

THE DATE OF THIS OFFICIAL STATEMENT IS OCTOBER 27, 1983

**NEW ISSUE**

Standard & Poor's Rating: AAA  
(AMBAC Insured)†

*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.*

**\$18,520,000**  
**MINNESOTA HIGHER EDUCATION**  
**FACILITIES AUTHORITY**  
**POOLED REVENUE BONDS, SERIES 1983-A**

**Dated: October 1, 1983**

<u>Principal Amount</u>	<u>Due October 1</u>	<u>Rate</u>	<u>Price</u>
\$2,180,000	1986	6.75%	100%
2,330,000	1987	7.25	100
2,495,000	1988	7.75	100
2,690,000	1989	8.00	100
2,905,000	1990	8.25	100
5,920,000	1991	8.50	100

**(Accrued Interest to be Added)**

The Bonds are fully registered with interest payable April 1 and October 1, commencing April 1, 1984. Interest will be payable by wire transfer by, or check or draft of, First Trust Company of Saint Paul, in Saint Paul, Minnesota, or its successor (the "Trustee"), payable to and sent to the registered Holder. Principal will be payable at the principal office of the Trustee.

*The Bonds are special obligations of the Minnesota Higher Education Facilities Authority (the "Authority") and 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 source of payment of and security for the Bonds are more fully described herein.*

The Bonds will be insured by American Municipal Bond Assurance Corporation ("AMBAC"). See information under the caption "MUNICIPAL BOND INSURANCE POLICY RELATING TO THE BONDS."

The Bonds shall be in the denomination of \$5,000 or multiple integrals thereof and are not subject to optional redemption prior to the stated maturities thereof; however, upon the occurrence of certain circumstances as described herein the Bonds are subject to mandatory redemption and upon the occurrence of an Event of Default the maturities of outstanding Bonds may be accelerated upon certain conditions.

The Bonds are issued to enable the Authority to lend moneys to certain nonprofit institutions of higher education in the State of Minnesota ("Participating Institutions") to finance the construction and improvement of buildings and the acquisition and installation of equipment by the Participating Institutions, to deposit moneys in the Debt Service Reserve Fund created for the Bonds and to pay costs of issuing and insuring the Bonds, as more fully described herein.

*The Bonds are being offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of certain matters by Bond Counsel, Faegre & Benson, Minneapolis, Minnesota. Certain legal matters will be passed upon for the Underwriters by Mayer, Brown & Platt, Chicago, Illinois. It is expected that the Bonds will be available for delivery in New York, New York, on or about November 22, 1983. Certain Underwriters intend to maintain, but may not in certain circumstances maintain, a market in the Bonds and the Underwriters are not obligated to repurchase Bonds. See information under the caption "UNDERWRITING."*

**SHEARSON/AMERICAN EXPRESS INC.**

**PIPER, JAFFRAY & HOPWOOD**  
Incorporated

†See information under the caption "RATING."

No dealer, broker, salesman or other person has been authorized by the Authority or by Shearson/American Express Inc. and Piper, Jaffray & Hopwood Incorporated, as representatives of the several Underwriters, 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 or the Underwriters. 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 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, the Underwriters 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 Underwriters anticipate that they will maintain a secondary market for the Bonds, there is no assurance that such a market will develop or, if developed, will be maintained.**

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**OFFICIAL STATEMENT  
OF  
\$18,520,000  
MINNESOTA HIGHER EDUCATION FACILITIES AUTHORITY  
POOLED REVENUE BONDS, SERIES 1983-A**

**INTRODUCTORY STATEMENT**

**General**

This Official Statement provides information concerning the Minnesota Higher Education Facilities Authority (the "Authority") in connection with the issuance by the Authority of the Authority's \$18,520,000 aggregate principal amount Pooled Revenue Bonds, Series 1983-A (the "Bonds").

The Bonds are issued pursuant to Sections 136A.25 to 136A.42, Minnesota Statutes (the "Act"), 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, and pursuant to a Trust Indenture (the "Indenture"), dated as of September 1, 1983, between the Authority and First Trust Company of Saint Paul, in Saint Paul, Minnesota, as Trustee (the "Trustee") to provide money for costs of the Projects of the Participating Institutions and a debt service reserve, the Underwriters' discount and issuance costs. The Authority will make Loans evidenced by Notes from proceeds of the Bonds pursuant to individual Loan Agreements, dated as of September 1, 1983, with each of the Participating Institutions.

Definitions of certain terms used in this Official Statement are set forth in Appendix I of this Official Statement. This Official Statement contains brief descriptions of, among other things, the bond insurance, the Authority, the Bonds, the Loans, the Notes, the Loan Agreements, the Indenture and Funds and Accounts. These descriptions do not purport to be comprehensive or definitive. All references herein to documents are qualified in their entirety by reference to such documents and references herein to the Bonds are qualified in their entirety by reference to the forms thereof included in the Indenture.

Until the issuance and delivery of the Bonds, copies of the forms of the Indenture and of the Loan Agreements may be obtained from the Authority; after delivery of the Bonds, copies of these documents will be available for inspection at the principal corporate trust office of the Trustee.

**Payment and Security for the Bonds**

Pursuant to the Indenture, the Bonds are payable from and are secured by a pledge to the Trustee of the rights of the Authority under the Notes and Loan Agreements (except certain rights to reimbursement of expenses and indemnification), including without limitation all payments by Participating Institutions of principal of and interest under such Notes and Loan Agreements. In addition, pursuant to the Indenture, there is pledged to the payment of the Bonds all amounts in the Funds and Accounts created by the Indenture, including certain investment earnings on those amounts.

**Bond Insurance**

Payment of the principal of and interest on the Bonds will be insured by a municipal bond insurance policy to be issued by AMBAC simultaneously with the delivery of the Bonds.

*THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE ONLY FROM THE SOURCES DESCRIBED HEREIN, AND ARE NOT LEGAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA NOR DO THEY CONSTITUTE A DEBT FOR WHICH THE FULL 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

### General Description

The Bonds are issued and secured under the Indenture, are each designated "Minnesota Higher Education Facilities Authority Pooled Revenue Bond, Series 1983-A", and are in fully registered form in the denomination of \$5,000 or any integral multiple thereof, provided that no Bond shall represent principal payable in different years. The initial Bonds issued and secured under the Indenture are dated October 1, 1983, and numbered from 1 upwards in order of maturity. Bonds issued in exchange for initial Bonds or Bonds previously exchanged for initial Bonds ("Predecessor Bonds") shall be dated the date to which interest has been paid on the Predecessor Bond being surrendered for exchange and shall be numbered in order of issuance commencing with the next number after the highest number assigned to the Predecessor Bonds. The Bonds bear interest payable April 1, 1984, and semiannually thereafter on April 1 and October 1 in each year. The principal of the Bonds shall be payable at the office of the Trustee, in such coin or currency of the United States of America as may be, on the respective dates of payment thereof, legal tender for the payment of public and private debts. Interest on the Bonds shall be paid by check or draft of the Trustee mailed (or pursuant to an agreement with the Owner, by wire transfer) to the registered Owner at his address set forth on the registration books. The Bonds shall be in the aggregate principal amount of eighteen million five hundred twenty thousand Dollars (\$18,520,000), shall mature serially on October 1 in the years and in the amounts and shall bear interest at the rates per annum, according to years of maturity, as set forth on the cover page of this Official Statement.

No Bond shall be valid or shall be entitled to any right or benefit under the Indenture or under the Loan Agreements or Letters of Credit unless the Trustee shall duly endorse and execute on such Bond a certificate of authentication ("Certificate of Trustee"). Such Certificate of Trustee upon any Bond executed on behalf of the Authority shall be conclusive evidence that the Bond so authenticated has been duly issued under the Indenture and that the Holder thereof is entitled to the benefits of the Indenture, the Loan Agreements and the Letters of Credit. No Bonds shall be authenticated by the Trustee except in accordance with the Indenture.

The Trustee shall not be required to authenticate any Bond or Bonds unless provided with the documents referred to in the Indenture and such further Certified Resolutions, certificates, instruments or Opinions of Counsel as the Trustee may reasonably require with respect to the validity of the Bonds to be issued and the right and authority of the Trustee to authenticate the Bonds.

As long as any of the Bonds remain outstanding, the Authority shall maintain and keep at the office of the Trustee an office or agency for the payment of the principal of and interest on the Bonds, and for the registration and transfer of the Bonds, and shall also keep at said office of the Trustee books for such registration and transfer.

Each Bond shall be registered on the registration books as to principal and interest. No transfer of any Bond shall be valid unless made on said books at the request of the registered Owner or his duly authorized agent in writing. Upon surrender thereof at the office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered Owner or his duly authorized attorney, Bonds may be transferred and exchanged for a new Bond or Bonds of the same series, aggregate principal amount, maturity and interest rate of any authorized denominations. All transfers and exchanges of Bonds shall be made under such reasonable regulations as the Trustee may prescribe and shall be without expense to the Holders of the Bonds; except that any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Bondholder requesting such transfer or exchange as a condition precedent to the exercise of such privilege.

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 that Bond (or one or more Predecessor Bonds) 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 ("Defaulted Interest") 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 VI 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 15 nor less than 10 days prior to the date of the payment set by the Trustee in its discretion, but not less than 10 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 of a Bond at the address as it appears in the registration books on a date determined by the Trustee, but not less than 10 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 persons in whose names the Bonds (or their respective Predecessor Bonds) are registered on such Special Record Date and shall no longer be payable pursuant to the following paragraph (b).

(b) Subject to the provisions of Article VI 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.

In case any outstanding Bond shall become mutilated or be destroyed, stolen or lost, the Trustee shall deliver a new Bond upon compliance by the Holder thereof with such reasonable regulations as the Authority and Trustee may prescribe, including furnishing indemnity and payment of expenses.

### **Security for the Bonds**

The Bonds are special obligations of the Authority, payable from and secured by a pledge of the rights of the Authority under and pursuant to the Notes and Loan Agreements (excluding rights to indemnity and fees and expenses payable to the Authority), including, without limitation, all Loan Repayments thereunder, and from moneys and securities (including the investment income therefrom) in funds and accounts created by the Indenture.

In certain instances the Loan of a Participating Institution, in addition to the pledge of the Institution to make Loan Repayments, will be secured by a Collateral Account or Letter of Credit. See information under the caption "PARTICIPATING INSTITUTIONS, PROJECTS, CONSTRUCTION ACCOUNT DEPOSITS AND LOANS."

*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 taxing powers of the State are pledged. The Authority has no taxing powers.*

### **Bond Insurance**

Payment of the principal of and interest on the Bonds will be insured by a municipal bond insurance policy to be issued by American Municipal Bond Assurance Corporation ("AMBAC") simultaneously with the delivery of the Bonds.

**Purchasers of Bonds should be aware that no financial or other information is provided in this Official Statement with respect to the Participating Institutions and that no representation, express or implied, is made concerning the ability of any or all the Participating Institutions to meet their obligations under the Loan Agreements. See the caption "MUNICIPAL BOND INSURANCE POLICY RELATING TO THE BONDS" for further information concerning AMBAC.**

**Redemption**

The Bonds shall not be subject to optional redemption prior to the stated maturities thereof; however, upon the occurrence of an Event of Default the maturities of outstanding Bonds may be accelerated upon certain conditions, and in the case of certain defaults under a Loan Agreement secured by a Letter of Credit or by collateral the Bonds are subject to mandatory redemption for which proceeds of a draw on the Letter of Credit or of collateral may be used. See information under the caption "THE INDENTURE — Events of Default and Remedies."

**Additional Bonds**

The Indenture does not permit the issuance of additional bonds except Bonds to replace mutilated, lost, stolen or destroyed Bonds.

