$ 13,823	\$ 1,586
Less: Endowment payout for operations	(3,383)	(3,402)	(3,440)
Net realized and unrealized gains	4,106	10,421	(1,854)
Investment income	98	108	108
Change in beneficial interest in perpetual trust	0	0	0
Change in value of planned giving agreements	27	24	(44)
Gift-related:			
Private gifts and grants restricted for long term investment	18	19	51
Private gifts and grants restricted for capital projects	0	376	231
Other:			
Change in value of interest rate swap	(183)	(205)	(157)
Net assets released from restrictions	168	(1,654)	425
Total nonoperating revenues and other additions	4,234	9,089	(1,240)
Reclassification of net assets	(3,100)	0	0
Transfer of assets to outside entity			(1,164)
Effect of change in accounting treatment	0	(2,665)	0
Change in net assets from nonoperating activities	1,134	6,424	(2,404)
Change in net assets	6,125	9,290	(383)
Unrestricted net assets beginning of year	139,239	145,364	154,654
Unrestricted net assets end of year	\$ 145,364	\$ 154,654	\$ 154,271

Source: audited financial statements of the College.

Long-Term Debt of the College (as of November 1, 2012)

1. \$6,660,000 Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Three-Z (Macalester College), dated September 15, 1994 (the "Series Three-Z Bonds"). The College provides liquidity for the Series Three-Z Bonds, which are an unsecured general obligation of the College. Holders may tender bonds on seven days' notice and interest is re-set weekly. To facilitate the availability of sufficient funds, the College maintains a custodial account. The College is required to own, on each semi-annual valuation date, investments having a market value in excess of the purchase price of outstanding Series Three-Z Bonds, but the College is not required to maintain any specified amount of liquid funds at any other times. The outstanding balance on the Series Three-Z Bonds is \$6,660,000, all scheduled to mature in March 2024.
2. \$15,300,000 Minnesota Higher Education Facilities Authority Variable Rate Demand Revenue Bonds, Series Five-Q (Macalester College), dated February 20, 2003 (the "Series Five-Q Bonds"). The College provides liquidity for the Series Five-Q Bonds, which are an unsecured general obligation of the College. Holders may tender bonds on seven days' notice and interest is re-set weekly. To facilitate the availability of sufficient funds, the College has maintained a custodial account, but the College has no obligation to continue to maintain the account or to otherwise reserve liquid funds. \$15,000,000 of the Series Five-Q Bonds is subject to an interest rate swap that expires on May 31, 2016. The outstanding balance on the Series Five-Q Bonds is \$15,300,000, all scheduled to mature in March 2033.
3. \$14,995,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-B (Macalester College), dated December 1, 2004 (the "Series Six-B Bonds"). The Series Six-B Bonds are an unsecured general obligation of the College. The average interest rate on the Series Six-B Bonds is 4.73%, with the final maturity due March 1, 2017. The outstanding balance on the Series Six-B Bonds is \$6,850,000.
4. \$3,000,000 Minnesota Higher Education Facilities Authority Revenue Notes, Series Six-F (Macalester College), dated July 22, 2005 (the "Series Six-F Notes"). The Series Six-F Notes are an unsecured general obligation of the College. The average interest rate on the Series Six-F Notes is 4.08% with the final maturity due July 22, 2014. The outstanding balance on the Series Six-F Notes is \$763,891.
5. \$39,490,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Six-P (Macalester College), dated March 1, 2007. The Series Six-P bonds are an unsecured general obligation of the College. The average interest rate on the Series Six-P Bonds is 4.42% with the final maturity due March 1, 2032. The outstanding balance on the Series Six-P Bonds is \$33,715,000.
6. \$16,000,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Seven-I (Macalester College), dated December 17, 2010. The Series Seven-I Bonds are an unsecured general obligation of the College. The average interest rate on the Series Seven-I Bonds is 4.76% with the final maturity due June 1, 2035. The outstanding balance on the Series Seven-I Bonds is \$15,860,000.

Estimated Maximum Annual Debt Service and Pro Forma Coverage

The following table sets forth pro-forma estimated maximum annual debt service (“MADS”) coverage ratios of the College using Revenue Available for Debt Service based on the College’s fiscal year ended May 31, 2012 audited financial statements and estimated MADS. Because the College’s long-term indebtedness consists of both fixed-rate indebtedness and variable rate demand bond indebtedness (“VRDB”), estimated MADS is calculated using, for the fixed rate indebtedness, actual interest rates and amortization, and for the VRDBs, interest rate and amortization assumptions shown in Footnote 2 below. **The table below is not intended to be, nor should it be considered a projection or guarantee of the College’s total debt service or MADS. Any additional future indebtedness will increase the College’s MADS requirements.**

	Fiscal Year Ended <u>May 31, 2012</u>
Unrestricted Net Operating Income	\$ 2,021,000
Plus:	
Depreciation and Amortization	\$ 7,424,000
Interest Expense on Funded Debt	3,201,000
Other Additions	0
FY 2012 Revenues Available for Debt Service (A) (Footnote 1)	\$12,646,000
Estimated MADS for Outstanding Long-Term Debt (B) (Footnote 2)	\$ 6,951,627
Pro Forma MADS Coverage Ratio (A divided by B)	1.82
Estimated MADS including Outstanding Long-Term Debt and the Bonds (C) (Footnotes 2 and 3)	\$ 7,443,233
Pro Forma MADS Coverage Ratio (A divided by C)	1.70

Footnote 1 Sum of unrestricted net operating income and itemized adjustments above.

Footnote 2 Long-term debt of the College includes two VRDBs: \$6,660,000 Series Three-Z Bonds maturing in Fiscal Year 2024 and \$15,300,000 Series Five-Q Bonds maturing in Fiscal Year 2033. This presentation assumes amortization of the VRDBs commencing in 2017 upon the final maturity of the College’s Series Six-B Bonds, with the College reducing VRDB principal annually by approximately the amount it had been paying annually for debt service on the Series Six-B Bonds. The Series Three-Z Bonds are assumed to bear interest at the 20-year average of SIFMA (2.33%). The Series Five-Q Bonds are assumed to bear interest at the fixed payor swap rate (3.33%) until Fiscal Year 2016 and the 20-year average of SIFMA thereafter.

Footnote 3 Includes the Bonds in the principal amount of \$14,730,000 at the maturities and rates appearing on the cover hereof.

The College is not obligated to prepay any portion of the principal on the VRDBs prior to their stated maturity. While the College anticipates making prepayments of principal on the VRDBs, there is no assurance that the College will prepay principal on the VRDBs in any amount. The College may commence, discontinue or adjust the amount of principal prepayment on the VRDBs at any time.

The following table displays the College’s actual and projected debt service based on actual debt service for the College’s fixed rate debt and the assumptions described above in Footnotes 2 and 3 for the College’s variable rate debt and the projected Bonds.

Macalester College -- Series Seven-S Debt Service and Projected Outstanding Debt Service

Seven-S Debt Service		Outstanding Debt Service						TOTAL	
Seven-S Total Debt Service	Three-Z	Five-Q	Six-B	Six-F	Six-P	Seven-I	Outstanding Total Debt Service	Projected Total DS	
2013	189,815	155,178	509,490	1,737,500	401,621	3,196,038	859,550	6,859,377	7,049,192
2014	491,606	155,178	509,490	1,732,750	401,622	3,198,038	954,550	6,951,627	7,443,233
2015	581,606	155,178	509,490	1,739,750	200,811	3,212,238	1,044,150	6,861,616	7,443,223
2016	669,806	155,178	509,490	1,737,750	-	3,208,038	1,130,750	6,741,206	7,411,012
2017	754,406	976,974	356,490	882,000	-	3,211,038	1,156,950	6,583,452	7,337,858
2018	841,306	1,864,218	356,490	-	-	3,205,838	1,154,850	6,581,395	7,422,702
2019	845,356	1,823,792	356,490	-	-	3,206,838	1,157,225	6,544,345	7,389,701
2020	843,956	1,783,367	356,490	-	-	3,202,588	1,155,225	6,497,669	7,341,626
2021	842,256	642,233	1,457,199	-	-	3,213,088	1,157,075	6,469,594	7,311,850
2022	845,256	-	2,059,006	-	-	3,212,338	1,158,050	6,429,393	7,274,650
2023	842,806	-	2,018,580	-	-	1,615,588	1,156,650	4,790,818	5,633,624
2024	843,244	-	1,978,155	-	-	1,615,325	1,159,650	4,753,130	5,596,374
2025	842,913	-	1,937,729	-	-	1,618,150	1,157,400	4,713,279	5,556,192
2026	844,563	-	1,897,304	-	-	1,618,850	1,155,375	4,671,529	5,516,091
2027	840,763	-	1,856,878	-	-	1,617,425	1,154,550	4,628,853	5,469,616
2028	841,663	-	1,816,453	-	-	1,618,875	1,155,375	4,590,703	5,432,365
2029	842,113	-	1,776,027	-	-	1,617,988	1,156,625	4,550,640	5,392,752
2030	842,113	-	321,116	-	-	1,614,763	1,155,875	3,091,754	3,933,866
2031	841,663	-	-	-	-	1,619,200	1,158,000	2,777,200	3,618,863
2032	845,763	-	-	-	-	1,615,875	1,157,875	2,773,750	3,619,513
2033	844,263	-	-	-	-	-	1,155,500	1,155,500	1,999,763
2034	840,900	-	-	-	-	-	1,155,750	1,155,750	1,996,650
2035	842,050	-	-	-	-	-	1,158,375	1,158,375	2,000,425
2036	842,550	-	-	-	-	-	1,158,250	1,158,250	2,000,800
2037	842,400	-	-	-	-	-	-	-	842,400
2038	841,800	-	-	-	-	-	-	-	841,800
2039	845,200	-	-	-	-	-	-	-	845,200
2040	842,400	-	-	-	-	-	-	-	842,400
2041	843,600	-	-	-	-	-	-	-	843,600
2042	843,600	-	-	-	-	-	-	-	843,600
2043	842,400	-	-	-	-	-	-	-	842,400

24,604,134

Maximum Annual Debt Service (MADS):

6,951,627

7,443,233

(This Page is Intentionally Left Blank)

PROPOSED FORM OF LEGAL OPINION

MCGRANN SHEA CARNIVAL STRAUGHN & LAMB, CHARTERED

ATTORNEYS AT LAW

WILLIAM R. MCGRANN
DOUGLAS M. CARNIVAL
ROBERT O. STRAUGHN
PETER L. COOPER
KATHLEEN M. LAMB
JOHN R. SCHULZ
COREY J. AYLING
DEBRA E. YERIGAN
SCOTT B. CROSSMAN

