

OFFICIAL STATEMENT DATED DECEMBER 31, 1985

NEW ISSUE

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

**\$1,065,000**

**MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY**

**Revenue Bonds, Series Two-L  
(College of St. Scholastica, Inc.)**

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

**Bonds Dated: December 1, 1985**

**Due: December 1, as shown below**

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

The proceeds of the Bonds will be loaned by the Minnesota Higher Education Facilities Authority (the "Authority") to the College of St. Scholastica, Inc. (the "College"), a Minnesota non-profit corporation and owner and operator of the College of St. Scholastica, Duluth, Minnesota.

The Bonds are special obligations of the Minnesota Higher Education Facilities Authority payable solely from deposits and payments made by or on behalf of the 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 Bonds are additionally secured by the Debt Service Reserve Account, as more fully described herein.

**MATURITY SCHEDULE**

<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
1986	\$35,000	6.00%	1994	\$ 65,000	8.00%
1987	35,000	6.25	1995	70,000	8.20
1988	40,000	6.50	1996	75,000	8.40
1989	40,000	6.75	1997	85,000	8.50
1990	45,000	7.00	1998	90,000	8.60
1991	50,000	7.25	1999	100,000	8.70
1992	55,000	7.50	2000	105,000	8.80
1993	60,000	7.75	2001	115,000	8.90

Bonds due on or after December 1, 1996 shall be subject to optional redemption on December 1, 1995, and on any interest payment date thereafter, in whole or in part and if in part, in integral multiples of \$5,000. If redemption is in part, those Bonds remaining unpaid which have the latest maturity date will be redeemed first. If only part of the Bonds having a common maturity date are called for redemption the specific Bonds to be redeemed will be chosen by lot by the Trustee. Redemption of Bonds shall be at a price of par and accrued interest.

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

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

The Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality and certain other matters by Faegre & Benson, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed on for the College by its Counsel, Hanft, Fride, O'Brien, Harries, Swelbar and Burns, P.A., Duluth, Minnesota. It is expected that the Bonds will be available for delivery in St. Paul, Minnesota on or about December 31, 1985.

**AMERICAN NATIONAL BANK AND TRUST COMPANY**  
**Saint Paul, Minnesota**

# MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY

## MEMBERS

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

\* *Ex Officio*

Dr. Joseph E. LaBelle, Executive Director

Bond Counsel  
Faegre & Benson

Financial Advisor  
Springsted Incorporated

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

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

**In connection with this offering, American National Bank and Trust Company, Saint Paul, Minnesota as Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. Although the Underwriter anticipates that it will maintain a secondary market for the Bonds, there is no assurance that such a market will develop or, if developed, will be maintained.**

OFFICIAL STATEMENT  
\$1,065,000  
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY  
REVENUE BONDS, SERIES TWO-L  
(COLLEGE OF ST. SCHOLASTICA, INC.)

INTRODUCTORY STATEMENT

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") and the College of St. Scholastica, Inc. (the "College") in connection with the issuance of the Authority's \$1,065,000 Revenue Bonds, Series Two-L (College of St. Scholastica, Inc.) (the "Bonds" or the "Issue").

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

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

Pursuant to a Loan Agreement between the College and the Authority, the College covenants to make payments and deposits in amounts sufficient to pay the principal of and interest on the Bonds as the same shall become due. The proceeds of the Issue will be loaned to the College to renovate and expand the library on the campus of the College.

The College has deposited Qualified Investments with the Trustee, in the amount of not less than \$298,200 into the Debt Service Reserve Account. So long as the Bonds are outstanding, the College pledges to maintain in the Debt Service Reserve Account funds and investments of at least 28% of the outstanding principal amount of the Issue.

By the Security Agreement, the College has granted the Trustee as first lien on and security interest in 2.2% of the College's annual student tuition receipts and the funds and investments in the Debt Service Reserve Account.

The College has covenanted with the Authority that it will maintain in its Unrestricted Endowment Fund total assets of at least \$800,000 at all times. The College has further covenanted that at the end of each Fiscal Year, current fund revenues must not be less than current fund expenditures and mandatory transfer in two of the preceeding three Fiscal Years, unless the total assets of the College's Unrestricted Endowment Funds are at least equal to the sum of \$800,000 plus the net excess, for such three-year period, of current fund expenditures and mandatory transfers over current fund revenues.

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

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

## THE BONDS

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

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

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

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

- (a) Subject to the provisions of Article VII of the Indenture relating to application of money upon the occurrence of an Event of Default, upon receipt by the Trustee of any defaulted interest, the Trustee shall fix a Special Record Date for the payment of such defaulted interest which shall not be more than fifteen days nor less than ten days prior to the date of the payment set by the Trustee in its discretion, but not more than ten days after the receipt by the Trustee of such defaulted interest. The Trustee shall promptly notify the Authority of such Special Record Date and, in the name of the Authority, shall cause notice of the proposed payment of such defaulted interest and the Special Record Date therefor to be mailed first class postage prepaid, to each Holder at his address as it appears on the registration books on a date determined by the Trustee, but not less than ten days prior to such Special Record Date. The Trustee may, in its discretion in the name of the Authority, cause a similar notice to be published at least once in a financial journal, but such publication shall not be a condition precedent to the establishment of such Special Record Date. Notice of the proposed payment of such defaulted interest and the Special Record Date

therefor having been mailed as aforesaid, such defaulted interest shall be paid to the registered Owners on such Special Record Date and shall no longer be payable pursuant to the following paragraph (b).

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

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

### **Prior Redemption**

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

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

Notice of any such redemption shall be mailed to the registered Owners at their addresses shown on the registration books of the Authority and maintained by the Trustee not more than sixty days nor less than thirty days before the date fixed for such payment. Any Bonds thus called shall not bear interest after the call date and, except for the purpose of payment by application of the funds so deposited, shall no longer be protected by the Indenture.

### **Taxability**

If a determination of taxability is made that the interest payable on the Bonds is subject to fiscal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of original issue of the Bonds, the rate of interest on outstanding Bonds will increase 1.00% per annum since the date of taxability effective on the date of taxability.

The College will have the option to prepay the Loan in full and cause the redemption of all outstanding Bonds, on any interest payment date after a determination of taxability at a price of par and accrued interest. The Trustee shall give not less than thirty days notice of redemption to Owners of outstanding Bonds.

The College shall have no obligation to pay additional interest and no option to cause the Bonds to be called for prior redemption if interest on the Bonds become subject to federal income taxation solely by reason of an amendment or an addition to the Internal Revenue Code (or regulations thereunder) adopted after the issuance of the Bonds.

## Additional Bonds

The Authority, in its discretion, may issue Additional Bonds to provide funds to complete the Project, refund outstanding Bonds or to improve, repair or replace the Project Facilities. No Additional Bonds shall be issued, however, under the Indenture or secured by the Trust Estate on a parity with the Bonds, unless (i) the interest on the outstanding Bonds and the Additional Bonds are exempt from taxation under Section 103 of the Internal Revenue Code; (ii) the College deposits in the Debt Service Reserve Account additional cash and Qualified Investments so that such cash and investments in the Debt Service Reserve Account is equal to 28% of the principal outstanding on the Bonds and the Additional Bonds; (iii) the Additional Bonds are issued for a project authorized by the Act; and (iv) no default shall exist by the College under the Loan Agreement or the Security Agreement.

## USE OF BOND PROCEEDS

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

Project Costs	\$1,000,000
Underwriter's Discount	20,767
Costs of Issuance*	<u>44,233</u>
	\$1,065,000

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

## SUMMARY OF SECURITY FOR THE BONDS

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

The Debt Service Reserve Account consists of cash and Qualified Investments deposited by the College with the Trustee in the original amount of \$298,200 or 28% of the principal amount of the Bonds. The College agrees to maintain at least 28% of the outstanding principal amount of the Issue (the "Required Amount") in the Debt Service Reserve Account. The Debt Service Reserve Account is irrevocably pledged to and shall be used by the Trustee, from time to time, as required, for the payment of principal of and interest on the Bonds.

By the Security Agreement, the College has granted to the Trustee (i) a first lien on and security interest in 2.2% of the College's annual student tuition receipts and (ii) a security interest in all funds and investment in the Debt Service Reserve Account.

The College also covenants the following:

1. The College will maintain total assets of at least \$800,000 in its Unrestricted Endowment Funds, as reported in its annual financial statements in accordance with the accounting principles used for preparation of the College's financial statements for the Fiscal Year ended June 30, 1985.
2. For two out of the previous three audited Fiscal Years, current fund revenues must not be less than current fund expenditures and mandatory transfers, according to the principles of accounting used for preparation of the College's financial statements for the Fiscal Year ended June 30, 1985, unless the total assets of the College's Unrestricted Endowment Funds are at least equal to the sum of \$800,000 plus the net excess, for such three-year period, of current fund expenditures and mandatory transfers over current fund revenues.

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

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

## ACCOUNTS

### Summary

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



### **Construction Account**

There shall initially be deposited into the Construction Account \$1,044,233. In addition, the College agrees in the Loan Agreement to provide for payment of all Project Costs in excess of the proceeds of the Bonds available therefor. Upon receipt of proper documentation, the Trustee will reimburse or pay for the account of the College costs incurred in connection with the Project. When work on the Project Buildings have been completed and the Project Equipment has been installed and a certificate to that effect has been furnished to the Trustee, any balance in the Construction Account shall be deposited into the Bond and Interest Sinking Fund Account, the Debt Service Reserve Account or the Redemption Account.

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

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

### **Debt Service Reserve Account**

At Bond closing, the College shall deposit into the Debt Service Reserve Account cash or Qualified Investments from Unrestricted Funds in an amount and value of not less than \$298,200. Unrestricted Funds are quasi-endowment funds of the College as further defined in "DEFINITION OF CERTAIN TERMS," Appendix C. The College will certify that all funds in the Debt Service Reserve Account are Unrestricted Funds. The funds and investments in the Debt Service Reserve Account are irrevocably pledged to and shall be used by the Trustee, from time to time, as may be required, for the payment of principal of, premium (if any) and interest on the Bonds.

The College shall maintain in the Debt Service Reserve Account at least 28% of the outstanding principal amount of the Bonds (the "Required Amount").

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

On May 1 and November 1 in each year, the Trustee shall prepare a schedule of valuation of Qualified Investments, based on the Schedule of Qualified Investments furnished by the Institution on each such date pursuant to Section 6.03 of the Loan Agreement. For purposes of such valuation, the Trustee shall be entitled to rely conclusively on the closing price for the date of such valuation (or the most recent preceding date for which such a price is available) as published in the Wall Street Journal, with respect to any Qualified Investments traded on the New York Stock

Exchange, and on the mean between the bid and asked prices for the date of such valuation (or the most recent preceding date for which such a price is available) as published in the Wall Street Journal, with respect to any other publicly traded Qualified Investments. With respect to the value of any other Qualified Investments, the Trustee may rely conclusively on a Certificate of a recognized expert.