**MUNICIPAL BOND INSURANCE POLICY RELATING TO THE BONDS**

AMBAC has made a commitment to the Authority (the "Commitment for Municipal Bond Insurance") to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Municipal Bond Insurance Policy, AMBAC will guarantee the payment of principal and interest on the Bonds when due, to the extent that sufficient funds for such payment have not been provided. The text of the Municipal Bond Insurance Policy is set forth in Appendix II. The insurance will extend for the term of the Bonds and once issued, cannot be cancelled by AMBAC.

At least five business days before each date for payment of principal and interest under the terms of the Bonds, if the aggregate amount available for the payment of the Bonds in accordance with the Indenture is insufficient to pay the principal and interest on all Bonds due on such payment date (computed, in all cases, as if no acceleration, whether by redemption or otherwise, had occurred), the Authority or the Trustee is required to notify the United States Trust Company of New York, as the insurance trustee or its successor in such capacity (the "Insurance Trustee"), and AMBAC of the amount of the deficiency. Under the terms of the Municipal Bond Insurance Policy, AMBAC will pay to the Insurance Trustee the amount of the deficiency stated in such notice within five business days of such notice, but in no event prior to confirmation by the Trustee to AMBAC and the Insurance Trustee of such deficiency as of such payment date. The Insurance Trustee will pay the insurance proceeds to the Bondholders against receipt of the Bonds in the case of payment of principal, and assignment of Bondholders' right to payment in the case of the payment of interest.

If it becomes necessary to call upon the AMBAC guarantee, tenders of Bonds to the Insurance Trustee on behalf of AMBAC will be required for timely payment in the case of payment of principal and will require assignment to AMBAC of the Bondholder's rights to payment in the case of the payment of interest. In order to notify such Bondholders of the necessity for such a tender or assignment the Trustee will mail notices to the registered Owners of the Bonds concurrently with the giving of notice to the Insurance Trustee as described in the previous paragraph.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates in the case of principal and on stated dates for payment, in the case of interest. It will not insure payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity, nor will it insure the payment of any redemption, prepayment or acceleration premium. The Municipal Bond Insurance Policy will not insure against nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, any Paying Agent or the Insurance Trustee. Under the Municipal Bond Insurance Policy, AMBAC is obligated to pay that portion of the principal of and interest on the Bonds which shall become due for payment but shall be unpaid by reason of nonpayment by the Issuer of the Bonds to the extent that such nonpayment is the result of the disgorgement of payments theretofore made which are deemed to be voidable transfers under the Bankruptcy Code, 11 U.S.C. 101 *et seq* (the "Bankruptcy Code").

Upon payment by the Insurance Trustee, AMBAC will become the owner of the surrendered Bonds and will be fully subrogated to the surrendering Bondholders' rights to payment on a parity with the

other than outstanding Bonds. Under the circumstances described in the Indenture, AMBAC will be entitled to the exclusive right to direct the exercise of remedies by the Trustee in the event of a Default. Among such remedies is the right in certain instances to direct mandatory redemption of the Bonds in part to the extent that moneys are available to pay the full amount due on redemption. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all Bonds, AMBAC will remain obligated to pay principal of and interest on Bonds on the originally scheduled interest and principal payment dates.

AMBAC has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC will not affect the exemption from federal income taxation of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC under policy provisions substantially identical to those contained in the Municipal Bond Insurance Policy will be exempt from federal income taxation.

AMBAC is a New York domiciled stock insurance company, regulated by the Insurance Department of the State of New York, and licensed to do business in various states, with total assets (unaudited) of \$217,358,151 and a capital and surplus (unaudited) of \$52,901,779 as of June 30, 1983. AMBAC is a wholly-owned subsidiary of MGIC Investment Corporation, a financial holding company which is a wholly-owned subsidiary of Baldwin-United Corporation, a financial services company. The address of AMBAC's principal executive offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340. The Insurance Department of the State of New York has promulgated regulations specifically designed for insurers of municipal bonds which, among other things, limit each insurer as to exposure on both a single-risk and total-risk basis.

AMBAC and MGIC Indemnity Corporation ("Indemnity"), another subsidiary of MGIC Investment Corporation, have entered into two stop-loss reinsurance agreements with a number of unaffiliated reinsurers relating to the municipal bond insurance programs of AMBAC and Indemnity. The stop-loss reinsurance agreements cover all existing new issues, funds, unit trusts and portfolios insured by AMBAC and Indemnity. There are presently fourteen insurance companies participating in the first of such agreements with a maximum aggregate liability thereunder of \$75,000,000 and three insurance companies participating in the second of such agreements with a maximum aggregate liability of \$50,000,000. In addition, AMBAC and Indemnity have entered into a quota share reinsurance agreement with three unaffiliated reinsurers under which 17.25% and 18.75% of the insurance underwritten pursuant to the municipal bond insurance programs of AMBAC and Indemnity during 1982 and 1983, respectively, has been and will be assumed by such reinsurers. The stop-loss and quota share reinsurance agreements are designed to supplement the resources of AMBAC and Indemnity and to provide such corporations with the ability to continue to pay claims during a period of severe economic catastrophe similar to the Great Depression of the 1930's. The stop-loss reinsurance agreements are continuous but are subject to termination by any party thereto on any December 31 upon 90 days' notice and, with respect to the first of such agreements, by one certain party thereto on any March 31, June 30, September 30 or December 31 upon 90 days' notice. Termination will also occur if AMBAC or Indemnity fails to provide the reinsurers at any year-end with a no-loss warranty which states, in effect, that losses incurred for that year will be borne fully by Indemnity and AMBAC. If termination occurs, and if AMBAC or Indemnity does not provide a no-loss warranty, the stop-loss reinsurance agreement provides for a six year run off period during which period the reinsurers remain liable for all losses incurred by Indemnity or AMBAC with respect to business in force at the beginning of the run off period.

The insurance of the Bonds by AMBAC should not be construed as a representation by AMBAC that the pledged revenues will at all times and under all circumstances be sufficient to pay the principal of and interest on the Bonds.

Baldwin-United is currently experiencing severe financial difficulties. Petitions have been filed under Chapter 11 of the Bankruptcy Code. Neither MGIC Investment Corporation nor its insurance subsidiaries, including AMBAC and Indemnity, are included in such filings. A Special Master's Committee, which currently includes the Insurance Departments of Arkansas, Indiana and Wisconsin and may include a limited number of banking institutions which are creditors of Baldwin-United, has

been created to assist in the sale of the various corporate entities which comprise the MGIC Investment Corporation corporate group, including AMBAC and Indemnity. While no assurance can be given that the proceedings in bankruptcy involving Baldwin-United will not affect the future operations of AMBAC, such proceedings should not affect the financial operation of AMBAC. On September 27, 1983 Standard & Poor's Corporation reaffirmed the "AAA" claims-paying rating of AMBAC stating that it was "not included in the (recently filed) Chapter 11 bankruptcy petitions" and citing that it was "isolated through strong insurance regulation". In a letter dated April 26, 1983, AMBAC was directed by the Department to obtain the prior written approval of the Department before entering into, among other things, any transaction with any member of its holding company system, directly or indirectly. In the opinion of counsel to AMBAC, (i) the commencement of the case against Baldwin-United under Chapter 11 of the Bankruptcy Code or the conversion of such case to any other applicable Chapter of the Bankruptcy Code, or the commencement of a case by or against MGIC Investment under the Bankruptcy Code has not and will not result in the assets of AMBAC being sold, transferred, assigned, pledged or otherwise disposed of in order to satisfy the claims of creditors of Baldwin-United or MGIC Investment; (ii) any sale, transfer or other disposition of the control of AMBAC pursuant to any bankruptcy proceedings in which Baldwin-United or MGIC Investment is the debtor will be subject to the prior approval of the Superintendent of Insurance of the State of New York; and AMBAC and the person so acquiring control thereof will continue to be subject to the Insurance Law of the State of New York and the regulations thereunder; and (iii) the appointment of a custodian, receiver, trustee, or assignee for the benefit of creditors of Baldwin-United or MGIC Investment under applicable laws, and the divestiture by any sale, transfer or other disposition of AMBAC pursuant to any bankruptcy proceedings in which Baldwin-United or MGIC Investment is the debtor and the consequent acquisition of control of AMBAC by another person, will not constitute a default under or a basis for termination of any reinsurance agreement to which AMBAC is a party.

Baldwin-United is currently actively seeking to sell MGIC Investment Corporation and AMBAC to a third party.

The information relating to AMBAC, Indemnity, MGIC Investment Corporation and Baldwin-United contained above has been furnished by AMBAC. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

#### **ESTIMATED USES OF FUNDS**

Construction Accounts (1) .....	\$14,652,000
Debt Service Reserve Fund .....	2,778,000
Costs of Issuance (2) .....	726,082
Underwriters' Discount .....	<u>363,918</u>
Total .....	<u><u>\$18,520,000</u></u>

(1) It is assumed that earnings on temporary investments of the respective Construction Accounts will be applied to pay interest on the Loan during the construction period and other Project Costs. However, the obligation of an Institution to pay interest on its Note is unconditional and does not depend on availability of earnings of the Construction Account.

(2) Includes fees of the Authority.

#### **ESTIMATED REVENUES FOR PAYMENT OF THE BONDS**

The Authority expects, based upon the assumptions outlined herein, that the anticipated Loan Repayments, moneys on deposit in the funds and accounts created pursuant to the Indenture and certain investment earnings on amounts in those funds and accounts will be sufficient to pay on a timely basis all principal of and interest on the Bonds and all expenses in connection with the Bonds and the

Loans made from the proceeds of the Bonds. The expectations of the Authority are based on the following assumptions:

(1) At Bond Closing, each Participating Institution shall execute and deliver to the Authority the Institution's promissory note (the "Note"), dated October 1, 1983, in the principal amount of the Loan bearing interest payable monthly in advance commencing at Bond Closing and on the 1st day of each month thereafter at the rates corresponding to the interest rates on the Bonds specified on the cover page hereof, and payable in annual installments of principal on September 1 for a period ending no later than September 1, 1991.

(2) Each Loan shall be in the aggregate principal sum of the amount deposited at Bond Closing in the Institution's Construction Account plus that percentage of the amount deposited in the Cost of Issuance Fund and that percentage of the Underwriters' discount which the said deposit to the Construction Account bears to the total of all Construction Account deposits.

(3) All Loan Repayments will be made on a timely basis.

(4) Voluntary principal prepayments of the Loans by Participating Institutions will not have an adverse impact on cash flow because of the method of computing the Optional Prepayment Price.

(5) Moneys on deposit in the Debt Service Reserve Fund will be invested at a yield of 9.625% pursuant to an investment agreement with Citibank, N.A.

Computer simulations using the assumptions set forth above project that there will be available sufficient revenues for the timely payment of all principal of and interest on the Bonds and all expenses in connection with the Bonds. However, there is no assurance that said assumptions will in fact be realized.