CARLA J. PEDERSEN
JOSEPH T. BAGNOLI
ROGER J. STELLJES
JEFFREY C. URBAN
KATHLEEN MICHAELA BRENNAN
JENNIFER A. JAMESON
CARL S. WOSMEK
JASON H. THOMAS
AMY L. COURT
~~~~~

CHRISTINE L. MENNEN  
MICHAEL T. HATTING  
MICHAEL P. ELDRIDGE  
CHRISTY E. LAWRIE

Of Counsel  
ANDREW J. SHEA

\$14,730,000

Minnesota Higher Education Facilities Authority  
Revenue Bonds, Series Seven-S  
(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 Seven-S (Macalester College), in the aggregate principal amount of \$14,730,000 (the “Bonds”), dated as of their date of delivery, more fully described in and issued pursuant to the Indenture (defined below).

The Bonds are issued for the purpose of funding a loan from the Authority to Macalester College, a Minnesota nonprofit corporation, as owner and operator of Macalester College, an institution of higher education with its campus in Saint Paul, Minnesota (the “College”), in order to finance educational facilities owned or to be owned and operated by the College and located on the campus of the College in Saint 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 Wells Fargo Bank, National Association, in Minneapolis, Minnesota, as Trustee (the “Trustee”), each dated as of December 1, 2012, one or more opinions of Nilan Johnson Lewis P.A., 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 Nilan Johnson Lewis P.A., 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 and unrelated trade or business activities, good standing, and powers of the College. As to title to the Project Site (as defined in the Loan Agreement and Indenture), we have relied on information contained in owner and encumbrances reports, title insurance policies or commitments or title opinions, provided to us by the College or by counsel engaged by it, and have not undertaken any examination of 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 duly organized and existing under the laws 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 valid and binding limited obligations of the Authority payable from the loan repayments payable by the College under the Loan Agreement which have been assigned 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 are further secured by the pledge of the funds and investments held by the Trustee under the Indenture and by the pledge of funds and rights to payments held by the Trustee, as assignee, under the Loan Agreement. The Bonds are not a general obligation or indebtedness of the Authority within the meaning of any constitutional or statutory limitation, and do not constitute or give rise to a pecuniary liability of the Authority or charge against its general credit, but are payable solely from amounts pledged thereto in accordance with the provisions of the Indenture.

4. Assuming compliance with the covenants in the Loan Agreement and Indenture, the interest on the Bonds is not includable in gross income for purposes of federal income taxation or in net taxable income of individuals, estates and trusts for purposes of Minnesota income taxation under present laws and rulings. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the "Code"), or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in "adjusted current earnings" for purposes of the computation of "alternative minimum taxable income" of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Bonds are "private activity bonds" within the meaning of Section 141(a) and "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code. Ownership of the Bonds will result in disallowance of a deduction for a portion of the interest expense of a "financial institution" under Section 265(b) of the Code. The Authority has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code. The opinion set forth in this paragraph is subject to the conditions that the Authority, the Trustee and the College comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in federal gross income or

Minnesota taxable net income retroactive to the date of issuance of the Bonds. The Authority, the Trustee and the College have covenanted to comply with such requirements.

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

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

Dated at Minneapolis, Minnesota, \_\_\_\_\_, 2012.

McGrann Shea Carnival  
Straughn & Lamb, Chartered

(This Page is Intentionally Left Blank)

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

The Annual Report Date will be the date that is 210 days after the fiscal year end, commencing with the fiscal year ended May 31, 2013. 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
    - Geographical Distribution
    - Freshman Applications, Admissions and Enrollments
    - Student Retention
    - Tuition, Fees, Room and Board
    - Faculty and Staff
    - Pension Plans
    - Financial Aid
    - Market Value of Long-Term Investments
    - Private Gifts and Grants

**Material Events to be Disclosed**

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

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties (this is not applicable to the Bonds);
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties (this is not applicable to the Bonds);
- (v) Substitution of credit or liquidity providers, or their failure to perform (this is not applicable to the Bonds);
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) The giving of notice to redeem any Bonds other than for a sinking fund redemption;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Tender offers;

- (xiii) Bankruptcy, insolvency, receivership or similar event of the Reporting Party (when such event is considered to have occurred under the Rule);
- (xiv) The consummation of a merger, consolidation, or acquisition involving the Reporting Party or the sale of all or substantially all of the assets of the Reporting Party, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

## DEFINITIONS OF CERTAIN TERMS

*Account or Accounts:* One or more of the Accounts created under Article IV or V of the Indenture.

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

*Arbitrage Regulations:* All regulations and proposed regulations from time to time issued and in effect under Section 148 of the Internal Revenue Code (and former Section 103(c) of the Internal Revenue Code of 1954), including without limitation Treasury Regulations Sections 1.148-1 to 1.150-1.

*Authority:* The Minnesota Higher Education Facilities Authority.

*Authorized Authority Representative:* The person at the time designated to act on behalf of the Authority by written certificate furnished to the Corporation and the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by its Chair, Secretary or Executive Director or any officer authorized to act on behalf of the foregoing officers. Such certificate may designate an alternate or alternates and in that case, specimen signatures for the alternates shall be provided as well.

*Authorized Denominations:* \$5,000 and any integral multiples thereof.

*Authorized Institution Representative:* The President or the Vice President of Administration and Finance of the Corporation or any other person at the time designated to act on behalf of the Corporation by written certificate furnished to the Authority and the Trustee, containing the specimen signature of such person and signed on behalf of the Corporation by the Chair, the Vice-Chair, or the Treasurer of its Board of Trustees or the President or the Vice President of Administration and Finance of the Corporation. Such certificate may designate an alternate or alternates.

*Authorized Investments:* Investments authorized for moneys in the Accounts created under Articles IV and V of the Indenture and described in Section 5.04 thereof.

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

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

*Bond and Interest Sinking Fund Account:* The Bond and Interest Sinking Fund Account established pursuant to the Indenture.

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

*Bond Purchase Agreement:* The Bond Purchase Agreement, dated November 15, 2012, among the Authority, the Corporation, and the Underwriter, related to the Series Seven-S Bonds.

*Bond Resolution:* The Series Resolution of the Authority adopted on November 7, 2012 authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

**Bond Year:** With respect to the Bonds, (a) the period from the Issue Date to the close of business on May 1, 2013, and (b) each succeeding 12-month period ending at the close of business on May 1 of each year in which the outstanding Bonds, if paid at their stated maturity dates, will be outstanding.

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

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

**Book-Entry System:** A system of recordkeeping, securities clearance and funds transfer and settlement maintained for securities by the Depository and Participants (or Indirect Participants).

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

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

**College or Corporation:** Macalester College, a Minnesota nonprofit corporation, its successors and assigns, as owner and operator of the Institution.

**Construction Account:** The Construction Account established pursuant to the Indenture.

**Continuing Disclosure Agreement:** The Continuing Disclosure Agreement between the Trustee and the Corporation, dated as of December 1, 2012.

**Date of Taxability:** That date as of which the interest on the Bonds shall be so determined to be includable in the gross income of the Owners thereof; provided, that no 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.

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

**Determination of Taxability:** A Notice of Deficiency issued by the Internal Revenue Service or a final decision of a court of competent jurisdiction to the effect that 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.

**DTC:** The Depository Trust Company in New York, New York, its successors or assigns.

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



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

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

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

*Indenture:* The Trust Indenture between the Authority and Wells Fargo Bank, National Association, as Trustee, dated as of December 1, 2012, under which the Bonds are authorized to be issued, and including any indenture supplemental hereto.

*Independent:* When used with reference to an attorney, engineer, architect, certified public accountant, consultant, insurance consultant or other professional person, means a person who (i) is in fact independent, (ii) does not have any material financial interest in the Corporation or the Institution or the transaction to which such Certificate or opinion relates (other than the payment to be received for professional services rendered), and (iii) is not connected with the Authority or the Corporation or Institution as an officer, employee or member of the Authority, the Corporation or Institution or Board of Trustees of the Corporation.

*Independent Counsel:* an Independent attorney duly admitted to practice law before the highest court of any state.

*Independent Management Consultant:* An Independent certified public accountant, Independent financial consultant or Independent management consultant having a favorable reputation for skill and experience in studying and reporting on operations of private nonprofit institutions of higher education satisfactory to the Authority.

*Institution:* Macalester College, a Minnesota institution of higher education headquartered in the City of Saint Paul, Minnesota and owned and operated by the Corporation.

*Institution Facilities:* Collectively, the buildings and other improvements owned and operated by the Corporation and located on, and which constitute in the aggregate the physical plant of, the Institution's main campus in Saint Paul, Minnesota.

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

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

*Loan Agreement:* The Loan Agreement between the Authority and the Corporation relating to the Bonds, dated as of December 1, 2012, as amended or supplemented from time to time.

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

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

*Net Proceeds:* When used with respect to proceeds of insurance or a condemnation award, moneys received or receivable by the College as owner or lessee and 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.

*Notice of Deficiency:* The statutory notice of deficiency issued by the Internal Revenue Service to a taxpayer identifying a tax deficiency and providing a specified period of time to appeal such deficiency.

*Outstanding or outstanding:* When used as of any particular time with reference to Bonds, without regard to capitalization of such term, means (subject to the provisions of the Indenture pertaining to Bonds held by the Authority and the Corporation) all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for the payment or redemption of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III of the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of Section 2.07 of the Indenture pertaining to replacement of Bonds.

*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:* The second phase of renovation and expansion of the Janet Wallace Fine Arts Center complex including renovation, construction, equipping and furnishing of the approximately 35,000 square foot studio arts portion of the complex, and replacement of a portion of the boiler capacity in the Institution's heating plant; together with all related improvements, upgrades and site work; all owned or to be owned and operated by the Corporation and located on the Institution's campus, the principal street address of which is 1600 Grand Avenue, Saint Paul, Minnesota 55105. A small portion of the Project (as shown in Exhibit A to the Loan Agreement and representing less than 5% of the total cost of the Project) consists of improvements to land and structures adjacent or near to, but not located within, the Project Site; no part of the cost of such portion of the Project will be paid from Bond proceeds and such portion of the Project will not be deemed part of the Project Facilities.

*Project Buildings:* The buildings and facilities which are to be acquired, constructed, furnished and equipped with the proceeds of the Bonds, including investment earnings thereon.

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

*Project Facilities:* The Project Site, the Project Buildings and the Project Equipment as the same may at any time exist.

*Project Site:* Those portions of land described on Exhibit A to the Loan Agreement which are owned by the College, and on which any Project Buildings are or will be located or otherwise improved as part of the Project.

*Reference Rate:* The interest rate per annum announced from time to time by Wells Fargo Bank, National Association, as its prime or reference rate, regardless of whether that interest rate is actually charged to any customer of said bank.

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

*Trust Estate:* The interest of the Authority in the Loan Agreement assigned under Granting Clause I of the Indenture; the revenues, moneys, investments, contract rights, general intangibles and instruments and proceeds and products and accessions thereof as set forth in Granting Clause II of the Indenture; and additional property held by the Trustee pursuant to Granting Clause III of the Indenture.

*Underwriter:* Piper Jaffray & Co., as original purchaser of the Bonds.

(This Page is Intentionally Left Blank)

**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 construction, acquisition and installation of the Project will be substantially completed by no later than March 1, 2014, 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 effect 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 and premium, if any, on the Bonds when due. To provide for such payments the College covenants to pay for the account of the Authority the following amounts:

- (a) at least one (1) Business Day prior to each May 1 and November 1, commencing May 1, 2013, into the Bond and Interest Sinking Fund Account a sum which will be equal to the amount payable as interest on the Bonds on the next succeeding interest payment date, and, on each May 1 when principal is due whether at maturity or mandatory sinking fund redemption, the amount payable as principal on such principal 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, including amounts transferred from the Construction Account pursuant to Sections 4.04, 4.05, and 5.01 of the Indenture; and (ii) any credits permitted by Sections 5.01, 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) at least one (1) Business Day prior to a date established for the optional redemption or mandatory 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 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 of, premium, if any, and interest on the 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).

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 the College's status as an exempt organization under Section 501(c)(3) of the Code.

### **Maintenance of Project Facilities**

The College agrees that, so long as there are Bonds outstanding, the College will keep the Project Facilities in good repair and good operating condition at its own cost, making such repairs, modifications, and replacements as are necessary so that the Project will remain a "project" under the Act and interest on the Bonds will be exempt from federal income taxation and may make such repairs, modifications and replacements as in the judgment of the College are desirable, subject to the same conditions. The College may sell, transfer, convey, lease or sublease or enter into agreements in the ordinary course of business for the use of the Project Facilities, so long as (i) the tax-exempt status of the Bonds will not be affected thereby, (ii) such sale, transfer, conveyance, lease, sublease or use agreement shall not be inconsistent with the Loan Agreement, the Indenture or the Act, (iii) the College shall remain fully obligated under the Loan Agreement as if such lease, sublease or use agreement had not been made, and (iv) in the case of such sale, transfer or conveyance, or in the case of any lease to or occupancy by persons who are not students, employees or faculty of the College, an opinion of Bond Counsel is provided to the Trustee to the effect that tax exemption of the interest on the Bonds is not adversely affected; provided further, that the College may demolish any of the Project Facilities that, in the judgment of the College, are worn out, obsolete, or require replacement, are no longer used, or the College, by resolution of its Board of Trustees, has determined in its judgment are no longer useful.