Qualified Investments shall be: (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or obligations the principal of and interest on which are fully guaranteed by the United States of America); (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following federal agencies: Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, Government National Mortgage Association, Maritime Administration, Public Housing Authorities, Banks for Cooperatives and Federal Home Loan Bank; (iii) direct and general obligations of the State of Minnesota or of any state of the United States or of any political subdivision of any of them to the payment of the principal of and interest on which the full faith and credit of such state or political subdivision is pledged, if at the time of their purchase such obligations are rates A plus or A 1 or a higher rate category by Standard & Poor's Corporation ("Standard & Poor's") or Moody's Investors Service ("Moody's"), respectively; (iv) revenue bond obligations of the State of Minnesota or any state of the United States or of any political subdivision of any of them, fully secured at all times by a pledge of revenues attributable to the particular facility financed by such obligations or Government Obligations if at the time of purchase such obligations are rated AA or Aa or a higher rating category by Standard and Poor's or Moody's respectively; (v) mutual funds and/or unit trusts which invest solely in Government Obligations, including funds managed by the Trustee; (vi) savings accounts, time deposits or certificates of deposit deposited with or issued by commercial banks (including the Trustee and affiliates of the Trustee), savings and loan associations and mutual savings banks, if secured by possession by the Trustee at all times equal to 100% of the face amount of such investments by collateral security described in (i) and (ii) above; (vii) certificates of deposit, savings accounts, deposit accounts, time deposit accounts or depository receipts of banks, savings and loan associations and mutual savings banks, including the Trustee, fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation; (viii) bankers' acceptances or certificates of deposit of commercial banks or savings and loan associations which mature not more than 360 days after the date of purchase, provided that the banks or savings and loan associations (as opposed to their holding companies) are rated for unsecured debt at the time of purchase of the investments in one of the two highest classifications established by Standard & Poor's and Moody's, (ix) commercial paper rated at the time of purchase in the single highest classification by both Standard & Poor's and Moody's and which matures not more than 270 days after the date of purchase; and (x) securities of any corporation with a long-term debt rating from Standard & Poor's or Moody's of at least "A<sub>2</sub>", and (xi) obligations of the Federal National Mortgage Association.

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

## Redemption Account

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

## General Bond Reserve Account

Pursuant to its General Bond Resolution adopted October 31, 1972, the Authority has established and maintains a General Bond Reserve Account. In general, the General Bond Reserve Account secures certain Bonds of the Authority for which a deposit is made into the General Bond Reserve Account in compliance with the General Bond Resolution.

In connection with the Bonds, the Authority has not required that the College deposit funds into the General Bond Reserve Account. **The Bonds will not be secured by the General Bond Reserve Account, and Bondholders will have no right to require the Authority to apply moneys or investments in the General Bond Reserve Account to the payment of the Bonds or interest thereon.**

## Permitted Investments

Moneys on deposit to the credit of the Bond and Interest Sinking Fund Account, or the Redemption Account shall be invested by the Trustee in (i) direct obligations of or obligations fully guaranteed by the United States of America ("Government Obligations"), or (ii) time deposits of or certificates of deposit issued by a bank or trust company (including the Trustee or any affiliate of the Trustee) which deposits are insured by the Federal Deposit Insurance Corporation or are fully secured by Government Obligations, or (iii) securities issued by the agencies of the United States known as Federal Home Loan Banks, Farmers Home Administration, Federal Housing Administration, Government National Mortgage Association, Federal Maritime Administration and Public Housing Authorities, and ~~(iv)~~ shares of an investment company registered under the federal Securities Act of 1933, and whose only investments are in securities previously described in this sentence. Obligations so purchased shall be deemed at all times to be a part of the respective fund or account, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such fund or account. The type, amount and maturity of any such investments shall conform to any instructions of the Authorized Institution Representative. Any interest and income accruing on and any profit realized from such investment shall be credited against Loan Repayments to be deposited by the College under the Loan Agreement. Any such interest or other investment income or profit not credited to Loan Repayments and deposits therefor under the Loan Agreement, and not needed to provide payments on the Bonds, shall be used as promptly as possible and in integral multiples of \$5,000 for the redemption of Bonds or the purchase of Bonds on the market, it being intended that interest, income and profit shall not be permitted to accumulate but shall be used to provide for the payment of principal of and interest on the Bonds or for the prior redemption or retirement of Bonds. Any such investment made by the Trustee may be purchased from the Trustee or any affiliate of the Trustee. The Trustee shall redeem or sell, at the best price obtainable, any obligations so purchased, whenever it shall be necessary to do so in order to provide moneys to meet any payment from

*(iv) securities  
issued by the  
Federal Reserve  
Bank of  
New York  
& New York  
Branch*

the respective account. Neither the Trustee nor the Authority shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Investment of funds shall be limited as to amount and yield of investment in such manner that no part of the outstanding Bonds shall be deemed "arbitrage bonds" under Section 103(c) of the Internal Revenue code of 1954 and regulations thereunder.

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

## THE PROJECT

The proceeds will finance in part the renovation and expansion of the College's library and the acquisition of certain furniture and equipment for the library. Renovation will increase the available library space from 12,000 square feet to 20,000 square feet and provide room to increase the library collection from its present 95,000 volumes to 165,000 volumes. A computer center will also be available for student use.

The building to be renovated currently houses a chapel on the second floor and the library on the ground floor. The chapel will be relocated to the ground floor and the present chapel will have two additional floors installed, creating a three-story library. While the chapel is a part of the same building, none of the proceeds of this Issue will be expended for purposes of chapel construction. Separate construction contracts have been let by the College and costs of the chapel will be paid out of College funds.

The estimated costs of library renovation and acquisition of related furniture and equipment is \$1,734,687. One million dollars of Project costs are included in the Issue; the balance will be funded with available College moneys. The Project is expected to be completed by February 1, 1987.

## THE AUTHORITY

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

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

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

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

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

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

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

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

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

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

## UNDERWRITING

The Bonds are being purchased on their delivery date by American National Bank and Trust Company, Saint Paul, Minnesota (the "Underwriter") at an aggregate discount of \$20,767.50 from the public offering price set forth on the cover page of this Official Statement.

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

### ABSENCE OF LITIGATION

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

### RATING

As of Bond closing, the Bonds are not rated.

An application for a rating of this Issue has been made to Moody's Investors Service, Inc. ("Moody's"), 99 Church Street, New York, New York.

If a rating is assigned, it will reflect only the opinion of Moody's. Any explanation of the significance of the rating may be obtained only from Moody's.

There is no assurance that a rating, if assigned, will continue for any given period of time, or that such rating will not be revised or withdrawn, if in the judgment of Moody's, circumstances so warrant. A revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

### TAX EXEMPTION

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

## LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Faegre & Benson, Minneapolis, Minnesota, Bond Counsel, whose approving opinion will be printed on the Bonds. Certain legal matters will be passed on for the College by its Counsel, Hanft, Fride, O'Brien, Harries, Swelbar and Burns, P.A., Duluth, Minnesota.

## ARBITRAGE

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

## MISCELLANEOUS

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

## THE COLLEGE

**Governance**

The College of St. Scholastica, a coeducational, four-year, liberal arts college, was founded by the Benedictine Sisters Benevolent Association (the "BSBA") in 1912. In 1962, the College was incorporated under the laws of the State of Minnesota as a non-profit corporation with a perpetual life. In the event of dissolution of the College of St. Scholastica, Inc. its assets shall be assigned to the BSBA, a Minnesota non-profit corporation, or its successor or successors.

The current By-Laws of the College provide for a Board of Trustees of not less than 24 members (there are currently 32 members) of whom one shall be the President of the BSBA and one shall be the President of the College, neither of whom shall be eligible for election as Chairman of the Board. The President of the Alumni Association shall also be a member of the Board. The remaining members of the Board are elected by a majority vote of a quorum of the Board. At all times at least 40% of the members of the Board shall be members of the BSBA.

The operating officers of the College are the President, Treasurer and Secretary, each of whom hold office for a one-year period or until his/her successor is elected and qualified.

**Members of the Board of Trustees**

Sr. Vivian Arts	St. Joseph's Medical Center, Brainerd, Minnesota
Sr. Cabrini Beauvais	St. Anthony's Parish, Ely, Minnesota
Sr. Martha Bechtold	McCabe Renewal Center, Duluth, Minnesota
Sr. Jean Patrick Bennett	St. Francis School, Brainerd, Minnesota
Mother Grace Marie Braun	St. Scholastica Priory, Duluth, Minnesota
Ms. Sharon N. Bredeson	Staff-Plus, Minneapolis, Minnesota
William M. Burns	Hanft, Fride, O'Brien, Harries, Swelbar & Burns, Duluth, Minnesota
Dr. Mark J. Carlson	Orthopaedic Associates of Duluth, Duluth, Minnesota
Sr. Mary Stephen Eckes	St. Scholastica Priory, Duluth, Minnesota
Sr. Verda Clare Eichner	St. Mary's Medical Center, Duluth, Minnesota
Edwin F. Erickson	Potlatch Corporation, Northwest Paper Division, Cloquet, Minnesota
Larry L. Gilb	First Bank-Duluth, Duluth, Minnesota
Manley Goldfine	Manley Investment Company, Duluth, Minnesota



Sr. Kathleen Hofer	St. Mary's Medical Center, Duluth, Minnesota
Sr. Mary Christa Kroening	St. Scholastica Priory, Duluth, Minnesota
John F. LaForge, Vice Chair	KDLH-TV, Duluth, Minnesota
Dr. Joseph H. Leek	Duluth Clinic, Ltd., Duluth, Minnesota
Miss Julia N. Marshall	Duluth, Minnesota
Sr. Mary Charles McGough	McCabe Art Center, Duluth, Minnesota
Sr. Marilyn Micke	Operation Aware, Inc., Duluth, Minnesota
Sr. Armella Oblak	Benedictine Health Center, Duluth, Minnesota
Daniel H. Pilon, President	College of St. Scholastica, Duluth, Minnesota
Maxwell O. Ramsland, Jr.	Ramsland & Vigen, Inc., Duluth, Minnesota
Sr. Claudia Riehl	St. Scholastica Priory, Duluth, Minnesota
George A. Rossman	Northprint Company, Grand Rapids, Minnesota
Mrs. Jean Rothstein	Grand Rapids, Minnesota
Leonard H. Rudolph	Duluth, Minnesota
Charles A. Russell	Norwest Corporation, Region I, Duluth, Minnesota
John R. Ryan, Sr.	Ryan-Kasner-Ryan, Hibbing, Minnesota
Arend J. Sandbulte, Chair	Minnesota Power, Duluth, Minnesota
Mrs. Ann Fee Shiely	St. Paul Park, Minnesota
William Van Evera	Van Evera, Clure, and Butler, Duluth, Minnesota
Donald C. Wegmiller	The Health Central System, Minneapolis, Minnesota
Mrs. Anne Welliver	Grand Rapids, Minnesota

### **President**

Dr. Daniel Pilon, 43, became the ninth president of the College of St. Scholastica, Duluth, Minnesota, on August 1, 1981.

Pilon was previously employed as vice president for campus services for the Council for the Advancement of Small Colleges, Washington, D.C., where he held the responsibility for the Council's national consulting network.

He holds a bachelor's degree in philosophy from Sacred Heart Seminary, Detroit; a master's in education from Marygrove College, Detroit; and a doctorate in

administration from the University of Michigan, Ann Arbor. He has done additional graduate work in theology, has led numerous workshops, and has served as a consultant in general college administration and management.

Formerly he served as assistant to the president at Aquinas College, Grand Rapids, Michigan, and taught at Shrine High School, Royal Oaks, Michigan.

An active member of any community in which he has resided, Pilon is a member of the Board of Directors of Miller-Dwan Medical Center, the Duluth-Superior Symphony Orchestra, the United Way of Greater Duluth, the Northeastern Minnesota Development Association, Minnesota Public Radio, and the Duluth-Superior Area Educational Television Corporation.