#### **PARTICIPATING INSTITUTIONS, PROJECTS, CONSTRUCTION ACCOUNT DEPOSITS AND LOANS**

The Participating Institutions, the Projects, the amount of the deposits to the Construction Accounts, the total loan to each Institution and the percentage that each said loan bears to the aggregate total are as follows:

<u>Participating Institution</u>	<u>Project</u>	<u>Construction Account Deposit</u>	<u>Total Loan</u>	<u>% of Total Loans</u>
Augsburg College Minneapolis	Improvements to Memorial Hall and the Science Building	\$ 720,000(1)	\$ 773,563	4.91%
Carleton College Northfield	Improvements to academic buildings, dormitories and athletic facilities, energy conservation, and purchase of a computer	2,248,000	2,415,235	15.34
College of St. Scholastica Duluth	Improvements to campus buildings and facilities, energy conservation and purchase of a computer	527,000(2)	566,205	3.60
College of St. Thomas Saint Paul	Building construction and improvement and acquisition of equipment on the Saint Paul campus and the Gainey Conference Center at Owatonna	2,555,000	2,745,073	17.44
Concordia College Moorhead	Improvements to student residence and food facility buildings	1,907,000	2,048,867	13.02

<u>Participating Institution</u>	<u>Project</u>	<u>Construction Account Deposit</u>	<u>Total Loan</u>	<u>% of Total Loans</u>
Gustavus Adolphus College St. Peter	Construction of physical education/health facilities	3,000,000(3)	3,223,178	20.48
Minneapolis College of Art and Design Minneapolis	Equipment purchases	375,000(3)	402,897	2.56
Northwestern College of Chiropractic Bloomington	Financing downpayment for purchase of and remodeling academic building	780,000(4)	838,026	5.32
St. John's University Collegeville	Improvements to campus main auditorium	2,000,000	2,148,785	13.65
St. Mary's College Winona	Improvement of campus buildings and other campus facilities, and energy conservation	540,000	580,172	3.69
Total		\$14,652,000	\$15,742,000*	100.00%*

The foregoing descriptions of Projects are only summaries; more complete descriptions are contained in the respective Loan Agreements.

The foregoing Loan amounts include each Participating Institution's proportionate share of accrued interest, Issuance Costs and Underwriters' discount.

- (1) In addition to the Institution's pledge of Loan Repayments, the Loan shall be secured in the full amount thereof including 135 days of interest thereon, by an irrevocable Letter of Credit issued by the First National Bank of Minneapolis, Minneapolis, Minnesota.
- (2) In addition to the Institution's pledge of Loan Repayments, the Loan shall be secured by a Collateral Account consisting of a deposit by the Institution of cash and investments (fixed income securities rated "A" or better by Standard & Poor's Corporation) in an amount equal to 75% of the principal amount of the Loan, or, if less, 100% of the Loan balance.
- (3) In addition to the Institution's pledge of Loan Repayments, the Loan shall be secured by a Collateral Account consisting of a deposit of cash and investments (fixed income securities rated "A" or better by Standard & Poor's Corporation) in an amount equal to 50% of the principal amount of the Loan, or, if less, 100% of the Loan balance.
- (4) In addition to the Institution's pledge of Loan Repayments, the Loan shall be secured in the full amount thereof including 135 days of interest thereon, by an irrevocable Letter of Credit issued by Norwest Bank Minneapolis, N.A., Minneapolis, Minnesota.

## THE AUTHORITY

### General Description

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 six members appointed by the Governor with the advice and consent of the Senate and a seventh member who is the Executive Director of the Minnesota Higher Education Coordinating Board or his designee.

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

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\*Columns do not add due to rounding.



The Authority is authorized and empowered to issue revenue bonds whose aggregate outstanding principal amount at any time shall not exceed \$150 million. With the Bonds, the Authority has had 37 issues (including refunded and retired issues) totalling \$117,010,000 of which \$95,030,000 (including the Bonds) was outstanding as of November 22, 1983. Bonds issued by the Authority can be payable only from the rentals, revenues and other income, charges and moneys pledged for their payments. 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 include 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 (an "institution").

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 institutions; it has no taxing power. With the exception of the Bonds, at the time of issuance, and usually from bond proceeds, the Authority is paid a percentage, currently .35%, of the principal amount of the issue. Thereafter, commencing as of the date of issue and payable at the beginning of each year thereafter during the life of the bonds, the Authority receives an annual fee, currently .2%, of the original principal amount of the issue for its original term, regardless of whether the issue is prepaid, unless the Authority waives its rights to such payment. With respect to the Bonds the Authority shall be paid a fee from Bond Proceeds in an amount equal to the present value of its current fee schedule computed on the principal amount of the Bonds for their life and assuming an investment rate of 10.5%.

Bond issuance costs, including fees of bond counsel, the financial advisor and trustee, and the underwriter's discount, are usually paid by the institution from bond proceeds. In the instance of the Bonds, such costs and the fee of the Authority will be paid from Bond proceeds and will be prorated to each Participating Institution as a part of its Loan.

As a general policy, the Authority requires that the proceeds of each issue include a sum equal to approximately one year's debt service, after deduction of any interest subsidy grants, for the creation of debt service reserves. Of this sum, 80% is deposited with the trustee in a series reserve account; the remaining 20% is deposited by the Authority in the General Bond Reserve Account pledged to the payment of all bonds issued by the Authority for which such deposit has been made. **The Bonds however will not be secured by the General Bond Reserve Account and no contribution to the General Bond Reserve Account will be made by reason of the Bonds.**

## **Members of the Authority**

<u>Member</u>	<u>Principal Activity</u>
Herbert M. Stellner, Jr., Chairman	Senior Vice President, Marquette Bank and Trust Company, Rochester
Earl R. Herring Vice Chairman	Vice President for Administrative Affairs, Moorhead State University, Moorhead, Minnesota
Leonard J. Rogge (1) Secretary	Retired, formerly Vice President for Business Affairs, College of St. Thomas, Saint Paul
Dr. Clyde R. Ingle	Executive Director, Minnesota Higher Education Coordinating Board, Saint Paul
Carlos Lopez, Jr.	President, Cal-Mech Inc., Saint Paul
Peter H. Seed (1)	Member, Briggs and Morgan Professional Association, Lawyers, Saint Paul and Minneapolis
Emily Anne Staples	Director of Development, Spring Hill Conference Center, Wayzata

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- (1) Mr. Rogge serves as a consultant to the College of St. Thomas, and the law firm of which Mr. Seed is a member represents Carleton College. Each of said colleges is a Participating Institution.

## **THE LOANS**

### **General**

At Bond Closing, the Authority and the respective Participating Institutions will execute Loan Agreements, and the Authority will assign its rights to the Loan Repayments and other interests under the Loan Agreements (except certain rights to reimbursement of expenses and indemnification) by execution of the Indenture to the Trustee. Under the Loan Agreements, the Authority will make loans (the "Loans") at the time of Bond Closing to the respective Participating Institutions in the amounts equalling the Institutions' respective estimated Project Costs (see information under the caption "ESTIMATED USES OF FUNDS") plus proportionate amounts of the Underwriters' discount and deposits to the Cost of Issuance Fund. The aggregate principal amount of the Loans and Notes evidencing the Loans plus the Debt Service Reserve Requirement for the Debt Service Reserve Fund will equal the aggregate principal amount of the Bonds.

The net proceeds of the Loans will be deposited to the credit of the respective Construction Accounts in the Loan Fund and used to pay or reimburse Institutions for payment of Project Costs for their respective Projects. Each Loan will be evidenced by a Note. Loans will not be secured by any mortgage lien on or security interest in the Project Facilities.

### **Prepayments**

An Institution may prepay its Loan at any time, in whole but not in part, by paying to the Trustee an amount which (with moneys already on deposit in the Loan Prepayment Account) is equal to the Optional Prepayment Price for credit to the Principal Prepayment Fund and the Institution's Loan Prepayment Account therein. The Optional Prepayment Price is an amount which, when invested by the Trustee in Qualified Investments, shall generate sufficient revenues to pay all Loan Repayments in respect of the Loan, including principal and interest, due from the date on which such investment is made until the final maturity of the Note. The Optional Prepayment Price for any Loan shall be determined by the Trustee whose determination shall be conclusive. The Institution shall nevertheless remain contingently liable for Loan Repayments if the Optional Prepayment Price shall at any time prove insufficient to meet the Loan Repayments, unless the Institution shall direct the Trustee to invest the Optional Prepayment Price in specified Qualified Investments which shall provide to the Trustee

(along with any remaining cash) payments sufficient to meet the Loan Repayments in full and when due, without consideration of any reinvestment thereof, a certificate of an independent certified public accountant to such effect, and an arbitrage opinion of nationally recognized bond counsel. The Bonds are not subject to optional redemption prior to their stated maturity dates and moneys in the Principal Prepayment Fund cannot be used to prepay Bonds unless the principal of the Bonds has been accelerated due to an Event of Default under the Indenture (see information under the caption "THE INDENTURE — Events of Default and Remedies").

### **Conditions To Be Met By Institutions**

Prior to withdrawal of moneys from the respective Construction Accounts to pay or reimburse Project Costs, or to pay the holders of outstanding indebtedness incurred to construct or otherwise acquire Projects, the Institutions are required to meet certain conditions evidenced to the satisfaction of the Trustee, as follows:

(1) *Approval of Application by Authority.* Each Institution has filed an Application, including related exhibits and statements and the related indemnity agreement, with the Authority describing the Institution and the Project as eligible for financial assistance under the Act (see information under the caption "THE AUTHORITY") and certain additional information. The Applications are reviewed by the Authority's Executive Director, financial consultant and bond counsel, and acting upon their recommendations, the Authority adopts resolutions as to eligibility of the applicant Institutions and their Projects and approval of the Applications, which may be given subject to conditions. A certified copy of the resolution of the Authority approving the Application and evidence that any conditions have been met shall be furnished to the Trustee prior to withdrawals from the Construction Account to pay or reimburse Project Costs for the Institution's Project.

(2) *Approval by AMBAC.* Each Institution has furnished to the Authority for submission to AMBAC financial information requested by AMBAC to ascertain whether the Institution's obligations meet AMBAC's underwriting standards for the issuance of municipal bond insurance. In general, AMBAC's underwriting standards require that Standard & Poor's Corporation is maintaining or will provide an investment grade rating on long term indebtedness for which the Institution's credit is the primary basis for the rating. AMBAC may, in certain cases, require that the Institution deliver to the Trustee (a) collateral consisting of fixed income securities rated "A" or better by Standard & Poor's Corporation (or cash to be invested therein) of a market value equal to or greater than a certain percentage of the original principal amount of the Loan or (b) an irrevocable Letter of Credit (i) approved as to form and content by AMBAC, (ii) which is for the term of the Loan or is renewable not more often than annually, (iii) which is issued by a state or national bank acceptable to AMBAC, (iv) with respect to which bank Standard & Poor's Corporation is maintaining an "A" or equivalent or better rating (or with respect to long term indebtedness or commercial paper for which the Bank's credit is the primary basis for the rating), (v) which is in the original amount equal to the aggregate of the principal amount of the Loan plus 135 days' interest thereon at the highest rate specified in the Note, which amount may be reduced from time to time by the amounts of any repayments of principal which have been made by or for the account of (including permitted transfers of moneys from Funds and Accounts under the Indenture other than for delinquent Loan Repayments) the Institution and are protected funds (by having been paid 91 or more days previously or otherwise) against claims of being preference payments under the Bankruptcy Code, and (vi) which has a term which extends or is renewable through at least 105 days following the date of the Institution's final scheduled Loan Repayment or (if earlier) the date of termination of the term of the Loan Agreement. If the Standard & Poor's Corporation rating of the bank (or such long term indebtedness or commercial paper) issuing such letter of credit is reduced below "A" or the equivalent, a substitute or confirming letter of credit shall be provided by an issuing bank having (for itself or such long term indebtedness or commercial paper) a Standard & Poor's Corporation "A" or equivalent or better rating within 30 days after Standard & Poor's Corporation announces the reduction of rating. Any renewable Letter of Credit must provide that such Letter of Credit shall be automatically renewed unless the issuing

bank gives notice to the Trustee at least 10 days prior to the end of the term of such Letter of Credit that the Letter of Credit will not be renewed and that the Trustee may upon receipt of such notice draw down the full amount of the Letter of Credit; under the Indenture and applicable Loan Agreement, the Trustee is directed to draw on the Letter of Credit upon receipt of the notice and deposit the proceeds in the Institution's Loan Prepayment Account in the Principal Prepayment Fund unless the Institution provides a Substitute Letter of Credit conforming in all respects with requirements applicable to the original Letter of Credit. Banks issuing Letters of Credit on behalf of Institutions generally require such Institutions to execute reimbursement agreements whereby the Institutions agree to reimburse the amounts of any draws on the Letter of Credit, to pay the banks' fees and expenses, and to observe certain financial and other covenants and sometimes require Institutions to provide security interests in the Institutions' properties to secure such obligations to the banks; neither the Trustee nor the Bondholders will have any interest in any such reimbursement agreements or security interests given to issuing banks. The Trustee shall be furnished with evidence satisfactory to it that AMBAC has approved the meeting of its underwriting criteria, together with any collateral or Letter of Credit forming the basis of such approval, and opinions of counsel and certifications relating thereto as required by the Loan Agreement, prior to any withdrawals from the Construction Account to pay or reimburse Project Costs for the Institution's Project or, in the case of a refinancing indebtedness, to pay the holders of outstanding indebtedness originally incurred on account of the Project.