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

Except for Permitted Encumbrances, the College will not permit any liens to be established or to remain against the Project Facilities including any mechanics' liens for labor or materials

furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the College may in good faith contest any liens filed or established against the Project Facilities and may permit the items so contested to remain undischarged and unsatisfied during the period of such contest unless the Authority or Trustee shall notify the College that, in the opinion of independent counsel, by nonpayment of any such items the Project Facilities will be subject to loss or forfeiture, in which event the College shall promptly pay all such items.

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

The College will pay all taxes, special assessments, license fees and governmental charges of any kind that may at any time be lawfully assessed or levied against, or with respect to the operations of the College, or the Project Facilities or any improvements, equipment or related property installed or bought 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 and any appeal therefrom 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, with certain deductible amounts, as follows:

- (a) Insurance against loss and/or damage to the Project Facilities and contents, under a policy or policies covering such risks as are ordinarily insured against by similar institutions, including fire and extended coverage in an amount not less than 80% of the full insurable replacement value of the Project Facilities, with a deductible amount of up to \$250,000.
- (b) Comprehensive general public liability insurance including blanket contractual liability and personal injury liability and automobile insurance in the minimum amount for each occurrence of \$5,000,000 and aggregate for each year of \$10,000,000 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 \$250,000.
- (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, provided that the College may be self-insured with respect to all or a part of its liability for workers' compensation.

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 for (a) and (b) above, 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 (30) days before the cancellation or modification becomes effective.

### **Damage or Destruction**

If prior to full payment of the Bonds the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and to the extent that the claim for loss resulting from such damage or destruction is not greater than \$1,000,000, the 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 \$1,000,000, 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 prior to full payment of the Bonds a substantial portion of the Institution Facilities shall be destroyed or damaged by fire, flood, windstorm or other casualty there shall be no abatement or reduction in the Loan Repayments, but the Corporation may redeem and prepay the Bonds in whole (but not in part) if in the sole judgment of the Corporation, it is not practical to rebuild, repair and restore the Institution Facilities so damaged or destroyed and to continue to operate the Institution in the general manner theretofore operated, the Corporation has determined to not rebuild, repair or restore the Institution Facilities so damaged or destroyed and to not continue to operate the Institution in the general manner theretofore operated, and the Corporation elects that all (but not less than all) Bonds then Outstanding be redeemed.

### **Condemnation**

If prior to full payment of the Bonds title to any part of the Project Facilities shall be taken in any proceeding involving the exercise of the right of eminent domain, and to the extent that the Net Proceeds from the award is not greater than \$1,000,000, the College will promptly replace, rebuild or restore the property so taken with such changes, alterations and modifications (including the substitution and addition of other property) as will not impair the character or significance of the Project Facilities as educational facilities. To the extent that the net award is in excess of \$1,000,000, the College shall either replace, rebuild or restore the facilities, or redeem and prepay the Bonds in whole or in part as more fully provided in the Loan Agreement.

If prior to full payment of the Bonds all or substantially all of the Institution Facilities shall be taken in any proceeding involving the exercise of the right of eminent domain, there shall be no abatement or reduction in the Loan Repayments payable by the Corporation, but the Corporation may redeem and prepay the Bonds in whole (but not in part) if in the sole judgment of the Corporation such taking has rendered the Institution Facilities as a whole unsatisfactory to the Corporation for their intended use and it is not practical to continue to operate the Institution in the general manner theretofore operated, the Corporation has determined to not rebuild, repair, restore or replace the Institution Facilities and to not continue to operate the Institution in the general manner theretofore operated, and the Corporation elects that all (but not less than all) Bonds then Outstanding be redeemed.

### **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 equipment and related property for any Project Equipment and Building Equipment, provided that such substitution shall not materially impair the character or revenue producing significance or value of the Project Facilities;
- (b) the 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 for the redemption and prepayment of the Bonds; provided that if the depreciated book value of any item of Equipment so removed was less than \$100,000, such release without substitution and such deposit to the Redemption Account may be effected without such determination of value and Certificate by an independent engineer upon such showing by the 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 or value of the Project Facilities.

In connection with (a) above, if the depreciated book value of the Project Equipment or, in connection with (c) above, the depreciated book value of Building Equipment, to be substituted, removed or released equals or exceeds \$100,000 the 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 will maintain the Institution's existence as a nonprofit institution of higher education under the laws of Minnesota, accredited as such by recognized accrediting agencies, and that it will not dissolve or otherwise dispose of all or substantially all of its assets or all or substantially all the assets of the College, or consolidate with or merge into another corporation, or permit one or more other corporations to consolidate with or merge into it, except upon the conditions provided in the Loan Agreement. The conditions are the following: (a) If the surviving, resulting or transferee corporation or institution, as the case may be, is other than the College, such surviving, resulting or transferee corporation shall assume in writing all of the

obligations of the College in the Loan Agreement and shall be either a state university or college or a nonprofit corporation operating or authorized to operate an institution of higher education under the laws of Minnesota, eligible to be a participating nonprofit institution under the Act, and complies and will comply with the provisions of the Loan Agreement prohibiting unlawful discrimination and requiring that the Institution be nonsectarian; and (b) the College shall furnish to the Trustee an opinion of bond counsel that such consolidation, merger or transfer shall have no effect upon the tax-exempt nature of the interest on the Bonds under the Internal Revenue Code and regulations thereunder.

### **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.

### **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.

### **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, including Minnesota Statutes, Section 363A.13; to provide and file such financing statements and other instruments of further assurance as the Authority or the Trustee may request; to perform all obligations imposed by the Internal Revenue Code and regulations thereunder with respect to the non-arbitrage status of the Bonds; and to observe all applicable State laws and regulations, including those of the Authority and the Minnesota Office of Higher Education 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(f) 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 and any income earned or imputed therefrom.

## **Events of Default**

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

- (a) If the 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 and Redemption Account on a Bond principal or interest payment date or redemption date are insufficient to pay when due principal of and interest on the Bonds, or (ii) such failure shall continue for five (5) Business Days after notice from the Trustee or the Authority to the 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 the Loan Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied, is given to the 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 (90) 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 the College or of the whole or any substantial part of the property of the College, and such custody or control shall not be terminated within ninety (90) days from the date of assumption of such custody or control.

The term "force majeure" as used above includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; orders, regulations or laws of any kind of the government of the United States of America or of the State of Minnesota or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions, breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the 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 (30) 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 under and payable for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable.
- (b) The Trustee (or the Authority with respect to certain sections of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement.
- (c) The Trustee may take whatever action in law or equity which appears necessary or desirable to enforce the security provided by or enforce any provision of the Loan Agreement or the Indenture in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to action taken under the foregoing paragraphs shall be applied first to advances and expenses, second to payment of 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 Balance of This Page Has Been Intentionally Left Blank)

## 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:

- (a) all right, title and interest of the Authority under the Loan Agreement and all Loan Repayments and other sums due under the Loan Agreement, except the rights of the Authority to fees, expenses, indemnity and advances;
- (b) a first lien on and pledge of (i) the moneys and investments in the Accounts covenanted to be created and maintained under the Indenture, (ii) the moneys and investments in the Construction Account not paid out for Project Costs, and (iii) all accounts, contract rights, general intangibles, moneys and instruments arising therefrom or relating thereto and all proceeds and products of and accessions to any thereof; and
- (c) any and all other property of every name and nature from time to time conveyed, mortgaged, assigned or transferred under the Indenture, 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, as trustee of the Bonds issued under the Indenture.

### Accounts

Bond proceeds, revenues and other funds 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.

Moneys on deposit to the credit of the Accounts shall be invested by the Trustee only in investments as authorized by law from time to time which currently and generally are as follows: Direct obligations of the United States government and certain obligations issued or guaranteed by certain of its agencies; direct and general obligations of states rated at least in the rating category of "AA" or "Aa" or political subdivisions of states rated at least in the rating category of "AAA" or "Aaa"; revenue bond obligations of states and their political subdivisions 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, states and their political subdivisions or in certain repurchase agreements; constant dollar value money market funds that invest solely in the types of obligations or repurchase agreements in which the foregoing mutual funds may invest and which are rated in the highest rating category by a national credit rating agency; time deposits of insured state or national banks fully insured by the Federal Deposit Insurance Corporation; certain guaranteed investment contracts issued by a bank or insurance company rated at least in the highest two rating categories of a nationally recognized rating agency; certain types of repurchase agreements; and certain commercial paper maturing in 270 days or less. Section 5.04 of the Indenture sets forth further restrictions as to type and maturity of investments.

## **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 or willful default of the Trustee).

## **Covenants of the Authority**

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

## **Events of Default**

The following are Events of Default under the Indenture:

- (a) If payment of the principal of any of the Bonds, when the same shall become due and payable (whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise), shall not be made; or
- (b) If payment of any interest on the Bonds when the same shall become due and payable (in which case interest shall be payable to the extent permitted by law on any overdue installments of interest, in each case at the interest rate borne by the Bonds in respect of which such interest is overdue) shall not be made; or
- (c) If the Authority shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, or in any supplemental indenture on the part of the Authority to be performed, and such default shall have continued for a period of sixty (60) 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, 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 the Reference Rate of Wells Fargo Bank, National Association, Minneapolis, Minnesota, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses, advances and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the College to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of \$10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court. Provision is also made for removal of the Trustee by Bondholders or the Authority, at the request of the College, provided that the Authority may, but is not required to remove the Trustee with or without the request of the College if an Event of Default has occurred and is continuing or a

default which with the passage of time or the giving of notice will become an Event of Default has occurred and is continuing. The Authority may not remove a successor Trustee properly appointed by the Bondholders.

### **Concerning the Bondholders**

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

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

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

### **Defeasance**

If the Authority and the College shall:

- (a) pay or cause to be paid the principal of, and premium, if any, and interest on the outstanding Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal of, premium, if any, and interest 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 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 all unpaid fees and expenses of the Trustee and the rebate of all amounts due or to become due to the United States under Section 148(f) of the Internal Revenue Code and regulations thereunder, then at the request of the Authority or the 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 Bonds in respect thereof, shall thereupon cease, determine and become void; and the Trustee in such case, upon cancellation of all Bonds for the payment of which cash or government obligations shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Authority and of a certificate of the Authority and an opinion of counsel as to compliance with conditions precedent, and at its cost and expense, execute to the Authority, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Authority or its order, all cash and deposited securities, if any (except that held for the payment of the Bonds), which shall then be held thereunder.

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;
- (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 modify the Indenture as authorized by the Bondholders.

In addition and subject to the provisions set forth below, the Holders of not less than 51% in aggregate principal amount of the Bonds then outstanding 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, or (d) a preference or priority of any Bond over any other, or (e) a reduction in the aggregate principal amount of the Bonds the Holders of which are required to consent to such supplemental indenture or the Loan Agreement as set forth in the Indenture.

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

The Authority and the College with the consent of 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, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement, or (d) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of the Bonds.

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 principal corporate trust office of the Trustee, which shall also perform the functions of registrar and paying agent. Bonds may be transferred and exchanged by surrender to the Trustee with a written authorization by the registered Holder or his authorized attorney satisfactory to the Trustee subject to such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holder, except as to any taxes or other governmental charges required to be paid. If the Bonds are no longer in book entry form, Bonds may be exchanged for a new Bond or Bonds of the same series, aggregate principal amount, maturity and interest rate of any Authorized Denominations. Payment of principal will be at the principal corporate trust office of the Trustee and interest shall be by check or draft of the Trustee mailed (or, 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.