### **Benedictine Sisters Benevolent Association ("BSBA")**

The BSBA hold title to all, except 34 acres, of the 160 acre College campus. The buildings situated on land owned by the BSBA include: (i) The Chapel and Library, (ii) Tower Hall (classrooms, offices and residential facilities), and (iii) the Home Management House. In March of 1974, the BSBA and the College entered into an Agreement by which the BSBA gave the College exclusive use of the classroom and office areas of Tower Hall and of certain other facilities owned by the BSBA on the Campus for a period of 25-years with an option for the College at any time after December 31, 1984, but prior to expiration of the Agreement, to enter into a renewable 99-year lease for use of said facilities. The Agreement also provides for a 25-year lease to the College of other facilities owned by the BSBA on the campus to be mutually used by the College and the BSBA for which successive 25-year leases may be entered into at the option of the College in the event it elects to exercise its option with respect to additional lease periods for the facilities of which it shall have exclusive use. The Agreement provides for an annual rental of \$1.00 in the event the College exercises its option for a lease beyond the 25-year period, and payment of certain maintenance costs by the College.

Twenty-nine BSBA members are employed full-time and part-time by the College. The College charges the services of BSBA members as an operating expense at rates comparable to salaries for comparable positions but includes the sum thereof ("Contributed Services") as Current Revenue. For Fiscal Year 1984/85 the amount of Contributed Services was \$457,147.

The BSBA has pledged its full faith and credit to the Minnesota Higher Education Facilities Authority \$520,000 First Mortgage Revenue Bonds, Series D (College of St. Scholastica, Inc.) issued March 1, 1973. The BSBA has no legal commitment for financial support of the College.

### **The Campus**

The 160 acre campus is located on the north edge of the City of Duluth (1980 population 92,811). The campus is close to national forests and parks, ski areas, lakes and rivers making it an attractive student residence.

## Campus Facilities

<u>Facility</u>	<u>Year Built</u>	<u>Estimated Cost</u>	<u>1985 Replacement Value</u>	<u>Use</u>
1. Tower Hall*	1910-1926	\$2,054,016	\$10,476,910	Classroom & Offices
2. Gymnasium*	1925	47,000	273,940	Drama Theatre
3. Home Economics Building	1950	7,000	29,820	Home Economics Department
4. Warming House*	1947	3,000	22,640	Field Sports
5. Somers Hall	1964	2,195,795	6,883,770	Dormitory
6. Science Building	1969	2,882,300	6,816,520	Classrooms
7. Plastic Greenhouse	1968	Part of Science Bldg.	53,560	Greenhouse
8. Grove Apartments	1973	425,070	786,280	Student Housing
9. Chapel and Library	1938	785,000	6,657,000	Library & Worship
10. Pine Student Housing	1974	285,000	567,200	Student Housing
11. Myles Reif Recreation Facility	1979	<u>995,290</u>	<u>1,224,270</u>	Recreation & Sports
	Total	\$9,679,471	\$33,791,910	

\* Owned by the BSBA and used by the College under an Agreement with the BSBA.

## Academic Information

The College's academic year consists of fall, winter and spring quarters and four summer sessions. The full-time student quarterly load is 16 quarter credits. Satisfactory completion of a minimum of 192 quarter credits is needed for graduation.

The College of St. Scholastica grants a Bachelor of Arts Degree (B.A.) upon the completion of the following majors: biology, chemistry, communication, computer information systems, dietetics, dual degree engineering, elementary education, english, health services management, home economics, history, indian studies (multidisciplinary), mathematics, management, health information administration, medical technology, music, nursing, physical therapy, psychology, religious studies, sociology, social work, sports and recreation management, youth ministry, and a divisional major approved by the division.

The College also grants a Master of Education Degree (M.Ed.), a Master of Arts degree in the Psychology of Aging, and a Master of Arts degree in Nursing.

A certificate program in gerontology, developed through an Administration on Aging grant, was initiated in the winter of 1979. The need for this program is well documented by the high proportion of older adults living in the region of the College.

The College is accredited by the American Dietetic Association, American Physical Therapy Association, American Medical Association (for medical record administration and medical technology), Council on Social Work Education, National League of Nursing and the North Central Association of Colleges and Secondary Schools.

The College is approved by the Minnesota Board of Nursing, Minnesota State Board of Vocational Education (for home economics) and State of Minnesota Department of Education (for early childhood, kindergarten, elementary and secondary programs).

Over 60% of the students are in one of the health science programs. All of these programs were enhanced during 1980-81 with the opening on campus of the Benedictine Health Center, a 120 bed facility primarily for extended care which also has day care programs for the elderly and children, and out-patient physical therapy programs.

Adult students who are 23 and over or who have been out of high school for three years or more may pursue a Bachelor of Arts Degree through the College's ENCORE! program. The program offers some late afternoon, evening and weekend classes to minimize conflict with full-time work schedules. ENCORE! is sensitive to the needs & aspirations of adults returning to college and is designed to ease the adult learner into the college experience with special entry courses. Personal, career guidance, study skills assessment workshops and placement services are provided.

### Student Body

The College's head count enrollment and full-time equivalent fall enrollment, actual and projected are:

	<u>(Fall)</u> <u>Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>	<u>Full Time</u> <u>Equivalents</u>
Actual:	1981	907	141	1048	954
	1982	966	199	1165	1032
	1983	1065	242	1307	1146
	1984	1160	274	1434	1251
	1985	1130	319	1449	1236
Projection:	1986	1135	328	1463	1244
	1987	1141	337	1478	1253
	1988	1144	341	1485	1258
	1989	1147	345	1492	1262
	1990	1150	350	1500	1267

### Freshmen Applications, Acceptances and Enrollments

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Applications	686	604	655	703	588
Acceptances	331	324	392	394	327
Enrollments	209	266	281	290	330

## Tuition and Fees

The following table lists the schedule of charges for a full-time, resident student for the past five years:

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Annual Tuition	\$ 3,606	\$ 4,149	\$ 4,545	\$4,977	\$5,676
Room:					
Grove Apts.	759	834	891	957	996
Pines Apts.	891	981	1,050	1,128	1,173
Residence Hall	744	819	876	939	978
Board	1,146	1,260	1,347	1,449	1,506
Fees	120	122	120	126	126

In addition, students taking certain courses are charged laboratory fees.

## Financial Aid

The following table is a five-year trend of financial aid by category received by students:

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Federal:					
Work/Study	\$ 162,354	\$ 143,642	\$ 166,303	\$ 166,303	\$ 167,788
NDSL	295,178	408,118	405,421	377,662	466,660
SEOG	149,384	111,114	143,886	148,118	156,172
Pell	397,731	461,527	562,123	641,033	638,870
State of Minnesota	490,400	493,093	904,054	1,107,043	1,248,052
College:					
Grants/Scholarships	383,147	712,900	672,807	875,077	907,363
Student Discounts	34,944	58,891	97,456	100,497	113,650
Endowed Scholarships	20,000	20,000	23,038	27,994	30,050
Foundation Scholarships	76,414	129,091	134,450	139,138	132,700
Faculty/Staff Discounts	62,496	76,074	98,687	163,595	188,580
Total	\$2,072,048	\$2,538,376	\$3,208,225	\$3,746,460	\$4,050,885

## Faculty and Staff

The College employs a total of 183 persons full-time and 52 persons, part-time, including 115 lay and religious faculty.

	<u>Full-Time</u>	<u>Part-Time</u>
Lay Faculty	75	21
Religious Faculty	<u>16</u>	<u>3</u>
Total	91	24

Thirty-one full-time faculty members are tenured, or 34%. The faculty-student ratio is 1:12.

## Unions

Four College employees and another twenty employees shared with the BSBA are members of the International Union of Operating Engineers. The current contract expires on June 30, 1987.

## Insurance

The College currently carries umbrella liability insurance in the amount of \$25 million for each occurrence and \$25 million yearly aggregate, with a deductible amount of \$\_\_\_\_\_. By the Loan Agreement, the College is required to carry a minimum of \$110 million for each occurrence and \$10 million yearly aggregate. The deductible amount may be no more than \$50,000.

## Pensions

The College participates in the Teachers Insurance and Annuity Association and College Equities Fund program (TIAACEF) which covers full-time faculty and staff employees. Benefits are based upon amounts accumulated for the account of each individual employee at date of retirement. For the Fiscal Year ending June 30, 1985, the College contributed \$120,704.

## Litigation

The College has no material litigation threatened or pending against it of which the College is aware.

## Endowment Funds

Following is a five-year history of total assets of the College's endowment funds.

<u>Year Ending June 30</u>	<u>Unrestricted Endowment Funds</u>	<u>Restricted Endowment Funds</u>
1985	\$993,150	\$561,817
1984	905,977	523,625
1983	811,550	483,587
1982	717,639	487,704
1981	650,451	477,121

## Gifts, Grants and Contracts

Gifts, grants and contracts from federal, State of Minnesota and private sources received by the College for the past five fiscal years have been:

<u>Fiscal Year</u>	<u>Current Fund</u>	<u>College Scholarship Fund</u>	<u>Unrestricted Endowment Fund</u>	<u>Restricted Endowment Fund</u>	<u>Plant Funds</u>	<u>Capital Campaign Fund</u>
1985	\$1,398,103	\$ 6,642	\$ 6,494	-	-	\$336,237
1984	1,518,398	7,226	13,470	-	-	143,553
1983	1,365,238	26,204	-	551	-	722,198
1982	1,227,075	669	7,188	1,254	2,000	317,882
1981	1,336,746	56,774	-	1,727	-	279,058

## Capital Campaign

Since 1977, the College has conducted an on-going capital campaign. A goal of \$10 million was achieved approximately three years ago. Currently, pledges are being solicited for the library renovation.

## Financial Statements

The College's fiscal year ends on June 30 of each year. Financial records are maintained on the fund accounting system and financial statements have been prepared on the accrual basis of accounting. Appendix B sets forth the financial statements of the College for the year ended June 30, 1985, which statements have been examined by KMG Main Hurdman, Certified Public Accountants. KMG Main Hurdman, Certified Public Accountants has not read this Official Statement and expresses no opinion on its contents.

## Long-Term Debt of the College as of June 30, 1985

1. College of St. Scholastica Dormitory and Dining Hall Bonds of 1962 at 3.5%; purchased by the United States Department of Housing and Urban Development. The net operating revenues of the Somers Hall complex and the full faith and credit of the College are pledged. As of the end of Fiscal Year 1985 \$93,384 was on deposit in the repair and replacement reserve account. \$1,265,000 is outstanding with final maturity October 1, 2002.
2. College of St. Scholastica Science Building Bonds of 1968 at 3%; purchased by the United States Department of Housing and Urban Development. The bonds are secured by a first mortgage on the Science Building, and, in addition to a pledge of the full faith and credit of the College, are guaranteed by the BSBA. As of June 30, 1985, there was \$62,078 deposited in the debt service reserve fund for the issue which reserve fund is funded by Endowment Fund assets. \$653,000 is outstanding with final maturity October 1, 1998.
3. Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds, Series D (College of St. Scholastica, Inc.). The bonds are secured by a first mortgage on the Grove Apartment complex owned by the Authority and leased to the College. The net operating revenues of the Grove Apartment complex and the full faith and credit of the College are pledged for payment of the bonds, and in addition prompt payment of the bonds is guaranteed by the BSBA. Interest is subsidized to 3% by the United States Department of Housing and Urban Development. As of the end of the Fiscal

Year 1985, \$35,195 was on deposit in the debt service reserve account, \$31,601 in the repair and replacement reserve account and \$22,477 was allocated to the College in the general bond reserve account. \$345,000 is outstanding with final maturity March 1, 1997.

4. Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds, Series H (College of St. Scholastica, Inc.). The bonds are secured by a first mortgage on the Pines Apartment complex owned by the Authority and leased to the College. The net operating revenues of the Pines Apartment complex and the full faith and credit of the College are pledged for payment of the bonds. As of the end of the Fiscal Year 1985, \$27,562 was on deposit in the debt service reserve account and \$14,148 was allocated to the College in the general bond reserve account. \$255,000 is outstanding with final maturity June 1, 1999.
5. Minnesota Higher Education Facilities Authority First Mortgage Revenue Bonds, Series Two-B (College of St. Scholastica, Inc.). The bonds are secured by a first mortgage lien on the Reif Recreation Facility owned by the Authority and leased to the College. The full faith and credit of the College are pledged for payment of the bonds. As of the end of the Fiscal Year 1985, \$257,471 was on deposit in the debt service reserve account; \$46,919 was allocated to the College in the general bond reserve account; and \$728,934 was deposited in the redemption account. \$950,000 is outstanding with final maturity May 1, 1993.
6. A \$566,205 share in the Minnesota Higher Education Facilities Authority Pooled Revenue Bonds, Series 1983-A. The full faith and credit of the College are pledged for payment of the bonds. \$566,205 is outstanding, payable September 1, 1986 through September 1, 1991.

Total long-term debt as of June 30, 1985: \$4,034,205

#### Annual Debt Service By Calendar Year

Calendar Year	The Bonds		Outstanding Principal and Interest	Total Principal and Interest
	Principal	Principal and Interest		
1985	\$	\$	\$ 350,345.00	\$ 350,345.00
1986	35,000	120,517.50	392,020.00	512,537.50
1987	35,000	118,417.50	497,761.50	616,179.00
1988	40,000	121,230.00	491,068.00	612,298.00
1989	40,000	118,630.00	488,079.50	606,709.50
1990	45,000	120,930.00	478,767.50	599,697.50
1991	50,000	122,780.00	474,302.00	597,083.00
1992	55,000	124,155.00	361,930.00	486,085.00
1993	60,000	125,030.00	608,390.00	733,420.00
1994	65,000	125,380.00	224,440.00	349,820.00
1995	70,000	125,180.00	224,130.00	349,310.00
1996	75,000	124,440.00	222,415.00	346,855.00
1997	85,000	128,140.00	225,350.00	353,490.00
1998	90,000	125,915.00	180,130.00	306,045.00
1999	100,000	128,175.00	123,050.00	251,225.00
2000	105,000	124,475.00	94,275.00	218,750.00
2001	115,000	125,235.00	96,300.00	221,535.00
2002			93,150.00	93,150.00
	<u>\$1,065,000</u>	<u>\$1,978,630.00</u>	<u>\$5,625,903.50</u>	<u>\$7,604,533.50</u>



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

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<b>Revenues:</b>					
Educational and General:					
Student Tuition and Fees	\$3,472,462	\$3,702,136	\$4,597,951	\$5,642,692	\$ 6,625,897
Current Fund Investment Income, Including Income Transferred From Plant Fund Reserve Account	70,319	63,247	66,133	122,218	91,739
Endowment Investment Income:					
Unrestricted	50,627	66,996	100,062	86,247	87,396
Restricted	27,035	32,303	34,246	6,680	13,126
Federal Government Programs	535,963	457,385	477,278	801,125	572,651
College Work Study Programs	206,213	180,434	181,520	192,193	193,933
Grants	467,978	419,456	471,923	311,026	400,546
Contributed Services (Less Maintenance Expenses)	426,701	437,126	390,084	435,517	457,147
Other Revenue	<u>297,478</u>	<u>265,308</u>	<u>379,966</u>	<u>628,184</u>	<u>812,701</u>
Total Educational and General	\$5,554,776	\$5,624,391	\$6,699,163	\$8,225,882	\$ 9,255,136
Income From Scholarship Funds	22,288	31,367	56,644	46,711	51,138
Auxiliary Enterprise	<u>910,929</u>	<u>854,827</u>	<u>1,004,406</u>	<u>1,078,157</u>	<u>1,114,695</u>
Total Revenues	<u>\$6,487,993</u>	<u>\$6,510,585</u>	<u>\$7,760,213</u>	<u>\$9,350,750</u>	<u>\$10,420,969</u>
<b>Expenditures and Mandatory Transfers:</b>					
Educational and General:					
General Administration	\$ 306,585	\$ 282,856	\$ 329,303	\$ 399,625	\$ 434,394
Student Services	410,067	416,205	584,039	684,720	760,526
Public Service and Information	248,835	264,697	298,118	352,517	415,263
General Institutional	392,472	436,644	567,036	727,279	745,609
Instruction	2,021,976	2,003,753	2,100,174	2,530,574	2,906,745
Library	181,873	187,023	192,645	204,614	227,821
Plant Operations (Including Mandatory Transfers For Interest on Long-Term Debt)	587,677	599,649	723,300	1,130,221	1,489,716
Federal Government Programs	571,045	474,311	509,090	784,931	548,537
Federal Government Programs - College Match	126,051	178,484	177,298	95,174	126,877
Other Foundation Projects	<u>5,679</u>	<u>34,611</u>	<u>92,119</u>	<u>205,206</u>	<u>336,251</u>
Student Aid	\$4,852,260	\$4,878,233	\$5,573,122	\$7,114,861	\$ 7,991,739
Auxiliary Enterprise (Includes Mandatory Transfers For Interest on Long-Term Debt)	467,038	521,761	916,872	892,053	1,177,079
Mandatory Transfers For Principal Pay- ments on Long-Term Debt	1,038,061	978,650	1,124,320	958,456	978,575
Mandatory Transfers to Equipment Replace- ment and Renewal Reserves	102,464	103,443	106,965	163,056	175,083
Total Expenditures and Mandatory Transfers	<u>15,000</u>	<u>24,160</u>	<u>18,463</u>	<u>15,000</u>	<u>15,000</u>
Total Expenditures and Mandatory Transfers	\$6,747,823	\$6,506,247	\$7,739,742	\$9,143,426	\$10,337,476
Non-Mandatory Transfers:					
(To) Plant Fund	-	-	-	(187,000)	(55,000)
From Plant Fund Reserve	-	49,475	-	-	-
From Restricted Endowment	<u>19,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Mandatory Transfers	\$ 19,652	\$ 49,475	\$ -	\$ (187,000)	\$ (55,000)
Net Increase in Fund Balance	<u>32,822</u>	<u>53,813</u>	<u>20,471</u>	<u>20,324</u>	<u>28,493</u>
Fund Balance - Beginning of Year	\$ 61,034	\$ 93,856	\$ 147,669	\$ 168,140	\$ 188,464
Fund Balance - End of Year	<u>\$ 93,856</u>	<u>\$ 147,669</u>	<u>\$ 168,140</u>	<u>\$ 188,464</u>	<u>\$ 216,957</u>

COLLEGE OF ST. SCHOLASTICA, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1985  
WITH COMPARATIVE TOTALS FOR 1984

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS



# KMG Main Hurdman

Certified Public Accountants

700 Missabe Building  
Duluth, MN 55802

Telephone: (218) 727-5025

Board of Trustees  
College of St. Scholastica, Inc.

We have examined the balance sheet of the College of St. Scholastica, Inc. as of June 30, 1985, and the related statements of changes in fund balances, and current fund revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the College of St. Scholastica, Inc. at June 30, 1985, and the changes in fund balances and the current fund revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*KMG Main Hurdman*

August 13, 1985

## COLLEGE OF ST. SCHOLASTICA, INC.

## BALANCE SHEET

June 30, 1985

With Comparative Totals for 1984

ASSETS

## Current funds:

Cash (Note 2)

Accounts and notes receivable:

Students and staff (less allowance for

doubtful accounts \$85,569 and \$67,512)

Government programs and grants

Other

Inventory, bookstore (at lower of cost or market)

Corporate stock (market value \$4,350 and \$4,350)

Due from other funds, net

Prepaid expense and other assets

## Endowment funds:

College scholarship funds:

Savings account and certificates

Corporate bonds and commercial paper (market

value \$51,658 and \$39,263)

Corporate stock (market value \$289,593 and \$225,089)

Federal government obligations (market value

\$164,491 and \$131,569)

## Unrestricted endowment funds:

Savings account and certificates

Corporate bonds and commercial paper (market

value \$95,936 and \$73,493)

Corporate stock (market value \$534,216 and \$417,490)

Federal government obligations (market value

\$369,194 and \$306,233)

## Restricted endowment funds:

Savings

Foreign bonds (market \$42,117)

Corporate bonds (market \$64,038 and \$86,368)

Corporate stock (market \$387,110 and \$296,399)

Federal government obligations (market value

\$115,586 and \$96,397)

Due from other funds

LIABILITIES AND FUND BALANCES

## Current funds:

Accounts payable:

Trade

B.S.B.A.

Major repairs

Restricted funds

Accrued expenses

Deferred revenue

Other liabilities

Fund balance

## Endowment funds:

College scholarship funds:

Funds held for the Sr. Loretta Fund

Due to other funds

Fund balance

## Unrestricted endowment funds:

Due to other funds

Fund balance

## Restricted endowment funds:

Fund balance

1985

1984

\$ 61,763 \$ 98,159  
 507,496 558,204  
 145,000  
 66,451 64,102  
 41,257 42,058  
 206,055 230,789  
 177,777 110,372  
 216,957 188,464  
\$1,422,756 \$1,292,148

\$ 18,165 \$ 19,069  
 232,277 181,388  
 316,395 309,503

\$ 566,837 \$ 509,960

\$ 333,771 \$ 253,092  
 659,379 652,885

\$ 993,150 \$ 905,977

\$ 561,817 \$ 523,625

\$ 561,817 \$ 523,625

The accompanying notes are an integral  
 part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

BALANCE SHEET

June 30, 1985  
With Comparative Totals for 1984

ASSETS

Plant funds:

Renewal and replacement:

Cash \$ 2,814  
Savings 31,120  
Federal government obligations (market value \$95,964 and \$77,565) 91,051

Retirement of indebtedness:

Cash \$ 11,159  
Savings 1,119,341  
Federal government obligations (market value \$121,699 and \$114,077) 118,628

Investment in plant:

Cash \$ 8,807  
Savings 605,700  
Land and land improvements 155,145  
Buildings 9,354,275  
Equipment, furniture and fixtures 2,226,829  
Automotive equipment 165,097  
Less accumulated depreciation, automotive equipment 12,515,853 (93,678)

Capital Campaign (Scholastica Adventure):

Cash \$ 62,383  
Savings 94,259  
Land, at appraisal value 394,000  
Real estate, at appraised value 164,406  
Due from other funds, net 582,108

LIABILITIES AND FUND BALANCES

Plant funds:

Renewal and replacement:

Fund balance, restricted (Notes 4 and 5) \$ 124,985

Retirement of indebtedness:

Fund balance, restricted (Notes 4 and 5) \$ 1,249,128

Investment in plant:

Account payable, B.S.B.A. (1962 Revenue Fund) \$ 450,042  
Loan payable 566,205  
Bonds payable: 1,265,000  
Dormitory and Dining Hall Bonds of 1962 653,000  
Science Building Bonds of 1968 338,238  
Lease capitalized - Grove Apartments 248,849  
- Pines Apartments 931,511  
- Reif facility 162,605  
Due to other funds, net 7,806,725  
Fund balance, including \$2,054,016 property leased from B.S.B.A. (Note 3) 7,204,620

Capital Campaign (Scholastica Adventure):

Loan payable \$ 6,899  
Fund balance (Note 6): 853,324  
Restricted 436,933  
Unrestricted

The accompanying notes are an integral part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

BALANCE SHEET

June 30, 1985  
With Comparative Totals for 1984

ASSETS

Loan funds:  
National Direct Student Loan Fund:  
Cash  
Loans receivable from students

\$ 50,817  
1,865,296

\$ 25,225  
1,756,026

\$1,916,113

\$1,781,251

Nursing Student Scholarship and Loan Fund:  
Cash  
Loans receivable from students

\$ 75,848  
252,136

\$ 77,109  
255,448

\$ 327,984

\$ 332,557

Student Work Study Program:  
Cash  
Accounts payable

\$ 37  
4,398

\$ 37  
3,148

\$ 4,435

\$ 3,185

LIABILITIES AND FUND BALANCES

Loan funds:  
National Direct Student Loan Fund:  
Accounts payable  
Fund balance:  
Federal contributions  
College contributions  
Cost of principal and interest cancelled  
net of undistributed income

\$ 33,645  
1,890,843  
210,095  
(218,470)  
1,882,468  
(214,707)  
1,781,251

\$1,916,113

Nursing Student Scholarship and Loan Fund:  
Fund balance:  
Federal contributions  
College contributions  
Cost of principal and interest cancelled  
net of undistributed income  
Nursing scholarships awarded

\$ 647,794  
48,950  
(177,213)  
(191,547)  
\$ 327,984

\$ 332,557

Student Work Study Program:  
Accounts payable  
Unexpended grant authorization

\$ 2,278  
2,157

\$ 4,435

\$ 1,931  
1,254

\$ 3,185

The accompanying notes are an integral part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

BALANCE SHEET

June 30, 1985  
With Comparative Totals for 1984

ASSETS		1985	1984	LIABILITIES AND FUND BALANCES		1985	1984
Pell Grant:				Pell Grant:			
Federal funds receivable		\$ -0-	\$ 25,063	Accounts payable		\$ 14,965	\$ 26,955
		\$ -0-	\$ 25,063	Unexpended grant authorization		(14,965)	(1,892)
						\$ -0-	\$ 25,063
Supplemental Educational Opportunity Grant:				Supplemental Educational Opportunity Grant:			
Federal funds receivable		\$ 1,213	\$ 3,721	Accounts payable		\$ 866	\$ 3,374
				Unexpended grant authorization		347	347
		\$ 1,213	\$ 3,721			\$ 1,213	\$ 3,721
Institutional Aid Program:				Institutional Aid Grant:			
Federal funds receivable		\$ 325,825	\$ 273,774	Accounts payable		\$ 19,618	\$ 93,470
				Unexpended grant authorization		306,207	180,304
		\$ 325,825	\$ 273,774			\$ 325,825	\$ 273,774
College Library Resource Program:				College Library Resource Program:			
Federal funds receivable		\$ 7	\$ 897	Accounts payable		\$	\$ 510
				Unexpended grant authorization		7	387
		\$ 7	\$ 897			\$ 7	\$ 897
Parent Caring Program:				Parent Caring Program:			
Federal funds receivable		\$ 6,111	\$ 31,434	Accounts payable		\$	\$ 7,272
				Unexpended grant authorization		6,111	24,162
		\$ 6,111	\$ 31,434			\$ 6,111	\$ 31,434
Nursing RN Track:				Nursing RN Track:			
Federal funds receivable		\$ 31,952	\$ 23,159	Accounts payable		\$ 15,669	\$ 19,602
				Unexpended grant authorization		16,283	3,557
		\$ 31,952	\$ 23,159			\$ 31,952	\$ 23,159
Gerontology Career Preparation:				Gerontology Career Preparation:			
Federal funds receivable		\$ 11,441	\$ 32,141	Accounts payable		\$	\$ 5,897
				Unexpended grant authorization		11,441	26,244
		\$ 11,441	\$ 32,141			\$ 11,441	\$ 32,141

(Continued)

COLLEGE OF ST. SCHOLASTICA, INC.

BALANCE SHEET  
(Continued)

June 30, 1985  
With Comparative Totals for 1984

		LIABILITIES AND FUND BALANCES	
		1985	1984
ASSETS			
National Institute of Mental Health: Federal funds receivable			
		\$ 5,193	\$ 15,054
		\$ 5,193	\$ 15,054
Indian Bilingual Education: Federal funds receivable			
		\$ 40,899	\$
		\$ 40,899	
Graduate Nursing in Rural Region: Federal funds receivable			
		\$ 92,970	
		\$ 92,970	
National Institute of Mental Health: Accounts payable Unexpended grant authorization			
		\$ 5,193	\$ 4,371
		\$ 5,193	\$ 10,683
Indian Bilingual Education: Accounts payable Unexpended grant authorization			
		\$ 17,225	\$
		23,674	
Graduate Nursing in Rural Region: Accounts payable Unexpended grant authorization			
		\$ 9,632	\$
		83,338	
		\$ 92,970	\$ 15,054
		\$ 92,970	\$ 15,054

The accompanying notes are an integral  
part of these financial statements.



COLLEGE OF ST. SCHOLASTICA, INC.

STATEMENT OF CHANGES IN FUND BALANCES

Year Ended June 30, 1985  
With Comparative Totals for 1984

Year 1985	Current Fund	College Scholarship Fund	Unrestricted Endowment Fund	Restricted Endowment Fund	Plant Funds Renewal and Retirement of Replacement Indebtedness	Investment in Plant	Capital Campaign Restricted Unrestricted
Revenues and other additions:							
Current Fund revenues	\$10,123,151	\$	\$	\$	\$	\$	\$
Investment income	18,831	42,978	72,253	39,625	13,374	53,168	47,693
Contributed assets		6,642	6,494			483,543	125,406
Current funds expended for equipment							
Retirement of indebtedness, included in current expenditures							
Gain on sale of assets			15,143	13,709		174,056	
Total revenues and other additions	<u>10,141,982</u>	<u>8,161</u>	<u>93,890</u>	<u>53,334</u>	<u>13,374</u>	<u>712,017</u>	<u>174,159</u>
Expenditures and other deductions:							
Current Fund expenditures	9,925,012						
Retirement of indebtedness							
Interest on indebtedness							
Major repairs					27,122	44,290	1,060
Depreciation of autos							187
Capital Campaign, expenditures						39,417	(819)
Other expenses						70	
Net realized loss on investments							
Total expenditures and other deductions	<u>9,925,012</u>				<u>27,122</u>	<u>83,777</u>	<u>428</u>
Transfers among funds, additions (deductions):							
Investment income and gains transferred to Current Fund	277,737	(51,139)	(87,396)	(13,126)	(13,374)	(59,253)	
Mandatory transfers from Current Fund expenditures:							
Principal and interest	(397,464)						
Repairs and replacement reserves	(15,000)						
Transfers within specific fund							
Transfer from Plant Fund	1,250				15,000	44,290	1,247
Transfers to Capital Campaign	(55,000)	250			13,374	(66,007)	
Transfer to Plant Fund						(1,250)	
Transfer to Restricted Endowment Fund						(5,000)	20,000
	<u>(188,477)</u>	<u>(50,889)</u>	<u>(87,396)</u>	<u>3,172</u>	<u>15,000</u>	<u>(26,135)</u>	<u>(3,172)</u>
Net increase (decrease) for the year	28,493	6,892	6,494	38,192	1,252	602,105	18,075
Fund balance at July 1, 1984	188,464	309,503	652,885	523,625	123,733	7,204,620	191,806
Fund balance at June 30, 1985	<u>\$ 216,957</u>	<u>\$316,395</u>	<u>\$659,379</u>	<u>\$561,817</u>	<u>\$124,985</u>	<u>\$7,806,725</u>	<u>\$436,933</u>
Year 1984							
Revenues and other additions:							
Expenditures and other deductions	\$ 9,112,353	\$ 53,937	\$ 99,717	\$ 52,908	\$ 11,280	\$ 658,469	\$ 45,675
Transfers among funds	8,748,525	7,226	13,470	41,373	7,120	356,358	8,344
	<u>(343,504)</u>	<u>(46,711)</u>	<u>(86,247)</u>	<u>(6,680)</u>	<u>11,537</u>	<u>191,115</u>	<u>(47,000)</u>
Net increase (decrease) for the year	20,324	302,277	639,415	482,252	108,036	742,124	37,331
Fund balance at July 1, 1983	168,140	309,503	652,885	523,625	1,064,377	6,462,496	207,796
Fund balance at June 30, 1984	<u>\$ 188,464</u>	<u>\$309,503</u>	<u>\$652,885</u>	<u>\$523,625</u>	<u>\$1,137,286</u>	<u>\$7,204,620</u>	<u>\$245,127</u>

The accompanying notes are an integral part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

STATEMENT OF CHANGES IN FUND BALANCES  
(Continued)

Year Ended June 30, 1985  
With Comparative Totals for 1984

	National Direct Student Loan Fund	Nursing Student Scholarship and Loan Fund
<u>Year 1985</u>		
Revenues and other additions:		
Federal contributions	\$ 94,482	\$
College contributions	10,498	
Interest added	25,682	8,348
Reimbursements	8,604	
Total revenues and other additions	<u>139,266</u>	<u>8,348</u>
Expenditures and other deductions:		
Loan principal cancelled	2,847	11,227
Loan interest cancelled	2,891	1,694
Net operating expenditures and collection costs	<u>32,311</u>	
Total expenditures and other deductions	<u>38,049</u>	<u>12,921</u>
Net increase (decrease) for the year	101,217	(4,573)
Fund balance at July 1, 1984	<u>1,781,251</u>	<u>332,557</u>
Fund balance at June 30, 1985	<u>\$1,882,468</u>	<u>\$327,984</u>
<u>Year 1984</u>		
Revenues and other additions	\$ 150,016	\$ 7,638
Expenditures and other deductions	<u>42,090</u>	<u>18,281</u>
Net increase (decrease) for the year	107,926	(10,643)
Fund balance at July 1, 1983	<u>1,673,325</u>	<u>343,200</u>
Fund balance at June 30, 1984	<u>\$1,781,251</u>	<u>\$332,557</u>

The accompanying notes are an integral  
part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

STATEMENT OF CHANGES IN FUND BALANCES  
(Continued)