(3) *Further Requirements for Equipment Projects.* The Trustee shall also be furnished copies of the purchase agreement or accepted purchase order for any Project Equipment costing \$10,000 or more, together with the certifications and opinions of counsel as required by the Loan Agreement, prior to any withdrawal from the Construction Account to pay or reimburse Project Costs when the Project consists solely of acquisition or installation of Project Equipment or to pay or reimburse Project Costs relating to acquisition and installation of such Project Equipment in other cases. The certifications include a certificate of an Authorized Institution Representative that the amounts on deposit in the Construction Account, together with anticipated investment earnings thereon, are expected to be sufficient to pay all unpaid Project Costs.

(4) *Further Requirements for Improvement Projects.* The Trustee shall also be furnished copies of all construction contracts (unless a certificate of completion is furnished) which shall be either fixed price or guaranteed maximum cost type and which shall provide for the complete construction of or of improvements to Project Buildings contemplated by the Project, together with performance and payment bonds and the certifications and opinions of counsel required by the Loan Agreement, prior to any withdrawal from the Construction Account to pay or reimburse Project Costs of an Institution's Project which includes building construction or improvement. The certifications include a certificate of an Authorized Institution Representative as to Project Costs incurred and estimated to be incurred and to the effect that the amounts on deposit in the Construction Account, together with expected investment earnings thereon, are expected to be sufficient to meet all unpaid Project Costs. The opinions of counsel include a title opinion to the effect that the Institution has marketable title to (or leasehold interest in) the Project Sites subject only to Permitted Encumbrances.

If an Institution's overall Project consists of two or more Equipment Projects and/or Improvement Projects, the Institution is permitted to withdraw from the Construction Account an amount not exceeding the estimated Project Costs for the sub-project upon satisfaction of the conditions in paragraphs (1) and (2) and the relevant conditions for the sub-project. Investment income of moneys in a Construction Account may be transferred to the Interest Account during the construction period of the Institution's Project to meet interest payments on the Institution's Note; and fees of the Banks for issuing Letters of Credit for Augsburg College and Northwestern College of Chiropractic may be paid from the applicable Construction Accounts without regard to the above conditions.

## **THE LOAN AGREEMENTS**

The following is a description of certain provisions of the form of Loan Agreements. This summary is qualified in its entirety by reference to the form of Loan Agreement on file at the offices of the Authority.

### **Loan Repayments**

Each Institution is required to pay Loan Repayments to the Trustee as follows: Loan Repayments to meet interest on the Loan are payable on the 1st day of each month. Loan Repayments to pay principal of the Loan are payable annually on September 1 in 1986 through 1991 in amounts that will be sufficient, together with funds held by the Trustee under the Indenture to the credit of the Institution, to meet the principal of the Loan. Total annual Loan Repayments in each of the years ending September 1, 1986 through 1991 will be approximately equal. The obligation of the Institution to make Loan Repayments is absolute and unconditional. The Institution's obligation to make Loan Repayments will be evidenced by a Note.

### **Term of Loan Agreement**

The term of each Loan Agreement will commence on the date of the Loan Agreement and will terminate upon the earliest of (i) the date on which the Institution has made all Loan Repayments required by the Loan Agreement to repay the Loan, (ii) the exercise by the Institution of its option to prepay and prepayment of the Loan in full if the Institution provides to the Trustee directions to invest the Optional Prepayment Price in Qualified Investments which (without consideration of reinvestment) will provide sufficient funds to meet all Loan Repayments, a certificate of an independent certified public accountant as to such sufficiency, and an arbitrage opinion of nationally recognized bond counsel (see information under the caption "THE LOANS — Prepayments"), or (iii) a default by the Institution and the Trustee's election to terminate the Loan Agreement pursuant to its terms.

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

Title to (or a leasehold interest in) any real or personal property improved or purchased with the proceeds of any Loan will remain in the Institution improving or purchasing such property and receiving such Loan. The Loan will not be secured by any security interest in the property. The Institution covenants, however, that it will not grant any security interests in the property other than Permitted Encumbrances (which may include security interests granted in order to secure a Letter of Credit issued to permit the Institution to receive the Loan or under clauses in existing financing agreements of the Institution which grant a security interest in after-acquired property).

Upon the written request of the Institution, the Authority may in its discretion permit the Institution to mortgage or otherwise encumber a Project Site or Project Building, without the consent of the Trustee or the Bondholders or AMBAC, if the Authority shall find that such permission will not materially adversely affect the interests of the Bondholders, but no such mortgage or other encumbrance shall be permitted with respect to Project Equipment except Project Equipment which is a building service fixture, that is, heating, ventilating, plumbing, electrical conduits and similar equipment.

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 and/or cause to be satisfied and discharged all such items.

**Option to Prepay**

The Institution may at any time prepay the Loan in whole, but not in part, by making payment to the Trustee of the then applicable Optional Prepayment Price (see information under the caption "THE LOANS — Prepayments").

**Rates and Charges**

The Institution agrees to charge and collect such tuition fees, other fees, rentals and charges which, together with the general funds and other available funds of the Institution, shall provide moneys sufficient to pay all of the expenses during each year for operation, maintenance and repair of its facilities, and to make the Loan Repayments and all other payments required under the Loan Agreement, and to pay all other obligations payable by the Institution.

**Completion of the Project; Construction Account**

Pursuant to the Loan Agreement the Institution has agreed that it will, with all reasonable dispatch, cause the Project to be completed and that it will deposit in the Construction Account the additional funds, if any, necessary in addition to Loan proceeds to provide for the payment or reimbursement of all Project Costs. Costs of the Project shall be paid from the Construction Account. Moneys in the Construction Account shall, at the request of the Authorized Institution Representative, be invested in certain Qualified Investments. Moneys in the Construction Account shall only be invested for such periods as the Authorized Institution Representative shall certify as periods during which the Project has not been completed and the moneys are not needed to meet Project Costs.

**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 a loss of the tax-exemption of interest on the Bonds under Section 103 of the Internal Revenue Code.

**Compliance With Permitted Encumbrances**

The Institution agrees that it will perform all covenants and conditions of any Permitted Encumbrance and pay all installments of any indebtedness secured thereby and interest thereon when due. In the event of any default or violation of any terms or conditions of a Permitted Encumbrance which is a mortgage, security interest or other lien on Project Facilities, the Institution shall forthwith give to the Trustee and the Authority notice thereof and of the action which the Institution intends to take with respect thereto to cure the default or to contest the same by appropriate proceedings.

**Maintenance of Project Facilities**

The Institution agrees that 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 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 Bonds will not be affected thereby and such lease, sublease or use agreement shall not be inconsistent with the Loan Agreement, the Indenture, any Permitted Encumbrances or the Act. In the event of such lease, sublease or use agreement the Institution shall remain as fully obligated under the Loan Agreement and Note as if such lease, sublease or use agreement had not been made.

**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 Loan Agreement or the Note, or the interest of the Authority, the Trustee, or the holders of the Bonds therein.

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

### **Insurance**

The Institution is to obtain and maintain, for the term of the Loan Agreement, the following insurance:

(a) fire and extended coverage insurance on all buildings, structures and improvements, fixtures, equipment, furniture and furnishings constituting the Project Facilities in amounts sufficient to comply with the provisions of any Permitted Encumbrance and in any case to provide for not less than full recovery whenever the loss from causes covered by such insurance does not exceed 80% of the full insurable value of the property so insured, which insurance may be provided under a blanket insurance policy;

(b) comprehensive general public liability insurance, including blanket contractual liability and personal injury liability and automobile insurance, including owned, non-owned and hired automobiles, against liability for injuries to persons in the minimum amount for each occurrence of \$3,000,000, and aggregate for each year of \$5,000,000, with a deductible amount of not more than \$50,000 per occurrence, and against liability for injury to property in the minimum amount for each occurrence of \$500,000; and

(c) worker's compensation coverage to the extent required by law.

Upon recommendation of an Independent insurance consultant employed by the Institution and satisfactory to the Trustee the Trustee shall permit modifications to the insurance requirements and deductible amounts.

### **Damage, Destruction and Condemnation**

Unless the Institution shall have exercised its option to prepay the Loan Repayments by making payment of the Optional Prepayment Price, and if (a) the Project Facilities or any portion thereof are destroyed (in whole or in part) or damaged by fire or other casualty or (b) title to, or the temporary use of, the Project Facilities or any part thereof, or the interest of an Institution in the Project Facilities or any portion thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Institution will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, replacement, restoration, modification or improvement of the Project or to payment in whole or in part of the Optional Prepayment Price. Any balance of the net proceeds remaining after such work has been completed shall be retained by the Institution.

Net proceeds of such insurance or condemnation awards over \$100,000 shall be paid to the Trustee and applied according to the Institution's election either (a) to complete the work and pay any cost in excess of the amount of the net proceeds and the Institution agrees that, if by reason of any such insufficiency of the net proceeds, the Institution shall make any such payments, the Institution shall not be entitled to any reimbursement therefor from the Authority or the Trustee nor shall the Institution be entitled to any diminution of its Loan Repayments, or (b) the Institution shall pay to the Trustee, as assignee of the Authority, from the net proceeds, if sufficient therefor, an amount equal to the then applicable Optional Prepayment Price, or (c) the Institution shall pay to the Trustee the net proceeds and pay from other moneys of the Institution the balance of the amount equal to the then applicable Optional Prepayment Price, or (d) the Institution shall deposit with the Trustee the net proceeds to be credited pro rata against Loan Repayments representing Loan principal thereafter coming due. The amount of the net proceeds in excess of the then applicable Optional Prepayment Price, if any, shall be retained by the Institution.



**Indemnification**

The Institution agrees to hold the Authority, its members and employees, harmless against any claim, cause of action, suit or liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project Facilities or the use thereof, including that caused by any negligence of the Authority or anyone acting in its behalf; provided that the indemnity shall be effective only to the extent of 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 Institution in connection with investigating any such losses, claims, damages, or liabilities or in connection with defending any actions, insofar as the same relate to the 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 permit one or more other corporations to consolidate with or merge into it, or transfer all or substantially all of its assets to another institution except upon the conditions provided in the Loan Agreement. The conditions are that such consolidation, merger or transfer shall not violate the provisions of any Permitted Encumbrance and the following: (i) if the surviving, resulting or transferee corporation, as the case may be, is other than the Institution, such surviving, resulting or transferee corporation shall assume in writing all of the obligations of the Institution under the Loan Agreement and Note, 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, which 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 and regulations thereunder.