**THE DEPOSITORY TRUST COMPANY**

The Depository Trust Company (“DTC”) is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority or 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).

Payment of principal, interest, and redemption premium, if any, on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or its agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar, Authority, or the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will 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 Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book entry system has been obtained from DTC, which is solely responsible for such information. The Authority, the College and the Underwriter take no responsibility for the accuracy thereof.

**MACALESTER COLLEGE  
ANNUAL FINANCIAL STATEMENTS  
WITH AUDITORS' OPINION  
FOR THE FISCAL YEAR ENDED MAY 31, 2012**

(This Page is Intentionally Left Blank)



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Macalester College  
St. Paul, Minnesota

We have audited the accompanying statements of financial position of Macalester College as of May 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Macalester College as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 5, 2012

**MACALESTER COLLEGE**  
**Statements of Financial Position**  
**May 31, 2012 and 2011**  
**(in thousands of dollars)**

|                                                                                                          | <u>2012</u>           | <u>2011</u>           |
|----------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                                                                            |                       |                       |
| Cash and cash equivalents                                                                                | \$ 30,445             | \$ 33,225             |
| Construction account cash and cash equivalents                                                           | -                     | 12,984                |
| Accrued investment income                                                                                | 783                   | 831                   |
| Prepaid expenses                                                                                         | 1,883                 | 1,850                 |
| Notes and accounts receivable, net of allowance for<br>doubtful receivables of \$889 (and \$820 in 2011) | 6,300                 | 7,172                 |
| Contributions receivable, net                                                                            | 10,853                | 10,864                |
| Long term investments                                                                                    | 616,341               | 659,229               |
| Real estate                                                                                              | 12,722                | 11,237                |
| Land, buildings and equipment, net of accumulated depreciation                                           | 189,765               | 169,487               |
| Beneficial interest in perpetual trust                                                                   | <u>24,822</u>         | <u>27,134</u>         |
| <br>Total assets                                                                                         | <br><u>\$ 893,914</u> | <br><u>\$ 934,013</u> |
| <b>LIABILITIES AND NET ASSETS</b>                                                                        |                       |                       |
| Liabilities:                                                                                             |                       |                       |
| Accounts payable and accrued expenses                                                                    | \$ 13,857             | \$ 12,110             |
| Deferred revenue                                                                                         | 1,141                 | 998                   |
| Deposits                                                                                                 | 289                   | 244                   |
| Interest rate swap agreement                                                                             | 1,639                 | 1,482                 |
| Liabilities under planned giving agreements                                                              | 7,672                 | 8,196                 |
| Government grants refundable                                                                             | 4,542                 | 4,545                 |
| Asset retirement obligation                                                                              | 785                   | 779                   |
| Capital leases                                                                                           | 268                   | 371                   |
| Bonds and mortgages payable                                                                              | <u>80,401</u>         | <u>83,796</u>         |
| <br>Total liabilities                                                                                    | <br><u>110,594</u>    | <br><u>112,521</u>    |
| Net assets:                                                                                              |                       |                       |
| Unrestricted                                                                                             |                       |                       |
| Operations                                                                                               | 13,852                | 11,483                |
| Investments                                                                                              | 47,488                | 51,656                |
| Plant                                                                                                    | <u>92,931</u>         | <u>91,515</u>         |
| Total unrestricted                                                                                       | <u>154,271</u>        | <u>154,654</u>        |
| Temporarily restricted                                                                                   |                       |                       |
| Operations                                                                                               | 8,899                 | 10,310                |
| Investments                                                                                              | 250,533               | 288,759               |
| Plant                                                                                                    | <u>21,336</u>         | <u>18,021</u>         |
| Total temporarily restricted                                                                             | <u>280,768</u>        | <u>317,090</u>        |
| <br>Permanently restricted - Investments                                                                 | <br><u>348,281</u>    | <br><u>349,748</u>    |
| <br>Total net assets                                                                                     | <br><u>783,320</u>    | <br><u>821,492</u>    |
| <br>Total liabilities and net assets                                                                     | <br><u>\$ 893,914</u> | <br><u>\$ 934,013</u> |

See accompanying notes to financial statements.



**MACALESTER COLLEGE**  
**Statements of Activities**  
**Years ended May 31, 2012 and 2011**  
(in thousands of dollars)

|                                                              | 2012              |                        |                        |                 | 2011              |                        |                        |                |
|--------------------------------------------------------------|-------------------|------------------------|------------------------|-----------------|-------------------|------------------------|------------------------|----------------|
|                                                              | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total           | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total          |
| <b>Operating Activities:</b>                                 |                   |                        |                        |                 |                   |                        |                        |                |
| Revenues and other additions:                                |                   |                        |                        |                 |                   |                        |                        |                |
| Tuition and fees                                             | \$ 82,333         | -                      | -                      | 82,333          | \$ 78,676         | -                      | -                      | 78,676         |
| Less: Student aid and scholarships                           | (39,854)          | -                      | -                      | (39,854)        | (37,819)          | -                      | -                      | (37,819)       |
| Net tuition and fees                                         | 42,479            | -                      | -                      | 42,479          | 40,857            | -                      | -                      | 40,857         |
| Federal grants and contracts                                 | 2,136             | -                      | -                      | 2,136           | 2,398             | -                      | -                      | 2,398          |
| State grants and contracts                                   | 464               | -                      | -                      | 464             | 230               | -                      | -                      | 230            |
| Private gifts and grants                                     | 3,212             | 2,116                  | -                      | 5,328           | 3,339             | 2,947                  | -                      | 6,286          |
| Sales and service of auxiliary enterprises                   | 13,387            | -                      | -                      | 13,387          | 13,611            | -                      | -                      | 13,611         |
| Other sources                                                | 1,128             | 51                     | -                      | 1,179           | 1,013             | 43                     | -                      | 1,056          |
| Endowment payout                                             | 3,440             | 28,183                 | -                      | 31,623          | 3,402             | 28,285                 | -                      | 31,687         |
| Realized and unrealized (losses) gains on investments        | (7)               | -                      | -                      | (7)             | 9                 | -                      | -                      | 9              |
| Gain (loss) on disposal of fixed assets                      | 81                | -                      | -                      | 81              | (1,441)           | -                      | -                      | (1,441)        |
| Net assets released from restrictions                        | 34,142            | (34,142)               | -                      | -               | 33,514            | (33,514)               | -                      | -              |
| Total operating revenues and other additions                 | 100,462           | (3,792)                | -                      | 96,670          | 96,932            | (2,239)                | -                      | 94,693         |
| Expenses:                                                    |                   |                        |                        |                 |                   |                        |                        |                |
| Program                                                      |                   |                        |                        |                 |                   |                        |                        |                |
| Instruction                                                  | 35,010            | -                      | -                      | 35,010          | 32,234            | -                      | -                      | 32,234         |
| Research                                                     | 2,108             | -                      | -                      | 2,108           | 1,506             | -                      | -                      | 1,506          |
| Public service                                               | 1,014             | -                      | -                      | 1,014           | 902               | -                      | -                      | 902            |
| Academic support                                             | 10,803            | -                      | -                      | 10,803          | 11,072            | -                      | -                      | 11,072         |
| Student services                                             | 19,497            | -                      | -                      | 19,497          | 19,382            | -                      | -                      | 19,382         |
| Auxiliary enterprises                                        | 10,355            | -                      | -                      | 10,355          | 9,932             | -                      | -                      | 9,932          |
| Institutional support                                        | 19,654            | -                      | -                      | 19,654          | 19,038            | -                      | -                      | 19,038         |
| Total expenses                                               | 98,441            | -                      | -                      | 98,441          | 94,066            | -                      | -                      | 94,066         |
| <b>Change in net assets from operating activities</b>        | <b>2,021</b>      | <b>(3,792)</b>         | <b>-</b>               | <b>(1,771)</b>  | <b>2,866</b>      | <b>(2,239)</b>         | <b>-</b>               | <b>627</b>     |
| <b>Nonoperating Activities:</b>                              |                   |                        |                        |                 |                   |                        |                        |                |
| Investment-related:                                          |                   |                        |                        |                 |                   |                        |                        |                |
| Realized and unrealized gains (losses) on investments        | \$ 1,586          | (10,904)               | 219                    | (9,099)         | \$ 13,823         | 84,788                 | 357                    | 98,968         |
| Less: Endowment payout for operations                        | (3,440)           | (28,183)               | -                      | (31,623)        | (3,402)           | (28,285)               | -                      | (31,687)       |
| Net realized and unrealized (losses) gains                   | (1,854)           | (39,087)               | 219                    | (40,722)        | 10,421            | 56,503                 | 357                    | 67,281         |
| Investment income                                            | 108               | -                      | -                      | 108             | 108               | -                      | -                      | 108            |
| Change in beneficial interest in perpetual trust             | -                 | -                      | (2,313)                | (2,313)         | -                 | -                      | 3,790                  | 3,790          |
| Change in value of planned giving agreements                 | (44)              | (270)                  | (381)                  | (695)           | 24                | 557                    | 785                    | 1,366          |
| Gift-related:                                                |                   |                        |                        |                 |                   |                        |                        |                |
| Private gifts and grants restricted for long-term investment | 51                | 3,372                  | 667                    | 4,090           | 19                | 950                    | 512                    | 1,481          |
| Private gifts and grants restricted for capital projects     | 231               | 4,221                  | -                      | 4,452           | 376               | 6,303                  | -                      | 6,679          |
| Other:                                                       |                   |                        |                        |                 |                   |                        |                        |                |
| Change in value of interest rate swap                        | (157)             | -                      | -                      | (157)           | (205)             | -                      | -                      | (205)          |
| Net assets released from restrictions                        | 425               | (425)                  | -                      | -               | (1,654)           | 1,794                  | (140)                  | -              |
| Total nonoperating revenues and other additions              | (1,240)           | (32,189)               | (1,808)                | (35,237)        | 9,089             | 66,107                 | 5,304                  | 80,500         |
| Reclassification of net assets                               | -                 | (341)                  | 341                    | -               | -                 | -                      | -                      | -              |
| Transfer of assets to outside entity                         | (1,164)           | -                      | -                      | (1,164)         | -                 | -                      | -                      | -              |