Year Ended June 30, 1985  
With Comparative Totals for 1984

	Year 1985	Supplemental Educational Opportunity Grant Fund	Pell Grant Fund	College Library Resources Program	Parent Caring Program	Nursing RN Track	Gerontology Career Preparation	National Institute of Mental Health	Indian Bilingual Foundation	Graduate Nursing in Rural Region
Revenue and other additions:										
Federal contributions	\$169,447	\$149,383	\$626,481	\$	\$	\$82,346	\$	\$37,638	\$86,799	\$125,984
College contributions	120,776									
Total revenue and other additions	290,223	149,383	626,481			82,346		37,638	86,799	125,984
Expenditures and other deductions:										
Net expenditures	289,320	149,332	639,554	380	18,051	69,620	14,803	37,637	63,125	42,646
Administrative and collection costs		51								
Reduction of previous award								5,491		
Total expenditures and other deductions	289,320	149,383	639,554	380	18,051	69,620	14,803	43,128	63,125	42,646
Net increase (decrease) for the year	930	-0-	(13,073)	(380)	(18,051)	12,726	(14,803)	(5,490)	23,674	83,338
Unexpended grant authorizations at July 1, 1984	1,254	347	(1,892)	387	24,162	3,557	26,244	10,683	-0-	-0-
Unexpended grant authorizations at June 30, 1985	2,157	347	(14,965)	7	6,111	16,283	11,441	5,193	23,674	83,338
Revenue and other additions	\$242,864	\$148,112	\$562,681	\$890	\$45,439	\$66,876	\$	\$37,638		
Expenditures and other deductions	241,610	148,112	572,373	510	58,779	63,319	37,808	32,446		
Net increase (decrease) for the year	1,254	-0-	(9,692)	380	(13,340)	3,557	(37,808)	5,192		
Unexpended grant authorizations at July 1, 1983	-0-	347	7,800	7	37,502	-0-	64,052	5,491		
Unexpended grant authorizations at June 30, 1984	1,254	347	(1,892)	387	24,162	3,557	26,244	10,683	-0-	-0-

The accompanying notes are an integral part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES AND OTHER CHANGES

Year Ended June 30, 1985  
With Comparative Totals for 1984

	1985	1984
Revenues:		
Educational and general:		
Student tuition and fees	\$ 6,625,897	\$5,642,692
Current Fund investment income, including income transferred from Plant Fund reserve accounts	91,739	122,218
Endowment investment income:		
Unrestricted	87,396	86,247
Restricted	13,126	6,680
Federal Government programs	572,651	801,125
College work study program	193,933	192,193
Grants	400,546	311,026
Contributed services (less maintenance expenses of \$185,857 and \$179,485)	457,147	435,517
Other revenues	812,701	628,184
Total educational and general	9,255,136	8,225,882
Income from scholarship funds	51,138	46,711
Auxiliary enterprises	1,114,695	1,078,157
Total revenues	10,420,969	9,350,750
Expenditures and mandatory transfers:		
Educational and general:		
General administration	434,394	399,625
Student services	760,526	684,720
Public service and information	415,263	352,517
General institutional	745,609	727,279
Instruction	2,906,745	2,530,574
Library	227,821	204,614
Plant operations (includes \$139,395 and \$130,327) mandatory transfers for interest on long-term debt)	1,489,716	1,130,221
Federal Government programs	548,537	784,931
Federal Government programs - college match	126,877	95,174
Other foundation projects	336,251	205,206
	7,991,739	7,114,861
Student aid	1,177,079	892,053
Auxiliary enterprises (includes \$82,985 and \$86,518 mandatory transfer for interest on long-term debt)	978,575	958,456
	10,147,393	8,965,370
Net Current Fund increase before mandatory transfers for principal payments, additions to equipment replacement and renewals reserves or other transfers	273,576	385,380

(Continued)

COLLEGE OF ST. SCHOLASTICA, INC.

STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES AND OTHER CHANGES  
(Continued)

Year Ended June 30, 1985  
With Comparative Totals for 1984

	<u>1985</u>	<u>1984</u>
Net Current Fund increase before mandatory transfers for principal payments, additions to equipment replacement and renewals reserves or other transfers	\$ 273,576	\$ 385,380
Mandatory transfers for principal payments on long-term debt	(175,083)	(163,056)
Mandatory transfers to equipment replacement and renewal reserves	(15,000)	(15,000)
Transfer to plant fund	<u>(55,000)</u>	<u>(187,000)</u>
Net increase in fund balance	<u>\$ 28,493</u>	<u>\$ 20,324</u>

The accompanying notes are an integral part of these financial statements.

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Accounting Policies

The financial statements of the College of St. Scholastica, Inc. have been prepared on the accrual basis except for depreciation accounting explained below. The Statement of Current Fund Revenues, Expenditures and Other Changes is a statement of financial activities of the Current Fund related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Institution, the accounts of the Institution are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified.

Investments are recorded at cost when purchased by the College. Investments received as gifts or bequests are recorded at fair market value when received.

Debt service requirements and additions to renewal and replacement funds for Dormitory Bonds, Science Building Bonds, Recreation Building Bonds and Pooled 1983 Improvement Project Debt are charged to Current Fund expenditures as mandatory transfers.

Land, buildings and equipment are recorded at cost. Depreciation is not charged to current operations; however, the investment in Plant has been reduced by \$39,417 (\$24,848 for 1984) reflecting straight-line depreciation on automotive equipment.

Current purchases of library books totaling \$74,796 (\$64,300 for 1984) are charged to Current Fund expenditures as incurred.

2 - Cash

Current Fund cash consists of the following:

	1985	1984
Cash on hand	\$ 5,675	\$ 5,675
Checking	192,663	65,510
Savings	1,202	5,623
Money market trust fund	20,000	20,000
	<u>\$219,540</u>	<u>\$ 96,808</u>

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

3 - Investment in Plant - Buildings

The following properties are included in the above category:

	<u>1985</u>	<u>1984</u>
Tower Hall (see comments below)	\$2,071,199	\$2,071,199
Garage facilities	18,659	18,659
Dormitory Commons Complex - Somers Hall (pledged under provisions of the Dormitory and Dining Hall Bond of 1962)	2,195,795	2,195,795
Science Building (pledged under provisions of the Science Building Bonds of 1968)	2,808,321	2,808,321
Grove Apartments (owned by the Minnesota Higher Education Facilities Authority, pledged under provisions of their First Mortgage Revenue Bonds, Series D, College of St. Scholastica, Inc. operated under a long-term lease with option to purchase)	425,070	425,070
Pines Apartments (owned by the Minnesota Higher Education Facilities Authority, pledged under provisions of their First Mortgage Revenue Bonds, Series H, College of St. Scholastica, Inc. operated under a long-term lease with option to purchase)	316,327	316,327
Recreation building (owned by the Minnesota Higher Education Facilities Authority, pledged under their First Mortgage Revenue Bonds Series Two-B, College of St. Scholastica, Inc., operated under a long-term lease with option to purchase)	1,037,257	1,017,916
Building improvements	<u>481,647</u>	<u>174,676</u>
Total	<u>\$9,354,275</u>	<u>\$9,027,963</u>

Under an agreement dated March 15, 1974, the College has agreed to lease from the Benedictine Sisters Benevolent Association, facilities currently used by the College for administration offices, classrooms and other educational purposes. The property includes Tower Hall and nine other facilities to be used on a shared basis with the B.S.B.A.

The initial lease term is 25 years. The College has the option during the period from December 31, 1984 to March 15, 1999, to enter a 99 year renewable lease of Tower Hall for a fee of \$1.00 per year. Upon execution, a 25 year renewable lease of the other facilities also may be consummated at the option of the College.

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

3 - Investment in Plant - Buildings (Continued)

Costs of operation of all leased buildings are to be shared by the College and the B.S.B.A. related to their respective use.

The B.S.B.A. further agrees it will not cause Tower Hall facilities to become subject to indebtedness in addition to amounts outstanding at March 15, 1974.

Lease agreements will terminate if the College ceases to operate as an educational institution.

Tower Hall is reflected in these financial statements at \$2,071,199 for 1985 and 1984, the historical cost of the property.

4 - Bonds Payable

Plant Fund bonds payable consist of the following:

1. College of St. Scholastica Dormitory and Dining Hall Bonds of 1962, balance June 30, 1985, \$1,265,000 are secured by a first mortgage on the Somers Hall complex. These 3 1/2 percent general obligation bonds of the College mature progressively from \$50,000 on October 1, 1984 to \$90,000 on October 1, 2002.

Current Fund expenditures were charged \$50,000 (\$50,000 for 1984) debt retirement and \$44,713 (\$46,462 for 1984) interest paid or accrued and \$15,000 (\$15,000 for 1984) equipment repair and replacement reserve additions.

Somers Hall has accommodations for 17 single rooms at \$313 (\$292 for 1984) per quarter, 150 double rooms at \$313 (\$292 for 1984) and 3 triple rooms at \$313 (\$292 for 1984) per person. The facility was approximately 89 percent occupied for the year ended June 30, 1985.

Insurance is included in a blanket policy (co-insurance waived) at an agreed amount of \$6,597,000. Boiler insurance carried is \$2,000,000 with \$15,000,000 umbrella excess liability coverage.

Funds established under the indenture are:

A. 1962 Bond and Interest Sinking Fund:

	1985	1984
Balance, beginning of year	\$ 96,979	\$ 97,420
Current Fund transfers	95,150	96,459
Investment income	6,858	7,513
Payment of principal and interest	(95,150)	(96,900)
Transfer of income to Current Fund	(6,858)	(7,513)
Balance, end of year	<u>\$ 96,979</u>	<u>\$ 96,979</u>



COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

4 - Bonds Payable (Continued)

	<u>1985</u>	<u>1984</u>
B. 1962 Repair and Replacement Reserve Account:		
Balance, beginning of year	\$ 86,407	\$ 70,364
Current Fund transfers	25,338	23,163
Investment income	10,338	8,163
Transfer of income to Current Fund	(10,338)	(8,163)
Major repairs	<u>(18,361)</u>	<u>(7,120)</u>
Balance, end of year	<u>\$ 93,384</u>	<u>\$ 86,407</u>

2. College of St. Scholastica Science Building Bonds of 1968, balance June 30, 1985, \$653,000 are secured by a first mortgage on the Science Building and are guaranteed by the Benedictine Sisters Benevolent Association. These 3 percent bonds mature progressively from \$37,000 on October 1, 1984 to \$56,000 on October 31, 1998.

Current Fund expenditures were charged \$37,000 (\$36,000 in 1984) debt retirement and \$19,868 (\$20,970 for 1984) interest paid or accrued.

Insurance is included in a blanket policy (co-insurance waived) at an agreed amount of \$6,184,000. Boiler insurance carried is \$2,000,000 with \$15,000,000 umbrella excess liability coverage.

The Debt Service Reserve Fund is funded by Endowment Fund assets (U.S. Government obligations) placed in trust with a local bank. Cost value of this account is \$62,078 (market \$64,127) at June 30, 1985. The asset and resulting income are recorded in the Endowment Fund.

5 - Long-term Leases

1. The Grove Apartment complex became operational in the fall of 1972. The complex is owned by the Minnesota Higher Education Facilities Authority, financed by their First Mortgage Revenue Bonds, Series D, College of St. Scholastica, Inc. and leased to the College until January 3, 1997. At the termination of the lease, the College may purchase the property for \$500 assuming all bond obligations are paid.

To reflect the property and lease obligations in the Plant Fund, the lease was capitalized at \$509,808, the cash generated by the bond issue. At June 30, 1985, the amount of the obligation is \$338,238.

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Long-term Leases (Continued)

Lease terms require College payments of:

- A. All operating expenses.
- B. All principal and interest payments.
- C. \$10,000 per year into Repair and Replacement Reserve Account to a balance of \$30,000.
- D. Maintain a balance of \$34,574 in the Series D Bond and Interest Sinking Fund Account.
- E. \$650 per year payable to Minnesota Higher Education Facilities Authority.

The Benedictine Sisters Benevolent Association guarantees payment of all rent. The rent is pledged for payment of the bonds.