**Removal of Equipment and Alterations**

Provided no Default exists and subject to the provisions of any Permitted Encumbrance:

(a) the Institution shall have the privilege from time to time of substituting furnishings, equipment and related property for any Project Equipment, provided that such property so substituted shall not impair the educational character or significance of the Project Facilities as revenue producing educational facilities;

(b) the Institution may remove any Project Equipment without substitution therefor, provided that the Institution pays to the Trustee a sum equal to the then fair market value of said Project Equipment as determined by an Independent Engineer selected by the Institution if the Loan Agreement is in effect, provided that if the original cost of any such item of equipment was less than \$25,000, such removal without substitution may be effected without such determination of value and certificate by an Independent Engineer upon such showing by the Institution as may be satisfactory to the Trustee;

(c) the Institution may remove Project Equipment from a Project Building to another building of the Institution if it certifies that the removal will not materially affect the use or value of the Project Equipment, provides an Opinion of Counsel satisfactory to the Trustee that the Institution holds title to or a leasehold interest in the building to which the Project Equipment is to be removed, subject to Permitted Encumbrances, which Permitted Encumbrances shall not attach to or constitute a lien on the Project Equipment, and provides evidence of the insurance coverage in force with respect to the building to which the Project Equipment is to be removed; and



(d) the Institution may remove non-Project Equipment if it certifies such removal will not materially impair the educational character or revenue producing significance of the Project Facilities.

The Institution may at its expense remove, modify, alter, improve or change the Project Facilities provided that all alterations shall become a part of the Project Facilities and that the alterations will not substantially impair the structural strength, revenue producing capacity or utility or significantly alter the educational purpose or detract from the value or operating efficiency of the Project Facilities.

#### **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 of Institution and Bonds**

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. The Institution further agrees not to permit use of the Project Facilities by any person or in an unrelated trade or business in such manner or to such extent that does or would, if the principal amount of the Bonds were equal to the amount of the Loan, result in a loss of tax exemption for interest on the Bonds under Section 103 of the Internal Revenue Code and regulations thereunder. The Institution also agrees to provide and file such certifications of an Authorized Institution Representative, opinions of counsel, statements and other evidence and information as may be necessary or requested by the Authority or the Trustee to establish or preserve the exemption of the Bonds under Section 103(a) and (b) of the Internal Revenue Code and the absence of arbitrage expectation under Section 103(c) of the Internal Revenue Code.

#### **Financial Statements to and Meetings with AMBAC**

Within 120 days following the end of each fiscal year of the Institution, the Institution will provide AMBAC with audited annual financial statements, including at least a balance sheet and income statement, audited by an independent certified public accountant or firm of independent certified public accountants. The Institution also agrees to provide unaudited quarterly financial statements if requested by AMBAC. Upon the reasonable request of AMBAC, the Institution's chief financial officer shall meet with representatives of AMBAC, at times and places mutually agreeable to the Institution and AMBAC, to discuss the Institution's financial matters and the operations of the Institution.

#### **Other Standard 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 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 the Loan Agreements with Institutions whose Loan Repayment obligations are not secured by a Letter of Credit:

- (a) The Institution fails to pay a Loan Repayment when due; or
- (b) A default exists with respect to provisions of the Loan Agreement relating to consolidation, merger, sale and transfer, or use of Bond proceeds or Project Facilities affecting tax-exempt status of the Bonds; or
- (c) The Institution defaults in the punctual performance of any other provisions of the Loan Agreement and such default shall have continued for a period of 30 days after written notice by the Authority or Trustee; or

(d) A default exists under any agreement with respect to indebtedness of the Institution and as a result thereof such indebtedness shall become or may be declared immediately due or a proceeding is or may be brought for enforcement thereof; or

(e) The Institution files a petition in voluntary bankruptcy or a court of competent jurisdiction shall enter an order, judgment or decree against the Institution appointing a trustee or receiver of the Institution and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days.

In a Loan Agreement with an Institution whose Loan Repayments will be secured by a Letter of Credit, events of default are (i) events of default described in (a), (b) and (e) above, (ii) default under the Letter of Credit Documents and demand by the issuing Bank that the Trustee draw on the Letter of Credit, (iii) default with respect to the provisions of the Loan Agreement relating to insurance, damage, destruction and condemnation, and the covenants relating to the tax exempt status of the Institution and filings to maintain the tax exempt status of the Bonds, and continuation of such default for 30 days after notice to the Institution and the Bank, (iv) failure of the Trustee to receive a substitute Letter of Credit meeting the requirements for Letters of Credit at least two business days prior to the expiration of a Letter of Credit not being renewed (see information under the caption "THE LOANS — Conditions To Be Met By Institutions"), and (v) reduction of the rating of the Bank issuing the Letter of Credit (or the rating of long term indebtedness or commercial paper for which its credit is the primary basis of the rating) by Standard & Poor's Corporation to a rating below "A" or the equivalent and failure to furnish a substitute or confirming letter of credit by a bank rated (for itself or such long term indebtedness or commercial paper) "A" or the equivalent or better by Standard & Poor's Corporation within 30 days after Standard & Poor's Corporation announces such reduction.

The provisions of subparagraph (c) above are subject to force majeure and are subject to the further limitation that if the default can be remedied but not within a period of 30 days after notice and if the Institution has taken all action reasonably possible to remedy such default within such 30-day period, the default shall not become an event of default for so long as the Institution shall diligently proceed to remedy the default and in accordance with any directions or limitations of time made by the Trustee.

### **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 Authority or the Trustee may declare the Note and all or any Loan Repayments in an amount equal to the Optional Prepayment Price applicable on the date of payment, or (if applicable) in an amount equal to the Letter of Credit, and all other amounts due under the Loan Agreement, to be immediately due and payable;

(b) The Trustee (or the Authority under certain circumstances) may take whatever action at law or in equity which may appear necessary or desirable to collect payments then due or thereafter to become due, pursuant to the Loan Agreement and the Note, or to enforce performance of any obligation of the Institution pursuant to the Loan Agreement;

(c) The Trustee may take whatever action at law or in equity which may appear necessary or desirable to enforce the security provided by, or enforce any provision of, the Loan Agreement, the Note, the Indenture, and any applicable Letter of Credit or collateral security agreement;

(d) With the written consent of AMBAC or the Holders of a majority in aggregate principal amount of Bonds outstanding (see information under the caption "THE INDENTURE — Concerning the Bondholders and AMBAC"), the Trustee may terminate the Loan Agreement by written notice to the Institution and the Authority, but such termination shall not affect any rights of the Trustee or the Authority which have vested, including any rights of the Authority to indemnification and reimbursement.

Any amounts collected pursuant to action taken as described above shall be applied first to advances, expenses and payment of the Loan as provided in the Indenture and any excess to the Institution or (if applicable) to the Bank issuing the Letter of Credit.

## **Amendments**

Except as otherwise provided in the Loan Agreement or in the Indenture, subsequent to issuance of the Bonds and so long as any Bonds are outstanding, the Loan Agreement may not be amended without the prior written consent of the Trustee (see information under the caption "THE INDENTURE — Amendment of the Loan Agreements, Notes and Letters of Credit").

## **THE INDENTURE**

The following is a description of certain provisions of the form of Trust Indenture (the "Indenture"). This summary is qualified in its entirety by reference to the form of the Indenture on file at the offices of the Authority.

## **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 Agreements and the Notes and all Loan Repayments and other sums due under the Loan Agreements (except certain rights to reimbursement of expenses and indemnification).

(2) a first lien on and pledge of (i) the moneys and investments in the Bond Fund, the Debt Service Reserve Fund, the Principal Prepayment Fund, the Revenue Fund, the Residual Fund, the Collateral Fund and the Accounts therein covenanted to be paid and maintained under the Indenture, (ii) moneys and investments in the Construction Accounts not paid out to meet 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 Institutions or by anyone in behalf of them or with their written consent, to the Trustee.

## **Accounts**

Bond proceeds, moneys or investments deposited by the Institutions with the Trustee at or after Bond Closing, and revenues derived under the Loan Agreement or Indenture shall be deposited into Funds and Accounts held by the Trustee as described under the caption "FUNDS AND ACCOUNTS."

## **Bond Closing**

At or prior to Bond Closing, the Trustee shall be furnished (i) executed counterparts of the Loan Agreements and the Indenture, (ii) certified copy of the Bond Resolution, (iii) certified copies of articles of incorporation and by laws of the Institutions, (iv) certified copies of resolutions of the Institutions' governing bodies approving and authorizing the execution and delivery of the several Loan Agreements, (v) copies of letter rulings of the Internal Revenue Service confirming that the respective Institutions are exempt organizations under Section 501(c)(3) of the Internal Revenue Code, (vi) opinions of counsel for the respective Institutions as to the corporate power and authority to execute and the due execution and binding effect of the respective Loan Agreements, (vii) the unqualified approving opinion of Faegre & Benson as bond counsel, (viii) copies of customary closing certificates of the Authority, including a signature and no-litigation certificate, a certificate as to absence of arbitrage expectation, and a certificate that the Official Statement did not as of the date thereof and does not as of the date of Bond Closing contain any misstatement of material fact or fail to state any fact necessary in order that the facts stated in the Official Statement, taken as a whole, are not misleading in any material respect, (ix) a copy of the policy of municipal bond insurance of AMBAC (see information under the caption "MUNICIPAL BOND INSURANCE RELATING TO THE BONDS"), (x) an investment agreement constituting a Qualified Investment as to funds in the Debt Service Reserve Fund, (xi) collateral from Participating Institutions required for the Collateral Accounts, (xii) the Letters of Credit for Augsburg College and Northwestern College of Chiropractic, and certain other closing papers. To the extent then available, the Trustee shall also receive at Bond Closing the evidence required prior to disbursements

from the respective Construction Accounts in the Loan Fund (see information under the caption "THE LOANS — Conditions To Be Met By Institutions"). At Bond Closing, the Trustee shall deposit the accrued interest received (from the date of the Bonds to the date of Bond Closing) in the Bond Fund, to the credit of the Interest Account, and the balance of the Bond proceeds in the Debt Service Reserve Fund, Cost of Issuance Fund and Loan Fund (see information under the captions "ESTIMATED USES OF FUNDS", "PARTICIPATING INSTITUTIONS, PROJECTS, CONSTRUCTION ACCOUNT DEPOSITS AND LOANS" and "FUNDS AND ACCOUNTS").

### **Loan Servicing**

Pursuant to the Indenture, the Authority has directed the Trustee to service the Loans. The Trustee will be entitled to receive from the Revenue Fund such compensation as may be agreed upon in writing by the Trustee and the Authority.

The Trustee will perform all obligations and duties of the Authority under each Loan Agreement with respect to servicing the Loans and will diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of all Loan Agreements and Notes, including the prompt payment of all Loan Repayments and all other amounts due the Authority thereunder. The Trustee will not release the obligations of any Institution under any Loan Agreement or Note and will at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Authority and of the Holders of the Bonds under or with respect to each Loan Agreement and Note, provided that the Trustee may settle a default on any Loan Agreement or Note on such terms as the Trustee determines to be in the best interests of the Authority and the Holders of the Bonds and as AMBAC or the Holders of a majority in principal amount of outstanding Bonds (see information under the caption "THE INDENTURE — Concerning the Bondholders and AMBAC") shall approve.