| Effect of change in accounting treatment                     | -                 | -                      | -                      | -               | (2,665)           | -                      | -                      | (2,665)        |
| <b>Change in net assets from nonoperating activities</b>     | <b>(2,404)</b>    | <b>(32,530)</b>        | <b>(1,467)</b>         | <b>(36,401)</b> | <b>6,424</b>      | <b>66,107</b>          | <b>5,304</b>           | <b>77,835</b>  |
| <b>Change in net assets</b>                                  | <b>(383)</b>      | <b>(36,322)</b>        | <b>(1,467)</b>         | <b>(38,172)</b> | <b>9,290</b>      | <b>63,868</b>          | <b>5,304</b>           | <b>78,462</b>  |
| <b>Net assets beginning of year</b>                          | <b>154,654</b>    | <b>317,090</b>         | <b>349,748</b>         | <b>821,492</b>  | <b>145,364</b>    | <b>253,222</b>         | <b>344,444</b>         | <b>743,030</b> |
| <b>Net assets end of year</b>                                | <b>\$ 154,271</b> | <b>280,768</b>         | <b>348,281</b>         | <b>783,320</b>  | <b>\$ 154,654</b> | <b>317,090</b>         | <b>349,748</b>         | <b>821,492</b> |

See accompanying notes to financial statements.

**MACALESTER COLLEGE**  
**Statements of Cash Flows**  
**Years ended May 31, 2012 and 2011**  
**(in thousands of dollars)**

|                                                                                                                   | <u>2012</u>      | <u>2011</u>      |
|-------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash flows from operating activities:                                                                             |                  |                  |
| Change in total net assets                                                                                        | \$ (38,172)      | \$ 78,462        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities:                       |                  |                  |
| Depreciation and amortization                                                                                     | 7,424            | 6,828            |
| Realized and unrealized loss (gain) on investments                                                                | 24,712           | (90,423)         |
| (Gain) loss on disposal of fixed assets                                                                           | (81)             | 1,441            |
| Unrealized loss on interest rate swap                                                                             | 157              | 205              |
| Private gifts and other income restricted for long term investments                                               | (8,261)          | (7,765)          |
| Noncash contributions of marketable securities                                                                    | (3,123)          | (2,723)          |
| Adjustment of actuarial liabilities for planned giving agreements                                                 | 253              | 1,721            |
| Endowment payout                                                                                                  | 29,500           | 28,700           |
| Change in assets and liabilities:                                                                                 |                  |                  |
| Accrued investment income                                                                                         | 48               | 77               |
| Prepaid expenses                                                                                                  | (33)             | (23)             |
| Notes and accounts receivable                                                                                     | 872              | 1,322            |
| Contributions receivable                                                                                          | (720)            | (537)            |
| Accounts payable and accrued expenses                                                                             | 1,234            | 694              |
| Deferred revenue                                                                                                  | 143              | 197              |
| Deposits                                                                                                          | 45               | (107)            |
| Net cash provided by operating activities                                                                         | <u>13,998</u>    | <u>18,069</u>    |
| Cash flows from investing activities:                                                                             |                  |                  |
| Proceeds from sale of investments                                                                                 | 126,960          | 93,355           |
| Proceeds from sale of investments used for endowment payout                                                       | (29,500)         | (28,700)         |
| Purchase of investments                                                                                           | (107,146)        | (70,595)         |
| Purchase of land, building and equipment                                                                          | (27,291)         | (9,210)          |
| Proceeds from sale of equipment                                                                                   | 81               | -                |
| Net cash used in investing activities                                                                             | <u>(36,896)</u>  | <u>(15,150)</u>  |
| Cash flows from financing activities:                                                                             |                  |                  |
| Proceeds from issuance of bonds payable                                                                           | -                | 16,000           |
| Withdrawals from (deposits to) construction account, net                                                          | 12,984           | (12,984)         |
| Bond premium from issuance of bonds payable                                                                       | -                | 249              |
| Principal payments on bonds payable                                                                               | (3,287)          | (3,228)          |
| Change in capital leases, net                                                                                     | (103)            | 371              |
| Payments made to beneficiaries of planned giving agreements                                                       | (777)            | (733)            |
| Change in government grant refundable                                                                             | (3)              | 9                |
| Change in value of beneficial interest in perpetual trust                                                         | 2,312            | (3,790)          |
| Private gifts, grants and other income restricted for long term investment                                        | 8,992            | 9,888            |
| Net cash provided by financing activities                                                                         | <u>20,118</u>    | <u>5,782</u>     |
| (Decrease) increase in cash and cash equivalents                                                                  | (2,780)          | 8,701            |
| Cash and cash equivalents at beginning of the year                                                                | 33,225           | 24,524           |
| Cash and cash equivalents at end of the year                                                                      | <u>\$ 30,445</u> | <u>\$ 33,225</u> |
| Supplemental disclosure - cash paid for interest, including interest capitalized of \$723 and \$328, respectively | <u>\$ 3,253</u>  | <u>\$ 3,022</u>  |
| Noncash investing and financing activities:                                                                       |                  |                  |
| Purchases of land, building and equipment funded by accounts payable                                              | <u>\$ 1,225</u>  | <u>1,370</u>     |

See accompanying notes to financial statements.

## **1) Background and Organization**

Macalester College (the College or Macalester) is a four year, coeducational, private liberal arts college. Founded in 1874, the College is located in the urban setting of Saint Paul, Minnesota. The College offers a liberal arts program and is accredited by the North Central Association of Colleges and Secondary Schools.

## **2) Summary of Significant Accounting Policies**

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

The accompanying financial statements are presented on the accrual basis of accounting. To ensure the observance of limitations and restrictions placed on the use of available resources, the College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with activities or objectives of the College. For external reporting purposes, however, the College's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with 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 investment purposes as indicated in the presentation.

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 net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets and 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 revenue 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 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 one year are discounted at a discount rate consistent with the general principles for present value measurement. Amortization of discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions.

### ***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, except those held for investment purposes. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits. At times, cash in the bank may exceed FDIC insurable limits.

### ***Notes and Accounts Receivable***

Notes and accounts receivable include grants receivable, student loan receivables, student accounts receivable and various other receivables. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are written off when deemed uncollectible. Receivables are generally unsecured.

### ***Long Term Investments***

Long term investments include the endowment pool, investments related to split interest agreements, loan fund investments, and intermediate term funds.

### ***Real Estate***

Purchased real estate investments are initially recorded at cost in the year they are acquired. In subsequent years, the properties are valued based on an appraisal and/or a market analysis. Real estate investments that have been received as contributions are valued at their estimated fair value at the date the properties were donated, as determined by professional appraisals.

### ***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 value at date of donation. Long-lived assets, with the exception of land and artwork, are depreciated using the straight-line method over their estimated useful lives. Useful lives for equipment range from 3 to 6 years. Useful lives for the majority of the buildings and improvements range from 20 to 40 years.

Interest is capitalized in connection with the construction of facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's useful life.

***Bond Issue Costs***

Bond issue costs are amortized using the straight-line method over the life of the associated bond issue. Bond issue costs are reported as prepaid expenses on the statements of financial position.

***Asset Retirement Obligation***

The College accrues for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform asset retirement activity is not conditional even though the timing or method may be conditional. The College has identified asbestos abatement as an asset retirement obligation. Asbestos abatement costs were estimated using site surveys and per square foot or per linear foot costs. The College has recorded a liability and an increase to the associated assets. The assets are depreciated over their remaining useful lives. Annually, the asset retirement obligation is adjusted for accretion and payments made, if any.

***Revenue Recognition***

Net tuition and fees and auxiliary revenues are recognized as revenue in the period in which the services are rendered.

***Tax Status***

The College has received a determination letter from the Internal Revenue Service indicating it 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. No provision has been made for income taxes in the accompanying financial statements as the College has had no significant unrelated business income.

The College's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on technical merits. The College has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The College's tax returns are open to examination for the years 2008 through 2010.

***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, accrued investment income, notes and accounts receivable, accounts payable and accrued expenses, deposits, and deferred revenue approximate fair value because of the short maturity of these financial instruments. Contributions receivable are recorded at the present value of estimated future cash flows using discount rates consistent with the general principles of present value measurement, which approximate fair value.

Short and long term investments in securities traded on national or international securities exchanges are carried at fair value, based upon values provided by external investment managers or quoted market values. Fair values for certain investments held in alternative structures including partnerships, commingled funds, and limited liability corporations are stated at net asset value as a practical expedient to estimated fair value. The estimated values may differ from the values that would have been used had ready markets for the investments existed, and the differences could be significantly higher or lower for any specific holding. Real estate is reported at estimated fair value based on knowledge of local market conditions and periodic independent appraisal. The beneficial interest in perpetual trust is reported at fair value of the trust assets.

An estimate of the fair value of the grants refundable to government for student loans could not be made because they are not saleable and can only be assigned to the US government or its designees.

The estimated fair value of the College's revenue bonds was calculated by discounting future cash flows through estimated maturity using the borrowing rate currently available to the College for debt of similar original maturity. The carrying value of the College bonds was \$79,330 and \$82,618 at May 31, 2012 and 2011, respectively, and the fair value was approximately \$85,023 and \$85,832, respectively. The carrying value approximates the fair value of the Series 1994 and 2003 bonds as the interest rate varies weekly. The College records the value of the outstanding debt at carrying value.

#### ***Derivative Financial Instruments***

The College measures derivative instruments, including derivative instruments embedded in other contracts, at fair value and reports them as assets or liabilities in the statements of financial position. Changes in the fair value of derivatives during the year are reported in the statements of activities. Macalester's interest rate swap agreement is considered a derivative financial instrument and has been reported in the statements of financial position at fair value. The change in the fair value of the agreement during the year is reported in the statements of activities. The net cash received or paid under the terms of the interest rate swap agreement over its term is reported as a component of interest expense.

### ***Planned Giving Agreements***

The College's planned giving agreements consist primarily of charitable gift annuities, charitable remainder unitrust contracts and pooled life income funds. For those trusts for which the College is the trustee, the assets are reported as long term investments at their fair value. Contribution revenue is recognized at the dates the trusts are established after recording a liability for the present value of the estimated future payments to be made to the beneficiaries using discount rates and assumptions established upon initial recognition of the liability and the use of the appropriate mortality tables. Discount rates range from 1.5% to 7.0%. The obligation is adjusted during the term of the agreement for changes in the value of the assets, amortization of the discount and other changes in the estimates of future benefits.

For those irrevocable trusts for which the College does not serve as trustee, contribution revenue and a receivable are recognized at the date the trust is established for the present value of the estimated future payments to be received.

The College is also the beneficiary of a perpetual trust held and administered by others. The estimated fair value of the trust was recognized as an asset and as revenue on the date the College was notified of the establishment of the trust. Distributions from the trust are recorded as investment income.

### ***Use of Estimates***

The preparation of financial statements in conformity with US generally accepted accounting principles (GAAP) 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.

### ***Related Party***

Pledges from certain Board of Trustees members and Officers are included in the financial statements. The pledges outstanding totaled \$3,814 and \$4,244 at May 31, 2012 and 2011, respectively. The College has a conflict of interest policy in place that is reviewed by each Board member and Officer annually.

### ***Reclassifications***

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

**3) Student Loans Receivable**

The College issues uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2012 and 2011, student loans represented less than 1% of total assets.

Student loans receivable consist of the following:

|                                        | <u>2012</u>     | <u>2011</u>     |
|----------------------------------------|-----------------|-----------------|
| Federal government programs            | \$ 4,699        | \$ 4,748        |
| Institutional programs                 | <u>1,553</u>    | <u>1,244</u>    |
| Student loans receivable, gross        | <u>6,252</u>    | <u>5,992</u>    |