Bond interest is subsidized by the U.S. Department of Housing and Urban Development to an effective rate of 3 percent. Bonds mature progressively from \$20,000 on March 1, 1985 to \$40,000 on March 1, 1997. Total bonds outstanding at June 30, 1985 is \$345,000.

In addition to normal operating expenses, Current Fund expenditures were charged \$41,170 (\$42,353 in 1984) representing principal and interest payments and accruals.

Grove apartments has accommodations for 96 students at \$319 (\$297 for 1984) per quarter plus utilities. The facility was approximately 90 percent occupied for the year ended June 30, 1985.

Insurance is included in a blanket policy (co-insurance waived) at an agreed amount of \$721,000. Boiler insurance carried is \$2,000,000 with \$15,000,000 umbrella excess liability coverage.

Funds established under the indenture are:

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Long-term Leases (Continued)

	<u>1985</u>	<u>1984</u>
A. General Bond Reserve Account:		
Balance, beginning of year	\$ 20,280	\$ 19,703
Current Fund transfer	2,197	577
Investment income	2,197	577
Transfer of income to Current Fund	<u>(2,197)</u>	<u>(577)</u>
Balance, end of year	<u>\$ 22,477</u>	<u>\$ 20,280</u>
B. Series D Bond and Interest Sinking Fund Account:		
Balance, beginning of year	\$ 6,273	\$ 6,426
Current Fund transfer	51,174	39,926
Investment income	10,044	9,569
Payment on principal and interest	(41,370)	(42,470)
Transfer of income to Current Fund	(10,044)	(9,569)
Fund transfer	3,476	2,949
Administration fees	<u>(108)</u>	<u>(558)</u>
Balance, end of year	<u>\$ 19,445</u>	<u>\$ 6,273</u>
C. Series D Debt Service Reserve Account:		
Balance, beginning of year	\$ 35,425	\$ 35,283
Current Fund transfer	3,245	3,091
Investment income	3,245	3,091
Transfer of income to Current Fund	(3,245)	(3,091)
Fund transfer	<u>(3,475)</u>	<u>(2,949)</u>
Balance, end of year	<u>\$ 35,195</u>	<u>\$ 35,425</u>
D. Repair and Replacement Reserve Account:		
Balance, beginning of year	\$ 37,326	\$ 34,209
Current Fund transfer	3,036	3,117
Investment income	3,036	3,117
Transfer of income to Current Fund	(3,036)	(3,117)
Major repairs	<u>(8,761)</u>	<u></u>
Balance, end of year	<u>\$ 31,601</u>	<u>\$ 37,326</u>

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Long-term Leases (Continued)

2. The Pines Apartment complex became operational in the fall of 1973. The project is owned by the Minnesota Higher Education Facilities Authority, financed by their First Mortgage Revenue Bonds, Series H, College of St. Scholastica, Inc. and leased to the College until June 1, 1999. At the termination of the lease, the College may purchase the property for \$500 assuming all bond obligations are paid.

To reflect the property and lease obligation in the Plant Fund, the lease was capitalized at \$331,700, the cash generated by the bond issue. At June 30, 1985, the amount of the obligation is \$248,849.

Lease terms require College payments of:

- A. All operating expenses.
- B. All principal and interest payments.
- C. Maintain a balance of \$24,000 in the Series H Debt Service Reserve Account.
- D. \$425 per year payable to Minnesota Higher Education Facilities Authority.

Bond interest varies from 6 percent to 6.4 percent on the various maturity issues. Bonds mature progressively from \$10,000 on June 1, 1985 to \$25,000 on June 1, 1999. Total outstanding at June 30, 1985 is \$255,000.

In addition to normal operating expenses, Current Fund expenditures were charged \$26,470 (\$27,070 for 1984) representing principal and interest payments and accruals for the current year.

Pines Apartments has accommodations for 38 students at \$376 (\$350 for 1984) per quarter plus utilities. The facility was approximately 91 percent occupied for the year ended June 30, 1985.

Insurance is included in a blanket policy (co-insurance waived) at an agreed amount of \$534,000. Boiler insurance is \$2,000,000 with \$15,000,000 umbrella excess liability coverage.

Funds established under this indenture are:

	<u>1985</u>	<u>1984</u>
A. General Bond Reserve Account:		
Balance, beginning of year	\$ 12,755	\$ 12,398
Current Fund transfers	1,393	357
Investment income	1,393	357
Transfer of income to Current Fund	<u>(1,393)</u>	<u>(357)</u>
Balance, end of year	<u>\$ 14,148</u>	<u>\$ 12,755</u>

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Long-term Leases (Continued)

	1985	1984
B. Series H Bond and Interest Sinking Fund Account:		
Balance, beginning of year	\$ -0-	\$ -0-
Current Fund transfers	24,758	23,546
Fund transfer	1,812	3,624
Payment of principal and interest	(26,520)	(27,120)
Fees	(50)	(50)
Balance, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>
C. Series H Debt Service Reserve Account:		
Balance, beginning of year	\$ 25,695	\$ 25,695
Current fund transfers	3,679	3,624
Investment income	3,679	3,624
Transfer of income to Current Fund	(3,679)	(3,624)
Fund transfer	(1,812)	(3,624)
Balance, end of year	<u>\$ 27,562</u>	<u>\$ 25,695</u>

3. The Reif Recreation Facility was completed in the summer of 1980. The facility is owned by the Minnesota Higher Education Facilities Authority financed by their First Mortgage Revenue Bonds, Series Two-B, College of St. Scholastica, Inc., and leased to the College until May 1, 1993. At the termination of the lease, the College may purchase the property for \$250 assuming all bond obligations are paid.

To reflect the property in the Plant Fund, the Reif Center is included at the total amount expended of \$956,154. The lease obligation is reflected as the amount of bonds outstanding less unamortized discount. At June 30, 1985, the amount of the obligation is \$931,511 which represents total bonds outstanding of \$950,000 less unamortized discount of \$18,489. In addition to normal operating expenses, Current Fund expenditures were charged \$132,707 representing principal and interest payments and accruals.

Lease terms require College payments of:

- A. All operating expenses.
- B. All principal and interest payments.
- C. \$2,320 per year payable to the Minnesota Higher Education Facilities Authority.

COLLEGE OF ST. SCHOLASTICA, INC.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

5 - Long-term Leases (Continued)

	<u>1985</u>	<u>1984</u>
Funds established under this indenture are:		
A. General Bond Reserve Account:		
Balance, beginning of year	\$ 42,788	\$ 42,903
Investment income	4,131	(115)
Current Fund transfer	4,131	(115)
Transfer of income to Current Fund	(4,131)	115
Balance, end of year	<u>\$ 46,919</u>	<u>\$ 42,788</u>
B. Debt Service Reserve Account:		
Balance, beginning of year	\$267,094	\$259,778
Current Fund transfer	25,126	20,934
Investment income	25,126	20,934
Transfer of income to Current Fund	(25,126)	(20,934)
Fund transfers	(34,749)	(13,618)
Balance, end of year	<u>\$257,471</u>	<u>\$267,094</u>
C. Bond and Interest Sinking Fund:		
Balance, beginning of year	\$ 1,291	\$ 474
Current Fund transfer	104	15,933
Investment income	104	3,133
Payments on interest	(73,430)	(76,630)
Payment on principal	(60,000)	(50,000)
Transfer of income to Current Fund	(104)	(3,133)
Fund transfer	132,119	111,546
Fees	(84)	(32)
Balance, end of year	<u>\$ -0-</u>	<u>\$ 1,291</u>
D. Redemption Account:		
Balance, beginning of year	\$628,706	\$564,297
Current Fund transfer	136,734	114,985
Investment income	64,167	53,094
Transfer of income to Current Fund	(2,475)	(384)
Fund transfer	(97,368)	(97,928)
Fees	(830)	(5,358)
Balance, end of year	<u>\$728,934</u>	<u>\$628,706</u>

6 - Loan Payable

The loan payable represents a loan from the Minnesota Higher Foundation Facilities Authority dated October 1, 1983. The proceeds are to be used for capital improvement projects. The loan is payable in six annual installments, beginning September 1, 1986. The principle payments progress from \$78,410 on September 1, 1986 to \$113,011 at maturity, September 1, 1991. Interest varies from 6.75 percent to 8.50 percent.

7 - Capital Campaign Pledges Receivable

Pledges receivable at June 30, 1985 amount to \$234,878 (\$199,918 for 1984).

## DEFINITION OF CERTAIN TERMS

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

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

**Authority:** The Minnesota Higher Education Facilities Authority.

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

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

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

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

**Bonds:** \$1,065,000 Minnesota Higher Education Facilities Authority Revenue Bonds, Series Two-L (College of St. Scholastica, Inc.).

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

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

**College:** The College of St. Scholastica, Inc., a Minnesota non-profit corporation, as owner and operator of the College of St. Scholastica, a Minnesota non-profit institution of higher education, located in the City of Duluth, Minnesota.

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

**Debt Service Reserve Account:** The Debt Service Reserve Account established pursuant to the Indenture, into which at closing the College will deposit \$298,200 of cash and Qualified Investments.

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

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

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

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

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

**Institution:** The College of St. Scholastica, Inc., a Minnesota non-profit corporation, as owner and operator of the College of St. Scholastica, a Minnesota non-profit institution of higher education, located in the City of Duluth, Minnesota.

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

**Issue:** The Bonds.

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

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

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

**Paying Agent:** Norwest Bank Duluth, National Association, Duluth, Minnesota.

**Permitted Encumbrances:** As of any particular time, (i) liens for ad valorem taxes and special assessments not then delinquent, (ii) utility, access and other easements and rights-of-way, mineral rights, restrictions and exceptions that an independent engineer certifies will not interfere with or impair the use of or operations being conducted in the Project Facilities, (iii) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to properties similar in character to the Project Facilities and as do not in the aggregate, in the opinion of independent counsel, materially impair the property affected thereby for the purposes for which it was acquired or is held by the Institution, (iv) encumbrances permitted by any provision of the Loan Agreement and (v) those additional encumbrances set forth in Exhibit C of the Loan Agreement.

**Project:** The renovation and expansion of the library on the campus of the College.

**Project Buildings:** The library and other buildings (if any) to be acquired, constructed, reconstructed or remodeled as part of the Project, or into which Project Equipment will be installed.

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



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

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

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

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

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

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

**Registrar:** Norwest Bank Duluth, National Association, Duluth, Minnesota.

**Required Amount:** With respect to the Debt Service Reserve Account, Unrestricted Funds of a market value at least equal to 28% of the principal amount outstanding on the Bonds.

**Security Agreement:** The Security Agreement between the Institution and the Trustee, dated as of December 1, 1985.

**Series Two-L Bonds:** The Bonds.

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

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

**Trustee:** Norwest Bank Duluth, National Association, Duluth, Minnesota.

**Underwriter:** American National Bank and Trust Company, Saint Paul, Minnesota.

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

## SUMMARY OF DOCUMENTS

## THE LOAN AGREEMENT

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

**Construction of Project**

The Institution represents that it will undertake the acquisition and construction of the Project with due diligence so that the Project will be substantially completed on or before September 1, 1987. The Institution agrees that it will itself pay all costs relating to the acquisition, construction, improving and equipping of the Project, including costs of issuance of the Bonds, to the extent such payments and costs are not met from proceeds of the Bonds in the Construction Account.