### **Covenants of the Authority**

Under the Indenture the Authority covenants among other things, that it will perform its various undertakings and agreements; that it will not extend the maturity of any of the Bonds or the time of payment of any claims for interest; that it will 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 Agreements, if such action shall, in the discretion of the Trustee, be deemed to be in the best interests of the Bondholders; that it will keep proper books, accounts and records; and that it will not issue or permit to be issued any Bonds under the Indenture in any manner other than in accordance with the provisions of the Indenture and will not suffer or permit any default to occur under the Indenture. Under the Act 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.

### **Investment of Funds**

Any moneys held as a part of any Fund and Account created under the Indenture will to the extent permitted by law be invested and reinvested by the Trustee in Qualified Investments except that moneys in a Collateral Account may be invested in any fixed income securities rated "A" or better by Standard & Poor's Corporation. Investments will be made under prudent investment standards reasonably expected to produce the greatest investment yields, except as otherwise provided in the Indenture. Investments of moneys in a Construction Account or Collateral Account shall be made at the request and direction of the Authorized Institution Representative and upon his certification (see information under the captions "FUNDS AND ACCOUNTS — Loan Fund and Construction Accounts; and Collateral Fund and Accounts"). The Trustee may make any and all such investments through its bond department or through the bond department of any financial institution which is an affiliate of the Trustee. Except for the Collateral Fund and Collateral Accounts, moneys in separate Funds and Accounts may be commingled for the purpose of investment or deposit. The Trustee is authorized to enter into agreements approved by AMBAC which guarantee the repurchase of Qualified Investments at specific prices.

Investments of moneys in the respective Funds and Accounts, including any collateral deposited in the Collateral Fund by Institutions to secure their Loan Repayments, shall be limited as to amount and yield to the extent required so that none of the Bonds shall be "arbitrage bonds" under Section 103(c) of the Internal Revenue Code and regulations thereunder. The Trustee shall sell and reduce to cash a sufficient amount of investments in the respective Fund and Account whenever the cash balance therein is insufficient to pay the amounts contemplated to be paid therefrom.

#### **Events of Default and Remedies**

The following are Events of Default under the Indenture:

- (a) failure to make payment of principal on the Bonds outstanding under the Indenture when due and payable; or
- (b) failure to make payment of interest on any Bond when due and payable; or
- (c) failure by the Authority to punctually perform any of its covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, and continuance of such default for a period of 60 days after written notice, specifying such default and requiring the same to be remedied, has been given to the Authority; or
- (d) certain events of insolvency or bankruptcy relating to the Authority.

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 or AMBAC, shall declare the principal of all Bonds then outstanding and the interest thereon immediately due and payable, subject, however, to the right of the Holders of a majority in aggregate principal amount of Bonds then outstanding or AMBAC, 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, and all arrears of interest and the reasonable charges of the Trustee and all other indebtedness (except the principal of any Bonds which have not then attained their stated maturity and interest accrued on such Bonds since the last payment date) shall be paid.

If the Loan Repayments of an Institution are secured by a Letter of Credit and the Institution fails to make a Loan Repayment when due, the Trustee is required to draw the full amount of the Letter of Credit and use the proceeds to pay, to the extent needed, the Loan Repayments due (including Loan Repayments due by acceleration) or, on certain conditions, to provide for a deposit of Qualified Investments and cash in the Loan Prepayment Account in an amount equal to the Optional Prepayment Price. Similar requirements apply if a default occurs under the Letter of Credit Documents and the Bank demands that the Trustee draw on the Letter of Credit, or if a bankruptcy petition is filed by or against the Institution, or if the Standard & Poor's Corporation rating of the Bank (or long term indebtedness or commercial paper for which the Bank's credit is the primary basis of the rating) issuing the Letter of Credit is reduced below "A" or the equivalent and a Substitute Letter of Credit or confirming Letter of Credit is not received by the Trustee within 30 days, or if, in the case of a renewable Credit is not received by the Trustee within 30 days, or if, in the case of a renewable Letter of Credit, the Trustee fails to receive a Substitute Letter of Credit prior to expiration of the original Letter of Credit.

If a bankruptcy petition is filed within 90 days after the making of a final Loan Repayment, or if the Trustee does not receive evidence that no bankruptcy petition has been filed within 96 days after a final Loan Repayment, the Trustee is required to draw on the Letter of Credit, and establish a special escrow account pending the furnishing of suitable evidence that no bankruptcy petition was filed within 90 days of the final Loan Repayment or a final determination of the bankruptcy court as to whether a voidable preference has been paid; provisions are made for distribution of the escrow if the bankruptcy court finds a voidable preference to have been made and for limiting investments of the escrow account.

If the Loan Repayments under a Loan Agreement are secured by a Letter of Credit or funds and investments in a Collateral Account, the Trustee is authorized to apply the proceeds of a draw on the Letter of Credit or the collateral to the mandatory redemption of outstanding Bonds in an aggregate principal amount not exceeding the amount available from proceeds of the Letter of Credit or collateral for payment of the redeemed Bonds and accrued interest thereon. The Bonds to be redeemed shall be

selected by lot and shall be redeemed at par and accrued interest on such date as the Trustee shall fix. Notice of redemption will be given by mail to Holders of Bonds to be redeemed and, in the discretion of the Trustee or if required by law, by publication in a Financial Journal at least five (5) days before the date fixed for redemption. If a Bond is in a denomination greater than \$5,000, each \$5,000 of principal amount of the Bond is to be treated as a separate unit for purposes of selecting Bonds for redemption, and if a Bond is to be redeemed only in part, the Trustee shall execute a new Bond to the Holder for the balance of the principal.

In the case of the breach of any of the covenants or conditions of the Indenture or any Loan Agreement, the Trustee 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, subject to its first being indemnified.

Upon the happening and continuance of an Event of Default, the Trustee may and shall upon the written request of AMBAC or 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 such payment of the funds, investments, revenues and income appropriated thereto by the Indenture and 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 is not required to proceed upon any such written request of the Bondholders or AMBAC unless the Bondholders or AMBAC shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

The Trustee is permitted to file proofs of claim and otherwise act for the Bondholders without having possession of the Bonds.

#### **Concerning the Trustee**

The Trustee has no responsibility to use its own funds under the Indenture, but it may make advances at such rate of interest as the Authority may agree to, which advances are given priority of payment. 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 Institutions to the same extent as if it were not Trustee. Provision is made for the succession or replacement of the Trustee by another corporate Trustee with minimum capital, surplus and undivided profits of \$10 million in event of merger, resignation, or removal by Holders of a majority of outstanding Bonds, or in the event of disability, by the Authority or a court.

#### **Concerning the Bondholders and AMBAC**

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 Agreements 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 AMBAC or 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 AMBAC or the Holders of a majority in principal amount of the Bonds at the time outstanding, shall waive any default under the Indenture and its consequences,

except a default in the payment of the principal of the Bonds at the date of maturity specified therein; provided, however, that a Default in the payment of interest on the Bonds shall not be waived unless, prior to such waiver, all arrears of interest and all expenses of the Trustee shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same. In case of any such waiver, the Authority, the Trustee and the Holders of the Bonds shall be restored to their former positions and rights respectively. No waiver of any default or Event of Default, whether by the Trustee, by AMBAC 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.

Whenever an Event of Default shall occur and the Holders of outstanding Bonds or AMBAC or both shall have rights to permit or require the exercise of remedies by the Trustee pursuant to the Indenture or any Loan Agreement, the Trustee shall recognize and give effect to the consent or direction of AMBAC whether or not the Holders of outstanding Bonds shall execute a similar consent or direction, and shall not give effect to any consent or direction of Holders of outstanding Bonds unless AMBAC has given a similar consent or direction; provided that if and so long as (i) AMBAC shall fail to perform any obligation or covenant under its insurance policy with respect to payments of principal of or interest on the Bonds, or (ii) AMBAC shall be subject to any bankruptcy, insolvency, liquidation or reorganization order or proceeding, the Trustee shall recognize and give effect to the consent and direction of the Holders of a majority in aggregate principal amount of outstanding Bonds whether or not AMBAC shall have executed a similar consent or direction, and shall not give effect to any consent or direction of AMBAC or requirement therefor.

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 thereon by depositing with the Trustee at, or at any time before, maturity an amount either in cash or direct obligations of the United States of America in such aggregate face amount, bearing interest at such rates, and maturing on such dates sufficient to pay the entire amount due or to become due thereon for principal and interest to maturity of all said Bonds outstanding, or

(c) 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 the 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. It is understood and agreed that if AMBAC shall pay the principal of or interest on the Bonds pursuant to the municipal bond insurance policy, AMBAC shall be subrogated to the rights of the Holders, and such payments do not constitute payment or satisfaction of the claims for principal of or interest on the Bonds and do not constitute or authorize discharge of the Bonds or Indenture.

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, 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; and
- (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.

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 and AMBAC shall have the right to consent to and approve such supplemental indentures as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding in any particular, any of the terms or provisions of the Indenture or in any supplemental indenture; provided, however, that such provision shall not be construed as permitting without the consent of the Holders of all such Bonds outstanding and AMBAC (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, 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.

### **Amendment to the Loan Agreements, Notes and Letters of Credit**

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 a Loan Agreement, Note or Letter of Credit as may be required (a) by the provisions of a Loan Agreement or the Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) so as to add additional rights acquired in accordance with the provisions of such Loan Agreement, Note or Letter of Credit or (d) in connection with any other change which, in the judgment of the Trustee, is not to the material 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 any Loan Agreement (or Note) 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 any Loan Agreement or Note or changes in a Letter of Credit (not referred to above) without the consent of the Holders of all the Bonds then outstanding and AMBAC.



## **FUNDS AND ACCOUNTS**

The Indenture creates the following Funds and Accounts:

### **Loan Fund and Construction Accounts**

Moneys will be deposited in the Loan Fund at Bond Closing and credited to separate Construction Accounts therein established for and in the net amounts of the Loans to the respective Participating Institutions. Moneys deposited to the credit of the Loan Fund and respective Construction Accounts may be withdrawn to pay or reimburse Project Costs upon application of the Participating Institutions and upon compliance with the conditions therefor (see information under the caption "THE LOANS — Conditions To Be Met By Institutions"). If an Institution defaults in its obligations to make Loan Repayments, any amounts remaining to the credit of the Construction Account may be transferred to the Bond Fund to the extent of the deficiency. Investments of moneys in the respective Construction Accounts shall be made by the Trustee at the request of the Authorized Institution Representative in certain Qualified Investments for the period the Authorized Institution Representative certifies that such moneys are not needed to pay or reimburse Project Costs (see information under the caption "THE LOAN AGREEMENTS — Construction Accounts"). Investment income to the credit of a Construction Account may be transferred to the Interest Account and credited against Loan Repayments due or to become due. Upon completion of a Project, any moneys remaining to the credit of the related Construction Account shall be transferred to the Principal Prepayment Fund or to a Construction Account of another Institution if both Institutions, the Authority and AMBAC approve and if the Notes of the two Institutions are respectively reduced and increased by the amount transferred.

### **Debt Service Reserve Fund**

The Debt Service Reserve Fund will be initially funded from proceeds of the Bonds in the amount of \$2,778,000 and is required under the Indenture to be maintained in such amount (the "Debt Service Reserve Requirement"). Moneys in the Debt Service Reserve Fund will be used for the payment of the principal of and interest on the Bonds, but only when and to the extent that other moneys are not available therefor pursuant to the Indenture (including withdrawals from the Revenue Fund, the Residual Fund and, to the extent of defaults in Loan Repayments by a particular Institution, the Construction Account and moneys in the Loan Prepayment Account of the Principal Prepayment Fund applicable to that Institution) or from other sources (other than municipal bond insurance). If the moneys and investments in the Debt Service Reserve Fund meet the Debt Service Reserve Requirement, any earnings on moneys deposited in the Debt Service Reserve Fund will be transferred as received to the Revenue Fund.