| Less: allowance for doubtful accounts: |                 |                 |
| Beginning of year                      | (788)           | (738)           |
| Increases                              | (65)            | (50)            |
| Write-offs                             | <u>-</u>        | <u>-</u>        |
| End of year                            | <u>(853)</u>    | <u>(788)</u>    |
| Student loans receivable, net          | <u>\$ 5,399</u> | <u>\$ 5,204</u> |

Student loans receivable are included in notes and accounts receivable on the statement of financial position. Also included in notes and accounts receivable are other receivables of the College, including receivables for students' accounts, rent, federal student aid, and grants. These other receivables total \$901 and \$1,968 as of May 31, 2012 and 2011, respectively. Allowances related to these other receivables total \$36 and \$32 as of May 31, 2012 and 2011, respectively.

Funds advanced by the federal government of \$4,542 and \$4,545 at May 31, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities on the statements of financial position.

At May 31, 2012 and 2011, the following amounts were past due under student loan programs:

|                             | <u>2012</u>   | <u>2011</u>   |
|-----------------------------|---------------|---------------|
| 1 - 240 days past due       | \$ 202        | \$ 171        |
| 240 days - 2 years past due | 108           | 42            |
| 2 years - 5 years past due  | 83            | 81            |
| Over 5 years past due       | <u>418</u>    | <u>405</u>    |
| Total past due              | <u>\$ 811</u> | <u>\$ 699</u> |



**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

**4) Long Term Investments**

Long term investments include funds traditionally considered the endowment of the College as well as assets of funds for planned giving agreements and loan funds totaling \$16,095 and \$17,336 as of May 31, 2012 and 2011, respectively. The allocations shown at fair value are as follows:

|                                                | <u>2012</u>       | <u>2011</u>       |
|------------------------------------------------|-------------------|-------------------|
| Long term investments:                         |                   |                   |
| Cash and cash equivalents                      | \$ 46,536         | \$ 27,007         |
| Publicly traded securities:                    |                   |                   |
| Domestic equities                              | 20,031            | 22,307            |
| Foreign equities held in collective trusts     | 83,640            | 109,325           |
| Fixed income – TIPS and Treasuries             | 87,395            | 85,735            |
| Futures                                        | 5,358             | 4,260             |
| Mutual funds                                   | 38,606            | 54,613            |
| Alternative strategies in illiquid structures: |                   |                   |
| Domestic equities                              | 73,070            | 102,990           |
| Private equities                               | 102,194           | 101,865           |
| Hedge funds                                    | 60,693            | 64,565            |
| Real estate                                    | 34,954            | 34,545            |
| Natural resources                              | <u>63,864</u>     | <u>52,017</u>     |
| Total fair value                               | <u>\$ 616,341</u> | <u>\$ 659,229</u> |
| Total cost                                     | <u>\$ 554,014</u> | <u>\$ 550,938</u> |

**5) Fair Value Measurements**

The College applies the provisions of ASC No. 820, which established a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC No. 820 are described below:

- Level 1      Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
  
- Level 2      Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.
  
- Level 3      Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

The following tables summarize the College's fair value hierarchy for those assets and liabilities that were measured at fair value on a recurring basis as of May 31, 2012 and 2011:

|                                                   | 2012              |                  |                   |                   |
|---------------------------------------------------|-------------------|------------------|-------------------|-------------------|
|                                                   | <u>Level 1</u>    | <u>Level 2</u>   | <u>Level 3</u>    | <u>Total</u>      |
| <b>Financial Assets:</b>                          |                   |                  |                   |                   |
| <u>Long term investments:</u>                     |                   |                  |                   |                   |
| Cash and short term investments                   | \$ 46,536         | \$ -             | \$ -              | \$ 46,536         |
| Publicly traded securities:                       |                   |                  |                   |                   |
| Domestic equities                                 | 20,031            | -                | -                 | 20,031            |
| Foreign equities held in<br>collective trusts     | -                 | 83,640           | -                 | 83,640            |
| Fixed income – TIPS and<br>Treasuries             | 83,320            | 4,075            | -                 | 87,395            |
| Futures                                           | 5,358             | -                | -                 | 5,358             |
| Mutual funds                                      | 38,606            | -                | -                 | 38,606            |
| Alternative strategies in illiquid<br>structures: |                   |                  |                   |                   |
| Domestic equities                                 | -                 | -                | 73,070            | 73,070            |
| Private equities                                  | -                 | -                | 102,194           | 102,194           |
| Hedge funds                                       | -                 | -                | 60,693            | 60,693            |
| Real estate                                       | -                 | -                | 34,954            | 34,954            |
| Natural resources                                 | -                 | -                | 63,864            | 63,864            |
| Total long term investments                       | <u>\$ 193,851</u> | <u>\$ 87,715</u> | <u>\$ 334,775</u> | <u>\$ 616,341</u> |
| High Winds real estate                            | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ 12,722</u>  | <u>\$ 12,722</u>  |
| Beneficial interest in perpetual<br>trust         | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ 24,822</u>  | <u>\$ 24,822</u>  |
| <b>Financial Liabilities:</b>                     |                   |                  |                   |                   |
| Interest rate swap agreement                      | <u>\$ -</u>       | <u>\$ 1,639</u>  | <u>\$ -</u>       | <u>\$ 1,639</u>   |

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

|                                                   | 2011              |                   |                   |                   |
|---------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                   | <u>Level 1</u>    | <u>Level 2</u>    | <u>Level 3</u>    | <u>Total</u>      |
| <b>Financial Assets:</b>                          |                   |                   |                   |                   |
| <u>Long term investments:</u>                     |                   |                   |                   |                   |
| Cash and short term investments                   | \$ 27,007         | \$ -              | \$ -              | \$ 27,007         |
| Publicly traded securities:                       |                   |                   |                   |                   |
| Domestic equities                                 | 22,307            | -                 | -                 | 22,307            |
| Foreign equities held in<br>collective trusts     | -                 | 109,325           | -                 | 109,325           |
| Fixed income – TIPS and<br>Treasuries             | 81,474            | 4,261             | -                 | 85,735            |
| Futures                                           | 4,260             | -                 | -                 | 4,260             |
| Mutual funds                                      | 54,613            | -                 | -                 | 54,613            |
| Alternative strategies in illiquid<br>structures: |                   |                   |                   |                   |
| Domestic equities                                 | -                 | -                 | 102,990           | 102,990           |
| Private equities                                  | -                 | -                 | 101,865           | 101,865           |
| Hedge funds                                       | -                 | -                 | 64,565            | 64,565            |
| Real estate                                       | -                 | -                 | 34,545            | 34,545            |
| Natural resources                                 | -                 | -                 | <u>52,017</u>     | <u>52,017</u>     |
| Total long term investments                       | <u>\$ 189,661</u> | <u>\$ 113,586</u> | <u>\$ 355,982</u> | <u>\$ 659,229</u> |
| High Winds real estate                            | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 11,237</u>  | <u>\$ 11,237</u>  |
| Beneficial interest in perpetual<br>trust         | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ 27,134</u>  | <u>\$ 27,134</u>  |
| <b>Financial Liabilities:</b>                     |                   |                   |                   |                   |
| Interest rate swap agreement                      | <u>\$ -</u>       | <u>\$ 1,482</u>   | <u>\$ -</u>       | <u>\$ 1,482</u>   |

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

The following tables are roll-forwards of the Level 3 financial assets during the fiscal years ended May 31, 2012 and 2011:

| Long Term Investments 2012                                                                                                                |                      |                     |                   |                  |                      |                   |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|-------------------|------------------|----------------------|-------------------|
|                                                                                                                                           | Domestic<br>Equities | Private<br>Equities | Hedge<br>Funds    | Real<br>Estate   | Natural<br>Resources | Total             |
| Beginning balance                                                                                                                         | \$ 102,990           | \$ 101,865          | \$ 64,565         | \$ 34,545        | \$ 52,017            | \$ 355,982        |
| Gains (losses):                                                                                                                           |                      |                     |                   |                  |                      |                   |
| Unrealized, net                                                                                                                           | 3,724                | (5,564)             | (2,580)           | (618)            | 1,457                | (3,581)           |
| Realized, net                                                                                                                             | -                    | 4,001               | 577               | 610              | 2,904                | 8,092             |
| Purchases, issuances,<br>sales and settlements:                                                                                           |                      |                     |                   |                  |                      |                   |
| Purchases                                                                                                                                 | -                    | 13,813              | 319               | 4,670            | 16,118               | 34,920            |
| Issuances                                                                                                                                 | -                    | -                   | -                 | -                | -                    | -                 |
| Sales                                                                                                                                     | (33,644)             | (11,921)            | (2,188)           | (4,253)          | (8,632)              | (60,638)          |
| Settlements                                                                                                                               | -                    | -                   | -                 | -                | -                    | -                 |
| Ending balance at<br>May 31, 2012                                                                                                         | <u>\$ 73,070</u>     | <u>\$ 102,194</u>   | <u>\$ 60,693</u>  | <u>\$ 34,954</u> | <u>\$ 63,864</u>     | <u>\$ 334,775</u> |
| Net unrealized gains<br>(losses) included in<br>change in net assets for<br>the period relating to<br>investments held at<br>May 31, 2012 | <u>\$ 3,724</u>      | <u>\$ (5,564)</u>   | <u>\$ (2,580)</u> | <u>\$ (618)</u>  | <u>\$ 1,457</u>      | <u>\$ (3,581)</u> |

| Beneficial Interest in Perpetual Trust – 2012                                                                                 |                   |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Beginning balance                                                                                                             | \$ 27,134         |
| Gains (losses):                                                                                                               |                   |
| Unrealized gain (loss), net                                                                                                   | (2,336)           |
| Realized gain, net                                                                                                            | 806               |
| Purchases, issuances, sales and settlements:                                                                                  |                   |
| Purchases                                                                                                                     | 1,983             |
| Sales                                                                                                                         | (2,765)           |
| Ending balance at May 31, 2012                                                                                                | <u>\$ 24,822</u>  |
| Net unrealized gains (losses) included in change in net assets for the period<br>relating to investments held at May 31, 2012 | <u>\$ (2,336)</u> |

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

| Long Term Investments – 2011                                                                                                   |                      |                     |                  |                  |                      |                   |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|------------------|------------------|----------------------|-------------------|
|                                                                                                                                | Domestic<br>Equities | Private<br>Equities | Hedge<br>Funds   | Real<br>Estate   | Natural<br>Resources | Total             |
| Beginning balance                                                                                                              | \$ 87,106            | \$ 83,335           | \$ 68,428        | \$ 29,829        | \$ 39,524            | \$ 308,222        |
| Gains (losses):                                                                                                                |                      |                     |                  |                  |                      |                   |
| Unrealized, net                                                                                                                | 23,884               | 9,814               | 4,564            | (523)            | 5,828                | 43,567            |
| Realized, net                                                                                                                  | -                    | 4,779               | 1,888            | 1,448            | 2,056                | 10,171            |
| Purchases, sales,<br>issuances and<br>settlements, net                                                                         | <u>(8,000)</u>       | <u>3,937</u>        | <u>(10,315)</u>  | <u>3,791</u>     | <u>4,609</u>         | <u>(5,978)</u>    |
| Ending balance at<br>May 31, 2011                                                                                              | <u>\$ 102,990</u>    | <u>\$ 101,865</u>   | <u>\$ 64,565</u> | <u>\$ 34,545</u> | <u>\$ 52,017</u>     | <u>\$ 355,982</u> |
| Net unrealized losses<br>included in change in net<br>assets for the period<br>relating to investments<br>held at May 31, 2011 | <u>\$ 23,844</u>     | <u>\$ 9,814</u>     | <u>\$ 4,564</u>  | <u>\$ (523)</u>  | <u>\$ 5,828</u>      | <u>\$ 43,567</u>  |

| Beneficial Interest in Perpetual Trust - 2011                                                                                 |                  |
|-------------------------------------------------------------------------------------------------------------------------------|------------------|
| Beginning balance                                                                                                             | \$ 23,344        |
| Unrealized gain (loss), net                                                                                                   | 2,306            |
| Realized gain, net                                                                                                            | 2,408            |
| Purchases, sales, issuances and settlements, net                                                                              | <u>(897)</u>     |
| Ending balance at May 31, 2011                                                                                                | <u>\$ 27,134</u> |
| Net unrealized gains (losses) included in change in net assets for the period<br>relating to investments held at May 31, 2011 | <u>\$ 2,306</u>  |

High Winds real estate is also a Level 3 asset. The change in value from May 31, 2011 to May 31, 2012 resulted from the purchase and renovation of two buildings for \$1,485. The change in value from May 31, 2010 to May 31, 2011 resulted from the purchase and renovation of a building for \$835. Real estate values are based on independent appraisals.

At May 31, 2012, the College had \$334,775 of Level 3 long term investments and \$83,640 of Level 2 foreign equity held in collective trusts that are reported at fair value and has concluded that the net asset value (NAV) reported by the underlying fund approximates the fair value of the investments and serves as the practical expedient for fair value.

Due to the nature of the investments held by the funds, changes in market conditions and economic environment may significantly impact the net asset value of the funds, and consequently, the fair value of the College's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the College was to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant. The College has no plans to sell any of these assets on the secondary market.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

At May 31, 2012 and 2011, the College's alternative investments had strategies and redemption terms as summarized in the tables below:

| 2012                                           |            |                      |                       |                          |
|------------------------------------------------|------------|----------------------|-----------------------|--------------------------|
| Investment Category                            | Fair Value | Unfunded Commitments | Redemption Frequency* | Notice Period (in Days)* |
| Foreign equity held in collective trusts (a)   | \$ 83,640  | None                 | Monthly               | 30 days                  |
| Domestic equities - alternative structures (b) | 73,070     | None                 | Quarterly             | 60 days                  |
| Hedge funds (c)                                | 60,693     | None                 | Monthly - Annual      | 30 - 90 days             |
| Private investments (d)                        | 201,012    | \$ 64,508            | Not applicable        | Not applicable           |
| Totals                                         | \$ 418,415 | \$ 64,508            |                       |                          |

| 2011                                           |            |                      |                       |                          |
|------------------------------------------------|------------|----------------------|-----------------------|--------------------------|
| Investment Category                            | Fair Value | Unfunded Commitments | Redemption Frequency* | Notice Period (in Days)* |
| Foreign equity held in collective trusts (a)   | \$ 109,325 | None                 | Monthly               | 30 days                  |
| Domestic equities - alternative structures (b) | 102,990    | None                 | Quarterly             | 30 - 60 days             |
| Hedge funds (c)                                | 64,565     | None                 | Monthly - Annual      | 30 - 90 days             |
| Private investments (d)                        | 188,427    | \$ 83,810            | Not applicable        | Not applicable           |
| Totals                                         | \$ 465,307 | \$ 83,810            |                       |                          |

\*The information summarized in the tables above represents the general terms for the specified asset class. Individual investment funds may have terms that are more or less restrictive than those terms indicated for the asset class as a whole. In addition, most investment funds have the flexibility, as provided for in their constituent documents, to modify and waive such terms.

Foreign equities held in collective trusts (a) are actively managed investment funds focused on the equity markets of non-US developed market countries. These funds have the ability to invest a portion of the funds in equities of emerging market countries. The fair values of these investments have been estimated using NAV.

Domestic equities - alternative structures (b) are actively managed and designed to give the College exposure to the movements of the US equity market. The fair values of these investments have been estimated using NAV.

Hedge funds (c) consist of funds in which the College has invested to potentially benefit from the skill of fund managers or to access unconventional assets. Typically, the underlying investments in these funds are publicly traded.

At May 31, 2012, the College had no funds invested in a fund for which a lock-up period exists.

Private investments (d) include a variety of investment strategies, including buyout, distressed debt, energy, real estate, timber and venture capital. These investments are of a long term nature and generally serve to drive the returns of the portfolio or to hedge inflation. The College receives proceeds from these funds as the holdings of the funds produce income or are sold. The College invests in funds with a life of 5 to 15 years, and does not have redemption rights.

Securities denominated in foreign currencies are translated into US dollars at the closing rate of exchange. Foreign currency amounts related to the purchase or sale of securities and income and expenses are translated at the exchange rate on the transaction date. For financial reporting purposes, the realized and unrealized gain (loss) on investments reflects changes in exchange rates, as well as changes in the market value of investments.

The College employs an external service provider to assist in hedging the foreign currency risks of the portfolio and to manage the College's equity and fixed income exposures close to policy targets. On the College's behalf, this service provider has entered into foreign currency exchange contracts and other futures contracts. These derivatives are marked to market daily and exchange traded. In the statements of activities, net realized and unrealized gains or losses on investments include gains or losses from the use of derivatives for hedging or rebalancing activities.

As of May 31, 2012, the College had exposure to \$41,978 of long positions in equity index futures, no short positions in equity index futures, and \$104,143 in short positions in currency futures. As of May 31, 2011, the College had exposure to \$22,244 of long positions in equity index futures, \$8,812 of short positions in equity index futures, and \$120,829 in short positions in currency futures. The College's derivative portfolio consists of contracts with maturities of 90 days or less and is adjusted as the exposures of the underlying portfolio change. The contracts are sold prior to contract maturity.

## **6) Funds Held in Trust by Others**

The College's beneficial interest in the fair value of assets in a perpetual trust was \$24,822 and \$27,134 as of May 31, 2012 and 2011, respectively. For the years ended May 31, 2012 and 2011, the College received \$1,269 and \$1,344 from this trust, respectively.

The College is the income beneficiary of a revocable trust with an estimated value of \$10,049 and \$10,397 as of May 31, 2012 and 2011, respectively, which is controlled by independent trustees. For the years ended May 31, 2012 and 2011, the College received \$541 and \$600 from this trust, respectively. These assets are not recorded on the financial statements of the College.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

**7) Contributions Receivable**

Contributions receivable consists of the following:

|                                                     | <u>2012</u>      | <u>2011</u>      |
|-----------------------------------------------------|------------------|------------------|
| Unconditional promises expected to be collected in: |                  |                  |
| Less than one year                                  | \$ 5,117         | \$ 3,295         |
| One year to five years                              | 5,983            | 7,973            |
| Greater than five years                             | 75               | 130              |
| Less: Discount to present value (1.5% - 5.0%)       | <u>(322)</u>     | <u>(534)</u>     |
|                                                     | <u>\$ 10,853</u> | <u>\$ 10,864</u> |

**8) Land, Buildings and Equipment**

The following is a summary of the College's land, buildings and equipment:

|                                     | <u>2012</u>       | <u>2011</u>       |
|-------------------------------------|-------------------|-------------------|
| Land and land improvements          | \$ 1,614          | \$ 1,614          |
| Buildings and building improvements | 223,311           | 219,820           |
| Equipment                           | 11,988            | 11,420            |
| Construction in progress            | <u>34,677</u>     | <u>11,730</u>     |
|                                     | 271,590           | 244,584           |
| Less: Accumulated depreciation      | <u>(81,825)</u>   | <u>(75,097)</u>   |
|                                     | <u>\$ 189,765</u> | <u>\$ 169,487</u> |

**9) Revolving Loan Agreement**

In February 2010, the College extended an already-existing unsecured revolving loan agreement for operating purposes from a bank in the amount of \$5,000 through April 2011. The agreement was not extended after it expired. Interest on the loan agreement was at the one-month LIBOR rate plus 2%.



**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

**10) Bonds and Mortgages Payable**

Bonds and mortgages payable consist of the following:

|                                                                                                                                                                                                                                             | <u>2012</u>      | <u>2011</u>      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Minnesota Higher Education Facilities Authority (MHEFA) variable rate demand revenue bonds of 1994, weekly maturity and rate reset, 0.21% average for current fiscal year, total principal due 2024 (original amount \$6,660)               | \$ 6,660         | \$ 6,660         |
| Minnesota Higher Education Facilities Authority variable rate demand revenue bonds of 2003, weekly rate reset as well as a weekly tender option, 0.20% average for current fiscal year, total principal due 2033 (original amount \$15,300) | 15,300           | 15,300           |
| Minnesota Higher Education Facilities Authority revenue bonds of 2004, 4.73% average, final series due 2017 (original amount \$14,995)                                                                                                      | 6,850            | 8,180            |
| Minnesota Higher Education Facilities Authority revenue notes of 2005, 4.08% average, final series due 2014 (original amount \$3,000)                                                                                                       | 945              | 1,298            |
| Minnesota Higher Education Facilities Authority revenue bonds of 2007, 4.42% average, final series due 2032 (original amount \$39,490)                                                                                                      | 33,715           | 35,180           |
| Minnesota Higher Education Facilities Authority revenue bonds of 2010, 4.76% average, final series due 2035 (original amount \$16,000)                                                                                                      | <u>15,860</u>    | <u>16,000</u>    |
|                                                                                                                                                                                                                                             | 79,330           | 82,618           |
| Plus: Unamortized bond premium                                                                                                                                                                                                              | <u>1,071</u>     | <u>1,178</u>     |
|                                                                                                                                                                                                                                             | <u>\$ 80,401</u> | <u>\$ 83,796</u> |

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

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 are optional as well as a fixed rate. Proceeds of the issue were used to finance various campus improvements and an athletic field expansion. Loan repayments associated with the bonds are 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 February of 2003, \$15,300 of variable rate demand revenue bonds were issued on behalf of the College by MHEFA. The bonds were issued with a weekly rate reset, as well as a weekly tender option. In the event of a tender and unsuccessful remarketing, self liquidity is provided through treasury securities held as long term investments. Proceeds of the issue were used to finance various dormitory improvements. Loan repayments associated with the bonds are general obligations of the College, with interest payable monthly and principal payable at maturity, on March 1, 2033.

In December of 2004, \$14,995 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.73%. Proceeds of this issue were used to fund the March 1, 2005 redemption of the MHEFA Bonds of 1995, to secure the release of the obligation under the MHEFA Bonds of 1997, and to pay certain issuance costs.

In July of 2005, \$3,000 of revenue notes were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.08%. Proceeds of this issue were used for the acquisition and installation of a replacement administrative computing system, which included new hardware, software licenses, and costs of converting data, training and testing.

In March of 2007, \$39,490 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.42%. A portion of the proceeds were used, together with other funds of the College, for construction of a new athletics and recreation center. The remaining portion was used to repay the 1998 bond issue.

In December of 2010, \$16,000 of revenue bonds were issued on behalf of the College by MHEFA. The average interest rate of the bonds is 4.76%. Proceeds of this issue were used to partially fund the renovation of the Janet Wallace Fine Arts building.

In direct connection with the variable rate demand revenue bonds issued in 2003, the College entered into an interest rate swap agreement that obligates it to pay a fixed rate of 3.33% annually to the counterparty in exchange for the receipt of a floating payment equal to 67% of the three-month London Interbank offered rate (LIBOR). The net difference between the amounts paid to and received from the counterparty is recorded as interest expense. Payments under the swap contract are based on a notional amount of \$15,000. The contract expires on May 31, 2016. As of May 31, 2012 and 2011, the estimated fair value of the swap contract was \$(1,639) and \$(1,482), respectively. In the statements of activities, net gains or losses from the interest rate swap agreement result from fluctuations in the variable interest rate to which the swap is tied. Included in the statements of activities for the years ended May 31, 2012 and 2011 are interest rate swap losses of \$157 and \$206, respectively.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

Annual debt commitments (principal) at May 31, 2012, are as follows:

| <u>Fiscal year ending May 31,</u> | <u>Amount</u>    |
|-----------------------------------|------------------|
| 2013                              | \$ 3,701         |
| 2014                              | 3,952            |
| 2015                              | 4,032            |
| 2016                              | 4,020            |
| 2017                              | 3,340            |
| After 2017                        | <u>60,285</u>    |
|                                   | <u>\$ 79,330</u> |

Total interest expensed on debt aggregated \$3,201 and \$2,962 during the years ended May 31, 2012 and 2011, respectively.

**11) Restrictions and Limitations on Net Asset Balances**

Temporarily restricted net assets are available for the following purposes at May 31, 2012 and 2011:

|                                                                                                                                                                                        | <u>2012</u>       | <u>2011</u>       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| The portion of unexpended investment return generated from donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of: |                   |                   |
| Scholarships                                                                                                                                                                           | \$ 34,862         | \$ 39,967         |
| Prizes and awards                                                                                                                                                                      | 354               | 388               |
| Library support                                                                                                                                                                        | 2,478             | 2,887             |
| Program support                                                                                                                                                                        | 179,381           | 210,594           |
| Faculty support                                                                                                                                                                        | 27,746            | 28,583            |
| Research                                                                                                                                                                               | <u>2,678</u>      | <u>2,828</u>      |
|                                                                                                                                                                                        | 247,499           | 285,247           |
| Gifts and other unexpended revenues and gains available for:                                                                                                                           |                   |                   |
| Scholarships                                                                                                                                                                           | 394               | 570               |
| Prizes and awards                                                                                                                                                                      | 143               | 137               |
| Library support                                                                                                                                                                        | 20                | 30                |
| Program support                                                                                                                                                                        | 2,106             | 2,304             |
| Faculty support                                                                                                                                                                        | 1,695             | 1,853             |
| Research                                                                                                                                                                               | 175               | 163               |
| Contributions receivable for plant projects                                                                                                                                            | 4,798             | 3,866             |
| Contributions receivable for scholarships, program support and operations                                                                                                              | 3,106             | 2,662             |
| Split interest agreements for scholarships, program support and operations                                                                                                             | 2,688             | 2,876             |
| Private grants                                                                                                                                                                         | 1,248             | 3,008             |
| Plant projects                                                                                                                                                                         | 16,538            | 14,155            |
| Other                                                                                                                                                                                  | <u>358</u>        | <u>219</u>        |
|                                                                                                                                                                                        | <u>\$ 280,768</u> | <u>\$ 317,090</u> |

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

Permanently restricted net assets and the purposes the income is expendable to support are as follows at May 31, 2012 and 2011:

|                                                                              | <u>2012</u>       | <u>2011</u>       |
|------------------------------------------------------------------------------|-------------------|-------------------|
| Endowment funds for:                                                         |                   |                   |
| Scholarships                                                                 | \$ 31,813         | \$ 31,495         |
| Prizes and awards                                                            | 297               | 297               |
| Library support                                                              | 3,079             | 3,079             |
| Program support                                                              | 243,366           | 242,538           |
| Faculty support                                                              | 22,806            | 22,713            |
| Research                                                                     | <u>2,060</u>      | <u>2,060</u>      |
|                                                                              | 303,421           | 302,182           |
| Beneficial interest in outside managed trusts restricted<br>for scholarships | 24,651            | 27,054            |
| Contributions receivable for scholarships and program<br>support             | 130               | 164               |
| High Winds Fund                                                              | 13,451            | 13,179            |
| Loan funds                                                                   | 3,685             | 3,628             |
| Split interest agreements for scholarships and program<br>support            | <u>2,943</u>      | <u>3,541</u>      |
|                                                                              | <u>\$ 348,281</u> | <u>\$ 349,748</u> |

## 12) Endowment Funds

### *Overview*

The College's endowment consists of 593 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The College's Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies the following as permanently restricted net assets: a) the original value of gifts donated to the permanent endowment; b) the original value of subsequent gifts to the permanent endowment; and c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the College in a manner consistent with the standard of prudence prescribed by UPMIFA.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

---

In accordance with UPMIFA, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the funds; b) the purposes of the College and the donor-restricted endowment funds; c) general economic conditions; d) the possible effect of inflation and deflation; e) the expected total return from income and the appreciation of investments; f) other resources of the College; and g) the investment policies of the College.

***Endowment Funds Restrictions and Designations***

The College's endowment net assets were classified as follows at May 31, 2012 and 2011:

|                                  | 2012                |                                   |                                   |                   |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
|                                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
| Donor-restricted endowment funds | \$ (188)            | \$ 247,499                        | \$ 303,421                        | \$ 550,732        |
| Board-designated endowment funds | <u>46,942</u>       | <u>-</u>                          | <u>-</u>                          | <u>46,942</u>     |
| Total funds                      | <u>\$ 46,754</u>    | <u>\$ 247,499</u>                 | <u>\$ 303,421</u>                 | <u>\$ 597,674</u> |
|                                  | 2011                |                                   |                                   |                   |
|                                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
| Donor-restricted endowment funds | \$ -                | \$ 285,247                        | \$ 302,182                        | \$ 587,429        |
| Board-designated endowment funds | <u>51,021</u>       | <u>-</u>                          | <u>-</u>                          | <u>51,021</u>     |
| Total funds                      | <u>\$ 51,021</u>    | <u>\$ 285,247</u>                 | <u>\$ 302,182</u>                 | <u>\$ 638,450</u> |

Included in temporarily restricted endowment net assets at May 31, 2012 and 2011 is \$46,758 and \$47,866, respectively, of gift corpus temporarily restricted by donors but managed by the College as endowment funds.

**MACALESTER COLLEGE**  
Notes to Financial Statements  
May 31, 2012 and 2011  
(in thousands of dollars)

The College's endowment net assets changed as follows for the years ended May 31, 2012 and 2011:

|                                           | 2012                |                                  |                                  |                   |
|-------------------------------------------|---------------------|----------------------------------|----------------------------------|-------------------|
|                                           | <u>Unrestricted</u> | Temporarily<br><u>Restricted</u> | Permanently<br><u>Restricted</u> | <u>Total</u>      |
| Endowment net assets, beg. of year        | \$ 51,021           | \$ 285,247                       | \$ 302,182                       | \$ 638,450        |
| Investment return:                        |                     |                                  |                                  |                   |
| Investment income                         | 2,896               | 10,331                           | -                                | 13,227            |
| Realized and unrealized gains<br>(losses) | <u>562</u>          | <u>(24,285)</u>                  | <u>-</u>                         | <u>(23,723)</u>   |
| Total investment return                   | 3,458               | (13,954)                         | -                                | (10,496)          |
| Fees and other expenses                   | (490)               | (1,747)                          | -                                | (2,237)           |
| Contributions                             | -                   | 3,567                            | 662                              | 4,229             |
| Other transfers in (out)                  | -                   | (1,867)                          | 236                              | (1,631)           |
| Amounts appropriated for expenditure      | (7,235)             | (23,406)                         | -                                | (30,641)          |
| Net asset reclassifications               | <u>-</u>            | <u>(341)</u>                     | <u>341</u>                       | <u>-</u>          |
| Endowment net assets, end of year         | <u>\$ 46,754</u>    | <u>\$ 247,499</u>                | <u>\$ 303,421</u>                | <u>\$ 597,674</u> |

  

|                                      | 2011                |                                  |                                  |                   |
|--------------------------------------|---------------------|----------------------------------|----------------------------------|-------------------|
|                                      | <u>Unrestricted</u> | Temporarily<br><u>Restricted</u> | Permanently<br><u>Restricted</u> | <u>Total</u>      |
| Endowment net assets, beg. of year   | \$ 41,358           | \$ 229,692                       | \$ 301,410                       | \$ 572,460        |
| Investment return:                   |                     |                                  |                                  |                   |
| Investment income                    | 1,866               | 7,159                            | -                                | 9,025             |
| Realized and unrealized gains        | <u>13,626</u>       | <u>74,573</u>                    | <u>-</u>                         | <u>88,199</u>     |
| Total investment return              | 15,492              | 81,732                           | -                                | 97,224            |
| Fees and other expenses              | (401)               | (1,539)                          | -                                | (1,940)           |
| Contributions                        | -                   | 1,021                            | 181                              | 1,202             |
| Other transfers in (out)             | 759                 | (1,941)                          | 591                              | (591)             |
| Amounts appropriated for expenditure | <u>(6,187)</u>      | <u>(23,718)</u>                  | <u>-</u>                         | <u>(29,905)</u>   |
| Endowment net assets, end of year    | <u>\$ 51,021</u>    | <u>\$ 285,247</u>                | <u>\$ 302,182</u>                | <u>\$ 638,450</u> |

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets totaled \$188 as of May 31, 2012. There were no such deficiencies as of May 31, 2011. These deficiencies result when unfavorable market fluctuations occur shortly after new permanently restricted contributions are invested, and appropriations for certain programs that were deemed prudent by the Board of Trustees continue. Subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as an increase in unrestricted net assets.

***Return Objectives and Risk Parameters***

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed endowment spending plus inflation with real growth as a secondary goal. The College expects its endowment funds, over three to five years, to provide an average annual real rate of return of approximately 6.5% annually. Actual returns in any given year may vary from this amount.

***Strategies Employed for Achieving Objectives***

To satisfy its long term rate-of-return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places emphasis in three broad categories - economic growth, real assets, and safety and liquidity - in a 65-20-15 percent ratio to achieve its long term return objectives within prudent risk constraints.

The majority of the assets of the endowment funds have been placed in an investment pool, on a fair 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.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The College has a policy of appropriating for distribution each year a percentage of its endowment funds' sixteen-quarter trailing average of investment fair value. This percentage for 2012 and 2011 was 5.1% and 5.0%, respectively. In establishing this policy, the College considered the expected return on its endowment. Accordingly, the College expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment returns. If yield (interest and dividend income) is not sufficient to support the calculated spending, the balance is allocated from gains of the endowment assets.

**13) High Winds Fund**

Included in the permanently restricted net assets are resources related to the High Winds Fund. The Fund is subject to the provisions of an agreement between the College and a major 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, 2012, the High Winds Fund owned 14 properties surrounding the College campus. The total value of the assets of the Fund, net of liabilities, as of May 31, 2012 and 2011 was \$15,837 and \$15,895, respectively. In addition to real estate with a market value of \$12,722 and \$11,237 as of May 31, 2012 and 2011, respectively, the High Winds fund holds cash, investments, and receivables, net of liabilities, of \$3,115 and \$4,658 at May 31, 2012 and 2011, respectively.

**14) Employee Benefits**

***Retirement Plans***

The College provides retirement benefits to substantially all employees. Certain academic and non academic personnel are covered under defined contribution plans with Teachers Insurance and Annuity Association and College Retirement Equities Fund, and Vanguard Fiduciary Trust Company. 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. Total benefit expense for the years ended May 31, 2012 and 2011 was \$3,826 and \$3,717, respectively.



***Health Benefit Plan***

On January 1, 2012, the College adopted the Macalester College Medical Benefit Plan (the Plan) to provide comprehensive health benefits for covered employees and their covered dependents, as defined in the Plan agreement. This plan is self-insured and, as such, the College pays the benefits as claims for benefits and associated expenses are incurred subject to stop-loss limits of \$100,000 per claimant. There is also an aggregate stop-loss limit of 125% of expected claims, which is recalculated quarterly based on plan enrollment. For the year ended May 31, 2012, the aggregate stop-loss amount was \$5,136. The employees are required to contribute to the cost of coverage under the Plan. The liability is reported as a component of accounts payable and accrued expenses on the statement of financial position.

**15) Fundraising Expenses**

Fundraising expenses for the College totaled \$4,998 and \$4,541 for the years ended May 31, 2012 and 2011, respectively.

**16) Commitments**

In December 2010, the College entered into a contract with a local construction company to renovate the Janet Wallace Fine Arts Center. The contract is primarily for labor. The total outstanding contract commitment at May 31, 2012 was \$2,987. No formal contract exists for the majority of the materials required to complete the project. Construction on the project began in January 2011 and is expected to be completed in the summer of 2012 for a total estimated cost of \$39,800.

The College is subject to certain claims arising out of the ordinary course of business. Although it is not possible to predict the outcome of these claims, management believes they will not have a material effect on the financial condition of the College.

**17) Subsequent Event**

In connection with the preparation of the financial statements, the College has evaluated subsequent events after the statement of financial position date of May 31, 2012 through October 5, 2012, which is the date the financial statements were available to be issued.

In October 2012, the College's Board of Trustees approved the renovation, expansion and upgrade of the Studio Art building and the central heating plant. The total estimated project cost is \$26,000. Construction is expected to begin in 2013.

(This Page is Intentionally Left Blank)



# MACALESTER COLLEGE