**Loan Repayments**

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

- (a) At least ten days prior to each June 1 and December 1, into the Bond and Interest Sinking Fund Account a sum which will be equal to (1) the amount (if any) payable as principal of the Series Two-L Bonds on such interest payment date, plus (2) the amount payable as interest on the Bonds such interest payment date, after deducting certain permitted credits; and
- (b) Forthwith into the Bond and Interest Sinking Fund Account the amount of any deficiency in the event that the funds on deposit in the Bond and Interest Sinking Fund Account on any interest payment date are insufficient to pay principal of, premium (if any) and interest on the Bonds due on such date; and
- (c) At least ten days prior to a date established for the redemption and prepayment of the Series Two-L Bonds, into the Redemption Account such amount, if any, as shall be necessary to provide for the redemption of any of the Series Two-L Bonds called for redemption from the Redemption Account; and
- (d) Into the Debt Service Reserve Account forthwith, from the Unrestricted Funds, such sum, if any, as is necessary to restore the Debt Service Reserve Account to the Required Amount.

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

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

### **Use of Project Facilities**

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

### **Maintenance of Project Facilities**

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

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

Except for permitted Encumbrances, the Institution will not permit any liens to be established or remain against the Project Facilities, including any mechanics liens for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements, provided the Institution may in good faith contest any liens filed or established against the Project Facilities and may permit the items so contested to remain undischarged and unsatisfied during the period of such contest unless the Authority or Trustee shall notify the Institution that, in the opinion of independent counsel, by nonpayment of any such items the Project Facilities will be subject to loss or forfeiture, in which event the Institution shall promptly pay all such items.

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

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

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

### **Damage of Destruction**

If the Project Facilities shall be damaged or partially or totally destroyed there shall be no abatement in the Loan Repayments, and the Institution shall either repair, rebuild or restore the damaged facilities, or redeem and prepay the Bonds, as more fully provided in the Loan Agreement.

### **Condemnation**

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

### **Indemnification**

The Institution agrees to hold the Authority, its members and employees, harmless against any claim, cause of action, suit or liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project Facilities or the use thereof, including that caused by any negligence of the Authority or anyone acting on 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 Institution agrees to indemnify and hold harmless the Authority against any and all losses, claims, damages or liability to which the Authority may become subject under law, and to reimburse the Authority for any out-of-pocket legal and other expenses (including reasonable counsel fees) incurred by the Authority in connection with investigating any such losses, claims, damages, or liabilities or in connection with defending any actions, insofar as the same relate to information furnished to the Authority by the Institution in connection with the sale of the Bonds.

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

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

consolidation, merger or transfer shall have no effect upon the tax-exempt nature of the interest on the Bonds under Section 103 of the Internal Revenue Code of 1954, as amended, and regulations thereunder.

### **Institution To Be Nonsectarian**

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

### **Federal Income Tax Status**

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

In the event a determination of taxability is made that the interest payable on the Series Two-L Bonds is subject to Federal income taxes by reason of the application of the provisions of the Internal Revenue Code and regulations thereunder in effect on the date of original issue of the Bonds, the Institution shall immediately give notice thereof to the Trustee, and the rate of interest on the Series Two-L Bonds shall increase by one percent (1.00%) per annum since the date of taxability effective on the date of taxability; and the Institution shall forthwith pay to the Trustee additional interest equal to one percent (1.00%) per annum on all Series Two-L Bonds that had not matured or been redeemed prior to the date of taxability; and thereafter, the Institution shall pay additional interest of one-half of one percent (0.50%) on the face amount of all outstanding Series Two-L Bonds as part of each semiannual Loan Repayment pursuant to Section 4.02 hereof. If there shall be a determination of taxability and the Institution shall fail to give notice thereof to the Trustee, the Trustee shall nevertheless give notice to the Institution of a determination of taxability and of the obligation of the Institution to pay additional interest hereunder, when the Trustee shall have determined, in good faith, that a determination of taxability has been made. The Trustee shall furnish to the Institution and the Authority a copy of any notice given or to be given by it.

The Institution shall have the option to prepay the Loan in full and cause the redemption of all outstanding Series Two-L Bonds, upon any interest payment date after a determination of taxability. In such event, the Trustee shall give not less than 30 days' notice of redemption to the Owners of outstanding Bonds, and the aggregate redemption price shall be an amount equal to the principal of each outstanding Series Two-L Bonds, plus accrued interest. The Authority agrees to call the Bonds for redemption if the Institution so elects. No election to redeem Bonds in the event of taxability shall relieve the Institution of any obligation to pay additional interest hereunder.

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

## Financial Covenants

The Institution agrees, so long as any of the Series Two-L Bonds shall remain outstanding, to comply with the following:

- (a) At the end of each Fiscal Year, current fund revenues must not be less than current fund expenditures, including mandatory transfers, in two of the preceding three Fiscal Years, according to the principles of accounting used for preparation of the Institution's financial statements for the Fiscal Year ended June 30, 1985, unless the total assets of the Institution's unrestricted endowment funds are at least equal to the sum of \$800,000 plus the net excess, for such three-year period, of current fund expenditures and mandatory transfers over current fund revenues.
- (b) The Institution shall not permit the total assets of its unrestricted endowment funds, as reported in its annual financial statements in accordance with the accounting principles used for preparation of the Institution's financial statements for the Fiscal Year ended June 30, 1985, to be less than \$800,000.

## Other Covenants

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

## Events of Default

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

- (a) If the Institution shall fail to pay (i) any Loan Repayment when due and any payment of principal of, premium, if any, or interest on the Bonds shall not be paid when due, or (ii) any Loan Repayment when due and within two (2) days after notice from the Trustee that such Loan Repayment has not been made; or
- (b) The Institution shall default with respect to the provisions of the Loan Agreement relating to consolidation, merger, sale and transfer; or
- (c) If the Institution shall fail to observe and perform for reasons other than force majeure, any other covenant, condition or agreement on its part under the Loan Agreement or the Security Agreement for a period of thirty (30) days after written notice, specifying such default and requesting that it be remedied, be given to the Institution by the Authority or the Trustee; or

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

The term "force majeure" as used herein includes the following: acts of God; strikes, lockouts or other employee disturbances; acts of public enemies; 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 Institution. The provisions of paragraph (c) of this Section are subject to the further limitation that if the default can be remedied but not within a period of thirty days after notice and if the Institution has taken all action reasonably possible to remedy such default within such thirty day period, the default shall not become an Event of Default for so long as the Institution shall diligently proceed to remedy such default and in accordance with any directions or limitations of time made by the Trustee. The Institution agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the Institution from carrying out its agreements.

### **Remedies on Default**

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

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

### **Amendments**

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

## THE SECURITY AGREEMENT

The Institution will, in the Security Agreement, grant to the Trustee a first lien on, pledge of, and security interest in (A) 2.2 percent of the Institution's annual tuition revenues, and (B) the funds and investments from time to time deposited in the Debt Service Reserve Account. The Trustee is granted all rights of a secured party under the Uniform Commercial Code as enacted in the State of Minnesota with respect to the funds so pledged, including the right to sell such property, if necessary to provide for the full and prompt payment of principal of and interest on any Bonds when due.

## THE INDENTURE

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

### Granting Clauses

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

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

### Accounts

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



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

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

## **Covenants of the Authority**

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

## **Events of Default**

The following are Events of Default under the Indenture:

- (a) If default shall be made in the due and punctual payment of any interest on the Bond outstanding; or
- (b) If default shall be made in the due and punctual payment of the principal, or redemption premium, if any, of any Bond outstanding, whether at the stated maturity thereof or at the date fixed for redemption thereof, or upon the maturity thereof by acceleration; or
- (c) If default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority in the Indenture, or in the Bonds contained, and such default shall have continued for a period of thirty (30) days after written notice thereof given in the manner provided in the Indenture; or
- (d) If an event of default on the part of the Institution as that term is defined in the Loan Agreement shall occur; or
- (e) If, as a result of certain events of bankruptcy or insolvency of the Authority, any court, receiver or trustee, or the Authority, attempts to obtain possession of any part of the Trust Estate, including Loan Repayments, or to disaffirm or reject any obligations of the Authority under the Indenture, the Bonds or the Loan Agreement, or

the Institution attempts to terminate the Loan Agreement or offset claimed damages against or withhold payment of any Loan Repayments.

## **Remedies**

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

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

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of the Holders of not less than a majority in aggregate principal amount of outstanding Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Bonds, to enforce application to payment of the Bonds the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, and to enforce any such other appropriate legal or equitable remedy as the Trustee, being advised by counsel, shall 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 Trustee's prime rate plus 1.5 percent per annum, which advances are given priority of payment. The Trustee also has a lien with right of payment prior to payment of Bond interest or principal for reasonable compensation, expenses and counsel fees. The responsibilities of the Trustee prior to an Event of Default are limited to express provisions of the Indenture, and at all times the Trustee shall not be liable unless it acts negligently or in bad faith. The

Trustee is not required to institute suit or take other steps to enforce its rights and powers unless indemnified to its satisfaction against all costs and expenses. The Trustee and its officers and directors are authorized to acquire and hold Bonds and otherwise deal with the Authority or the Institution to the same extent as if it were not Trustee. Provisions is made for the addition of an individual co-trustee if necessary or convenient and for the succession or replacement of the Trustee by another corporate Trustee with a minimum capital, surplus and undivided profits of at least \$10 million in event of merger, resignation, or removal by Holders of a majority in principal amount of outstanding Bonds, or in the event of disability, by the Authority or a court.

### **Concerning the Bondholders**

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

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

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

### **Defeasance**

If the Authority shall:

- (a) pay or cause to be paid the principal of and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or
- (b) provide for the payment of principal and interest on the Bonds by depositing with the Trustee at or at any time before maturity an

amount either in cash or direct obligations of the United States in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to be come due for principal and interest to maturity of all Bonds outstanding, or

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

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

When the Authority shall have deposited at any time with the Trustee in trust for the purpose, in the manner provided, or left with it if previously so deposited, cash or direct obligations of the United States of America sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, and to pay all interest with respect thereto at the due date of such interest or to the 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:

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

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

## **Additional Bonds**

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

- (1) The interest on the outstanding Bonds and the Additional Bonds shall be exempt from federal income taxation and the Trustee shall have

been furnished an opinion of bond counsel, acceptable to the Authority, to such effect;

- (2) The Institution shall deposit in the Debt Service Reserve Account, from Unrestricted Funds, such additional cash and Qualified Investments that immediately following the issuance of the Additional Bonds, the current market value of cash and Qualified Investments in the Debt Service Reserve Account shall at least equal the Required Amount;
- (3) Additional Bonds issued pursuant to clause (ii) above shall be for a project authorized by the Act; and
- (4) No default on the part of the Institution shall exist under the Loan Agreement or the Security Agreement and the Institution shall have certified to the Trustee that no such default exists.

### **Amendments to the Loan Agreement and the Security Agreement**

The Authority and the Trustee may, without the consent of or notice to any of the Bondholders, consent to any amendment, change or modification of the Loan Agreement or the Security Agreement as may be required (a) by the provisions of the Loan Agreement or the Security Agreement or Indenture, or (b) for the purpose of curing any ambiguity or formal defect or omission, or (c) so as to add additional rights acquired in accordance with the provisions of the Loan Agreement or Security Agreement, or (iv) 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 or Security Agreement without the written approval or consent of the Holders of not less than 65% in aggregate principal amount of the Bonds at the time outstanding, given and procured as provided in the Indenture. However, the Indenture does not permit a reduction in, or a postponement of, the payments under the Loan Agreement without the consent of the Holders of all the Bonds then outstanding.

### **Registration**

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