### **Cost of Issuance Fund**

The Cost of Issuance Fund will be funded from Bond proceeds. Amounts in the Cost of Issuance Fund will be used to pay the costs of issuing and insuring the Bonds, including the fees and expenses of the Authority, the Authority's financial consultant and bond counsel, the initial fee of the Trustee, and the municipal bond insurance premium. Any moneys to the credit of the Cost of Issuance Fund on March 1, 1984 shall be transferred to the Revenue Fund.

### **Bond Fund — Flow of Funds**

All Loan Repayments will be credited to the Bond Fund and the Principal Account and Interest Account established therein. Moneys in the Bond Fund will be used to pay principal of and interest on the Bonds as they become due. Earnings of investments of moneys to the credit of the Bond Fund shall be transferred as received to the Revenue Fund. Investment income to the credit of a Construction Account may be transferred to the Interest Account and credited against Loan Repayments due or to become due. If there is a default in payment of Loan Repayments by any Institution, amounts available in the Collateral Account (if any) or from a draw on the Letter of Credit (if any) securing the Institution's Loan Repayments shall be transferred to the Bond Fund. To meet any remaining deficiency or if for any reason amounts to the credit of the Bond Fund are insufficient to meet any

principal of or interest on the Bonds then due or to become due within five business days, amounts to the credit of the following Funds and Accounts shall be transferred, to the extent needed, to the Bond Fund:

- First: From the Construction Account applicable to an Institution in the Loan Fund if and to the extent such Institution shall have defaulted in making Loan Repayments.
- Second: From the Loan Prepayment Account applicable to an Institution in the Principal Prepayment Fund if and to the extent such Institution shall have defaulted in making Loan Repayments.
- Third: From the Revenue Fund.
- Fourth: From the Residual Fund.
- Fifth: From the Debt Service Reserve Fund.

If after giving effect to required transfers from other Funds and Accounts the moneys to the credit of the Bond Fund are insufficient to meet principal of or interest on the Bonds when due, moneys to the credit of the Principal Account shall be transferred, to the extent needed, to the Interest Account and used to pay interest due on the Bonds. If all payments of interest due or to become due within five business days have been paid or provided for in the Interest Account, moneys to the credit of the Interest Account shall be transferred to the Principal Account, to the extent needed, to pay principal of the Bonds due or to become due within five days.

### **Principal Prepayment Fund**

There shall be deposited to the credit of the Principal Prepayment Fund and the separate Loan Prepayment Accounts therein established for the respective Participating Institutions the following:

- (1) Amounts of the Optional Loan Prepayment by any Institution (see information under the caption "THE LOANS — Prepayments");
- (2) Amounts remaining to the credit of the Construction Account upon completion of the Project and not needed to pay or reimburse Project Costs;
- (3) Any moneys received as delinquent Loan Repayments to the extent needed to reimburse the Principal Prepayment Fund and the respective Loan Prepayment Account for moneys transferred to the Bond Fund; and
- (4) Any other moneys required under any provisions of the Loan Agreement or the Indenture to be deposited therein. (See information under the captions "THE LOAN AGREEMENTS — Damage, Destruction and Condemnation; and Removal of Equipment and Alterations" and "FUNDS AND ACCOUNTS — Collateral Fund and Accounts").

Moneys in the Principal Prepayment Fund and the respective Loan Prepayment Accounts therein are to be used (i) to meet and be credited against the Loan Repayments from any Institution if the Institution shall have prepaid its Loan by depositing the Optional Prepayment Price in the Principal Prepayment Fund by transferring the amount of the Loan Repayment to the Bond Fund on the date such Loan Repayment is due, (ii) to meet pro rata and be credited against the principal portion of Loan Repayments if the Institution shall have deposited amounts less than the Optional Prepayment Price in the Loan Prepayment Account, and (iii) to meet (and be credited as Loan Repayments for) principal of and interest on the Bonds due or to become due within five business days if and to the extent that the Institution has defaulted in making Loan Repayments. Earnings on investments of moneys in the Principal Prepayment Fund shall be credited to the Principal Prepayment Fund and the respective Loan Prepayment Accounts therein. The Bonds are not subject to optional redemption prior to their stated maturity dates, and moneys in the Principal Prepayment Fund cannot be used to prepay Bonds unless the principal of the Bonds has been accelerated due to an Event of Default under the Indenture (see information under the caption "THE INDENTURE — Events of Default and Remedies"). Moneys in a Loan Prepayment Account may, however, at the request of the Authorized Institution Representative be used to purchase outstanding Bonds at prices not greater than par plus accrued interest in certain cases.

## **Revenue Fund**

Moneys received by the Trustee not required to be deposited in the above described Funds and Accounts, including investment earnings of the Bond Fund, Revenue Fund and Residual Fund and (if the amount of the Debt Service Reserve Requirement is on deposit in the Debt Service Reserve Fund) earnings of the Debt Service Reserve Fund, shall be deposited in the Revenue Fund and used for the following purposes and in the following order of priority:

(a) For payment of the interest on outstanding Bonds equal to the Debt Service Reserve Requirement of the Debt Service Reserve Fund, which amount shall be transferred to the Interest Account at least thirty days prior to each interest payment date of the Bonds;

(b) For payment of principal of and interest on the Bonds due or to become due within five business days (payment of which from the Bond Fund has not otherwise been provided for) by being transferred to the Bond Fund;

(c) To restore any deficiency in the Debt Service Reserve Requirement of moneys on deposit in the Debt Service Reserve Fund; and

(d) To pay the fees and expenses of the Trustee, including expenses for services of bond counsel or special counsel to the Trustee, auditors, and consultants, and any advances made by the Trustee under the Indenture or the Loan Agreements.

Annually, on the first business day after June 30, the Trustee shall transfer any balances to the Residual Fund. Earnings from investments of moneys in the Revenue Fund shall be credited to the Revenue Fund.

## **Residual Fund**

All amounts remaining in the Revenue Fund at the close of business on June 30 in each year shall be transferred on the next business day to the Residual Fund. Moneys in the Residual Fund shall be used, first, to be transferred to the Revenue Fund (or to a Fund or Account to which moneys in the Revenue Fund are required to be transferred) to the extent needed to make transfers from or meet obligations payable from the Revenue Fund and, second, to purchase outstanding Bonds in inverse order of maturity date at prices not exceeding par plus accrued interest. The Trustee is authorized to purchase outstanding Bonds from moneys in the Residual Fund on the open market, and in its discretion to publish by mail to the Bondholders or in a Financial Journal a notice of an invitation to tender Bonds for purchase by the Trustee from the Residual Fund, provided that no Bonds maturing in 1990 or any prior year shall be purchased if other Bonds maturing in a later year are outstanding. Bonds purchased by the Trustee from the Residual Fund shall be cancelled, shall not be reissued and shall no longer be outstanding under the Indenture. Whenever outstanding Bonds shall be purchased from the Residual Fund, the Loan Repayments and Notes to Participating Institutions shall be credited pro rata (i) in an aggregate principal amount equal to the aggregate principal amount of the Bonds purchased from the Residual Fund, with respect to the principal installments due in the same year as the maturity date of the Bonds purchased, and (ii) in aggregate amounts equal to the aggregate amounts of the respective interest payments to become due on the Bonds purchased, with respect to the interest installments due on or before the maturity date of the Bonds purchased. In determining whether to use moneys in the Residual Fund to purchase outstanding Bonds, the Trustee shall be entitled to consider whether moneys and investments remaining to the credit of the Revenue Fund and the Residual Fund, after giving effect to such purchase and taking into account estimated revenues to be credited to the Revenue Fund, will be sufficient to meet all future payments from the Revenue Fund (including the Trustee's own fees and expenses) as well as the best interests of the Bondholders who will have Bonds outstanding after giving effect to the purchase and the interests of the Authority and Participating Institutions.

## **Collateral Fund and Accounts**

Moneys and investments delivered by Institutions to secure their obligations under the Loan Agreements to make Loan Repayments will be deposited in and held by the Trustee in a Collateral Fund and separate Collateral Accounts therein established for those Institutions which have been required to

provide collateral (see information under the caption "THE LOANS — Conditions To Be Met By Institutions"). The following Institutions have been required to provide collateral in the following percentages of the original principal amounts of their Notes:

College of St. Scholastica .....	75%
Gustavus Adolphus College .....	50%
Minneapolis College of Art and Design .....	50%

The Collateral Requirement for an Institution is the above percentage of the original principal amount of the Institution's Note or, if less, is the unpaid principal amount of the Note. Collateral provided by any Institution only secures the Loan Repayment obligations of that Institution and shall be sold or otherwise reduced to cash and used to meet a Loan Repayment not paid when due by that Institution; such collateral does not secure the obligations of any other Institution and cannot be used for any other purpose. If no default exists under the Loan Agreement, an Institution has the right to receive interest earnings on and any profit realized from the collateral in such Institution's Collateral Account and to substitute collateral and withdraw collateral in excess of the Collateral Requirement applicable to such Institution. Moneys in a Collateral Account may be invested in fixed income securities rated "A" or better by Standard & Poor's Corporation. The Institution is obligated to deposit additional collateral if the market value of collateral in the Collateral Account for such Institution should become less than the Collateral Requirement. The Institution is required to furnish to the Trustee quarterly schedules of valuation of collateral. If an Institution fails to make a Loan Repayment when due, the Trustee is required to sell or otherwise reduce to cash collateral in the Collateral Account for the Institution (if any) sufficient to meet the deficiency in the Loan Repayment; and in certain circumstances may (or at the direction of AMBAC or the Holders of a majority in principal amount of the Bonds shall) reduce to cash all collateral in the Institution's Collateral Account and use the proceeds to deposit the Optional Redemption Price (if sufficient therefor) in the Loan Prepayment Account, or to call the maximum possible amount of outstanding Bonds for mandatory redemption (see information under the caption "THE INDENTURE — Events of Default and Remedies"), or to apply to future Loan Repayments which the Institution fails to pay.

## 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 upon for the Underwriters by Mayer, Brown & Platt, Chicago, Illinois. Certain legal matters concerning the Participating Institutions will be passed upon by their respective legal counsels and certain legal matters concerning the Letters of Credit will be passed upon for the First National Bank of Minneapolis and Norwest Bank Minneapolis, N.A. by their respective legal counsels.

## 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.

## RATING

The Authority and the Underwriters have been advised that Standard & Poor's Corporation ("S & P") assigns its "AAA" rating to bond issues insured by AMBAC, a subsidiary of MGIC Investment Corporation which is a subsidiary of Baldwin-United Corporation. See information under the caption "MUNICIPAL BOND INSURANCE POLICY RELATING TO THE BONDS."

Such rating reflects only the views of S & P and any explanation of the significance of the rating may only be obtained from S & P. There is no assurance that such rating will be maintained for any given period of time or that it may not be changed by S & P if, in its judgment, circumstances so warrant. Any downward change in or withdrawal of such rating may have an adverse effect on the market price of bonds insured by AMBAC.

#### **ARBITRAGE**

The Authority has covenanted to comply in all respects with the requirements of Section 103(c) of the Internal Revenue Code and all applicable regulations relating to arbitrage.

#### **ABSENCE OF LITIGATION**

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

#### **UNDERWRITING**

Piper, Jaffray & Hopwood Incorporated and Shearson/American Express Inc., as representatives of the Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$18,156,082 plus accrued interest to the date of delivery, pursuant to a Bond Purchase Agreement entered into between the Authority and the Underwriters.

The Participating Institutions have agreed to indemnify the Underwriters and the Authority against certain liabilities relating to the Official Statement, including liabilities under the Securities Act of 1933 and the Securities Exchange Act of 1934, or to contribute to payments the Underwriters may be required to make with respect thereof. The obligations of the Underwriters to accept delivery of the Bonds are subject to various conditions of the Bond Purchase Agreement, but the Underwriters are obligated to purchase all of the Bonds if they purchase any of the Bonds.

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## DEFINITION OF CERTAIN TERMS

Unless the context otherwise requires, the following terms shall have the meanings herein specified, such definitions to be equally applicable to both the singular and plural forms of any of the terms defined:

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

*AMBAC* means American Municipal Bond Assurance Corporation, a New York stock insurance corporation, and its successors.

*Authority* means the Minnesota Higher Education Facilities Authority.

*Authorized Authority Representative* means 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* means the person at the time designated to act on behalf of the Institution.

*Banks* means the Banks designated in certain of the Loan Agreements and their successors as issuers of Letters of Credit and any bank issuing a Substitute Letter of Credit.

*Board of Directors* means the Board of Directors, Board of Trustees, or Board of Regents of an Institution, as the case may be, and includes any Executive Committee authorized to act for such board.

*Bonds* means the \$18,520,000 Minnesota Higher Education Facilities Authority Pooled Revenue Bonds, Series 1983-A, authorized by the Indenture and the Bond Resolution.

*Bond Closing* means the delivery of the Bonds pursuant to the Bond Purchase Agreement.

*Bond Fund* means the Bond Fund created under the Indenture and includes the Principal Account and Interest Account established thereby.

*Bond Resolution* means the Series Resolution of the Authority adopted on September 22, 1983, authorizing the Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

*Bond Purchase Agreement* means the Bond Purchase Agreement dated as of October 27, 1983, between the Authority and Piper, Jaffray & Hopwood Incorporated and Shearson/American Express Inc., as representatives of the several Underwriters, relating to the sale and purchase of the Bonds, and any amendments thereto.

*Certificate* means a certification in writing required or permitted by the provisions of the Loan Agreement or the Indenture to be signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of Section 1.02 of the Loan Agreement or Section 1.02 of the Indenture, each Certificate shall include the statements provided for in said Section.

*Certified Resolution* means a copy of a resolution of the Authority, certified by its Secretary or Assistant Secretary to have been duly adopted by said Authority and to be in full force and effect on the date of such certification.

*Closing Date* means the date on which the Bonds are initially executed, authenticated and delivered.

*Collateral Account* means a Collateral Account for an Institution in the Collateral Fund created pursuant to the Indenture.

*Collateral Fund* means the Collateral Fund created under the Indenture and includes the Collateral Accounts established thereby.

*Construction Account* means a Construction Account created with respect to an Institution in the Loan Fund under the Indenture.

*Cost of Issuance Fund* means the Cost of Issuance Fund created under the Indenture.

*Debt Service Reserve Fund* means the Debt Service Reserve Fund created under the Indenture.

*Debt Service Reserve Requirement* means the difference between the unpaid principal amount of the outstanding Bonds and the aggregate unpaid principal amounts of the Notes.

*Default* means default by the Authority in the performance or observance of any of the covenants, agreements or conditions on its part contained in the Indenture, or in the Bonds outstanding thereunder, exclusive of any notice or period of grace required to constitute a default an "Event of Default".

*Equipment Project* means a Project for the acquisition and installation of equipment.

*Event of Default* means an Event of Default described in the Indenture which has not been cured.

*Financial Journal* means Commercial West and The Daily Bond Buyer, and any other newspaper or journal devoted to financial news published in the English language in Minneapolis or St. Paul, Minnesota, or in the City of New York, New York.

*General Bond Resolution* means the General Bond Resolution adopted by the Authority on October 10, 1972, and any amendments thereto.

*Holder, Bondholder or Owner* means the person in whose name a Bond shall be registered.

*Improvement Project* means a Project for the construction of buildings or of improvements to buildings.

*Indenture* means the Trust Indenture between the Authority and First Trust Company of Saint Paul, as Trustee, dated as of September 1, 1983, under which the bonds are authorized to be issued, and any indenture supplemental thereto.

*Independent*, when used with reference to an attorney, engineer, architect, certified public accountant, insurance consultant or other professional person, means a person who (i) is in fact independent, (ii) does not have any material financial interest in the Institution or the transaction to which his Certificate or opinion relates (other than the payment to be received for professional services rendered), and (iii) is not connected with the Authority or the Institution as an officer, employee or member of the Board of Directors, provided that a professional person or firm may be independent notwithstanding that a partner or associate of such person or firm is a member of the Board of Directors, so long as such partner or associate does not participate on behalf of the Institution or such firm in the transaction to which the certificate or opinion relates.

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

*Independent Engineer* means an Independent engineer or engineering firm or an Independent architect or architectural firm qualified to practice the profession of engineering or architecture under the laws of Minnesota.

*Institution* means a Participating Institution.

*Interest Account* means the Interest Account established as part of the Bond Fund under the Indenture.

*Internal Revenue Code* means the Internal Revenue Code of 1954 and amendments thereto.

*Issuance Costs* means costs incurred in the issuance and sale of the Bonds, including administrative fees of the Authority, fees and expenses of financial consultants to the Authority, fees and expenses of bond counsel to the Authority, premium for municipal bond insurance, initial fees of the Trustee, filing and recording fees, and printing expenses.

*Letter of Credit* means a Letter of Credit described in a Loan Agreement.

*Letter of Credit Documents* means the Letter of Credit Documents described in the Loan Agreements.

*Loan Agreements* means the respective Loan Agreements between the Authority and the Participating Institutions, as from time to time amended or supplemented.

*Loan Fund* means the Loan Fund created under the Indenture and includes the Construction Accounts of Participating Institutions established thereby.

*Loan Prepayment Accounts* means the Loan Prepayment Accounts established with respect to the Participating Institutions in the Principal Prepayment Fund under the Indenture.

*Loan Repayments* means the payments made or to be made by the Participating Institutions pursuant to the Loan Agreements.



*Notes* means the promissory notes of the Participating Institutions executed and delivered to the Authority at Bond Closing in the principal amount of the Loans pursuant to the Loan Agreements and any notes given in substitution or renewal thereof.

*Opinion of Counsel* means a written opinion of counsel (who need not be Independent Counsel unless so specified) appointed by an Institution or Authority and acceptable to the Trustee or appointed by the Trustee.

*Optional Prepayment Price* means, with respect to any Loan, an amount which, when invested by the Trustee in Qualified Investments, shall generate sufficient revenues to pay all Loan Repayments in respect of the Loan, including interest and principal, due from the date on which such investment is made until the final maturity of the Note. The Optional Prepayment Price for any Loan being prepaid at the option of the borrowing Institution shall be determined by the Trustee, whose determination shall be conclusive.

*outstanding* when used as of any particular time with reference to Bonds means (subject to provisions of the Indenture pertaining to Bonds held by the Authority and the Institutions) all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for the payment of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds); and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture pertaining to replacement of Bonds.

*Participating Institutions* means the following nonprofit corporations owning and operating institutions of higher education in the State of Minnesota:

<u>Name of Corporation</u>	<u>Name of Its Institution of Higher Education</u>	<u>Location</u>
Augsburg College	Augsburg College	Minneapolis, Minnesota
Carleton College	Carleton College	Northfield, Minnesota
College of St. Scholastica, Inc.	College of St. Scholastica	Duluth, Minnesota
College of St. Thomas	College of St. Thomas	Saint Paul, Minnesota
Gustavus Adolphus College	Gustavus Adolphus College	St. Peter, Minnesota
Northwestern College of Chiropractic	Northwestern College of Chiropractic	Bloomington, Minnesota
Order of St. Benedict	St. John's University	Collegeville, Minnesota
St. Marys College	St. Mary's College	Winona, Minnesota
The Concordia College Corporation	Concordia College	Moorhead, Minnesota
The Minneapolis Society of Fine Arts	Minneapolis College of Art and Design	Minneapolis, Minnesota

*Permitted Encumbrances* means, 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) any mortgage or other encumbrance on a Project Site or Project Building permitted by the Authority pursuant to Section 5.03 of a Loan Agreement, (v) other encumbrances permitted by any provision of the Loan Agreements and (vi) those additional encumbrances identified in the respective Loan Agreements.

*Predecessor Bonds* means Bonds issued in exchange for initial Bonds or Bonds previously exchanged for initial Bonds.

*Principal Account* means the Principal Account established as part of the Bond Fund under the Indenture.

*Principal Prepayment Fund* means the Principal Prepayment Fund created under the Indenture and includes the Loan Prepayment Accounts of Participating Institutions established thereby.

*Projects* means the Projects described in the Loan Agreements.

*Project Buildings* means the Project Buildings described in the Loan Agreements.

*Project Costs* means the costs defined in the Indenture.

*Project Equipment* means all furnishings, furniture, fixtures, equipment and other personal property of a capital nature acquired, installed and located and to be acquired, installed and located permanently or used exclusively in the Project Buildings as part of a Project, which are generally described in the respective Loan Agreements and shall be specifically described in the Certificates of the Project Supervisors to be furnished pursuant to the Loan Agreements.

*Project Facilities* means the Project Site, the Project Buildings and the Project Equipment of an Institution as the same may at any time exist.

*Project Site* means the land on which the Project Buildings of an Institution are and are to be located, described in the Loan Agreement.

*Project Supervisors* means the persons appointed to act under the Loan Agreements.

*Qualified Investments* means the following investments authorized for investment of moneys in the Funds and Accounts created under the Indenture: (i) direct obligations of or obligations fully guaranteed by the United States of America ("Government Obligations"), or (ii) obligations issued by the agencies of (or agencies whose obligations are fully guaranteed by) the United States known as the Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, Government National Mortgage Administration, Federal Maritime Administration and Public Housing Authorities ("Agency Obligations"), or (iii) certificates of deposit issued by a commercial bank, savings and loan association or mutual savings bank (including the Trustee or any affiliate of the Trustee) which deposits are fully secured by Government Obligations or Agency Obligations, or (iv) certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or mutual savings bank (including the Trustee) which deposits are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (v) repurchase agreements of Government Obligations and Agency Obligations, provided such repurchase agreements are approved by AMBAC.

*Residual Fund* means the Residual Fund created under the Indenture.

*Revenue Fund* means the Revenue Fund created under the Indenture.

*Substitute Letter of Credit* means a Substitute Letter of Credit issued to the Trustee for the account of the Institution in conformance with the requirements of the Indenture.

*Trustee* means the trustee at the time serving as such under the Indenture.

*Trust Estate* means the interest of the Authority in the Loan Agreements and Notes assigned under the Indenture; the revenues, moneys, investments, contract rights, general intangibles and instruments and proceeds and products and accessions thereof in the Indenture; and additional property held by the Trustee pursuant to the Indenture, including the interest of the Trustee as beneficiary of the Letters of Credit issued for the account of certain Participating Institutions.

**Municipal Bond  
Insurance Policy**

Issuer:

Policy Number:

Bonds:

Premium:

**AMERICAN MUNICIPAL BOND ASSURANCE CORPORATION  
(AMBAC)**

A Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

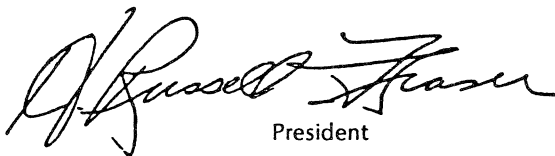
AMBAC will make such payments to the Insurance Trustee within 5 days following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholder's rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all of the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. "Due for payment" when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any redemption, prepayment or acceleration premium which at any time may become due in respect of any Bond, nor against risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.

  
President



  
Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer

