

**NEW ISSUE
BOOK ENTRY ONLY**

**UNRATED
SERIES 2003A BONDS BANK QUALIFIED**

In the opinion of McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, Bond Counsel, under existing laws, regulations, rulings and decisions, except as described under the heading "TAX EXEMPTION" herein, as of their date of issuance, interest on the Series 2003A Bonds is not includable in gross income of the owners thereof for federal income tax purposes or, to the same extent, in taxable net income of individuals, estates and trusts for State of Minnesota income tax purposes, and is not includable in the computation of the alternative minimum tax imposed on individuals under the Internal Revenue Code of 1986, as amended (the "Code") and on individuals, trusts and estates for Minnesota alternative minimum income tax purposes. However, interest on the Bonds is includable in the calculation of certain federal and Minnesota taxes imposed on corporations. The Series 2003A Bonds will be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code. Interest on the Series 2003B Bonds is includable in federal and Minnesota income taxation. See "TAX EXEMPTION" in this Official Statement.

\$6,120,000

**City of Worthington, Minnesota
Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003A**

\$135,000

**City of Worthington, Minnesota
Taxable Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003B**

Dated: Date of Issuance

**Due Date: December 1, as shown on inside front cover
Mandatory Tender Date (Series 2003A Bonds): December 1, 2008**

THE ABOVE-REFERENCED OBLIGATIONS (THE "BONDS") AND THE INTEREST THEREON ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY OF WORTHINGTON, MINNESOTA (THE "CITY") AND ARE NOT A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY, THE COUNTY OF NOBLES, THE STATE OF MINNESOTA, OR ANY POLITICAL SUBDIVISION THEREOF. The Bonds will be issued pursuant to and are secured by an Indenture of Trust, dated as of December 1, 2003 (the "Indenture"), between the City and U.S. Bank National Association (the "Trustee"). The Bonds will mature on December 1 in the years, in the principal amounts, and will bear interest at the rates per annum as set forth on the inside front cover page of this Official Statement. The Bonds are payable from and secured by a pledge of payments to be received by the City pursuant to the terms of (i) a Loan Agreement, dated as of December 1, 2003 (the "Loan Agreement"), between the City and Meadows of Worthington, LLC, a Minnesota limited liability company (the "Borrower"), the sole member of which is Maplewood Senior Housing, Inc., a Minnesota nonprofit corporation (the "Sole Member"), and (ii) a Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents, dated as of December 1, 2003 (the "Mortgage"), from the Borrower to the City and subsequently assigned by the City to the Trustee. Payment of the principal and purchase price of, premium, if any, and interest on the Bonds has been guaranteed by



Board of Social Ministry

A century of service to older adults

(the "Guarantor") pursuant to the terms of a Guaranty, dated as of December 1, 2003, from the Guarantor to the Trustee.

Proceeds derived from the sale of the Bonds will be used for: (i) the acquisition of a 66-unit independent senior housing and assisted living facility (the "Facility" or the "Project") located in the City; and (ii) paying the costs of issuance for the Bonds. Purchase of the Bonds involves certain risks including, among others, those described under "RISK FACTORS." Prospective purchasers of the Bonds are urged to carefully review the risks set forth therein.

The Bonds will be issued as fully registered bonds. The Bonds will be initially registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York ("DTC"), to which all principal, premium, if any, and interest payments will be made. Individual purchases of interests in the Bonds will be made only in book-entry form (as described herein) in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such book entry interests in the Bonds will not receive physical delivery of bond certificates. See "THE BONDS — Book Entry System." The Bonds will be issued in fully registered form in the denomination of \$5,000 or any whole multiple thereof of single maturities. The Bonds are payable as to interest on June 1 and December 1, commencing June 1, 2004, by check or draft of the Trustee as Paying Agent, mailed to the registered owners thereof as such appear on the bond register as of the applicable Record Date; provided however, that, upon written request of a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds, interest will be paid by wire transfer to an account of the registered owner specified in such written request. The Bonds are subject to redemption and prepayment upon the terms and conditions described under "THE BONDS" in this Official Statement.

THIS OFFICIAL STATEMENT DESCRIBES THE TERMS OF THE SERIES 2003B BONDS UNTIL MATURITY AND THE TERMS OF THE SERIES 2003A BONDS UNTIL THE MANDATORY TENDER DATE (DECEMBER 1, 2008) AND MAY NOT BE RELIED UPON FOR THE TERMS OF THE SERIES 2003A BONDS AFTER SUCH MANDATORY TENDER DATE.

The Bonds are being offered hereby subject to prior sale, when, as and if issued by the City and accepted by Oppenheimer & Co. Inc. (the "Underwriter"), subject to an opinion as to validity, the tax exemption of interest on the Series 2003A Bonds and certain other matters by McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, Bond Counsel and counsel to the Borrower, the Sole Member and the Guarantor, and the approval of certain matters by Kennedy & Graven, Chartered, counsel to the Underwriter, and certain other conditions. Certain legal matters will be passed upon for the City by its counsel Dorsey & Whitney LLP. It is currently expected that the delivery of the Bonds will be made through the facilities of DTC on or about December 31, 2003. The Underwriter intends to engage in secondary market trading in the Bonds subject to applicable securities laws. The Underwriter is not obligated, however, to repurchase any of the Bonds at the request of any holder thereof. For information with respect to the Underwriter, see "UNDERWRITING" in this Official Statement.

OPPENHEIMER

The date of this Official Statement is December 23, 2003.

MATURITY SCHEDULES

\$6,120,000

**City of Worthington, Minnesota
Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003A**

\$6,120,000 4.50% Series 2003A Term Bonds Due December 1, 2033*

(subject to mandatory purchase on the Mandatory Tender Date (December 1, 2008))

Original Offering Price of Series 2003A Bonds: 100.00%

CUSIP: 982005AA8

\$135,000

**City of Worthington, Minnesota
Taxable Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003B**

\$135,000 6.00% Series 2003B Term Bonds Due December 1, 2006*

Original Offering Price of Series 2003B Bonds: 100.00%

CUSIP: 982005AB6

**Final Maturity.*

This Official Statement is submitted in connection with the sale of securities as referred to herein, and may not be reproduced or used, in whole or in part, for any other purpose. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to its date.

No dealer, broker, salesman or any other person has been authorized by the City, the Borrower, the Sole Member, the Guarantor, or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the securities offered hereby in any state to any person to whom it is unlawful to make such offer, solicitation or sale in such state. Except where otherwise indicated, this Official Statement speaks as of the date hereof. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City, the Borrower, the Sole Member, the Guarantor or the condition or operations of the Facility since the date hereof.

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

THESE SECURITIES 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 STATES IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SECURITIES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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SUMMARY STATEMENT

This Summary Statement is subject to more complete information contained in this Official Statement. The offering of the Bonds to prospective purchasers is made by means of the entire Official Statement, and no person is authorized to detach this Summary Statement from the entire Official Statement or to otherwise use it without the entire Official Statement. This Official Statement is deemed to be a final official statement within the meaning of Rule 15c2-12 of the Securities and Exchange Commission. This Official Statement speaks only as of its day, and the information herein is subject to change. Undefined capitalized terms used below are defined in APPENDIX D hereto or elsewhere in this Official Statement.

The Bonds Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003A (the "Series 2003A Bonds"), in the original aggregate principal amount of \$6,120,000 and the Taxable Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003B (the "Series 2003B Bonds"), in the original aggregate principal amount of \$135,000 to be issued by the City of Worthington, Minnesota, a home rule charter city and a political subdivision of the State of Minnesota (the "City"), pursuant to an Indenture of Trust, dated as of December 1, 2003 (the "Indenture"), between the City and U.S. Bank National Association (the "Trustee") (the Series 2003A Bonds and the Series 2003B Bonds are hereinafter referred to collectively as the "Bonds" or the "Series 2003 Bonds"). See "THE BONDS" in this Official Statement.

City The City is a home rule charter city and a political subdivision of the State of Minnesota, and is authorized by its charter and Minnesota Statutes, Chapter 462C, as amended (the "Act"), to issue the Bonds. See "THE CITY" in this Official Statement.

Use of Proceeds The City will loan the proceeds derived from the Bonds to Meadows of Worthington, LLC, a Minnesota limited liability company (the "Borrower"), and will be used by the Borrower to (i) finance the acquisition of a 66-unit independent senior housing and assisted living facility (the "Facility" or the "Project") located in the City, and (ii) pay the costs of issuance for the Bonds.

The Borrower The Borrower is a Minnesota limited liability company. The sole member of the Borrower is Maplewood Senior Housing, Inc., a Minnesota nonprofit corporation (the "Sole Member"). See "THE BORROWER" in this Official Statement.

The Sole Member The Sole Member was incorporated on February 21, 2003. The Sole Member is a 501(c)(3) organization as a result of its status as a social ministry organization affiliated with the Evangelical Lutheran Church in America (the "ELCA"). See "THE SOLE MEMBER" in this Official Statement.

The Manager BSM Services, Inc., a Minnesota corporation (the "Manager"), will manage the Facility (as defined below) pursuant to a management contract between the Manager and the Borrower. The Manager is engaged primarily in the business of managing senior healthcare and housing facilities. The Manager is wholly-owned by the Board of Social Ministry, a Minnesota nonprofit corporation (the "Guarantor"). The management agreement will comply with the safe harbors contained in Rev. Proc. 97-13. See "THE MANAGER AND THE MANAGEMENT AGREEMENT" in this Official Statement.

The Guarantor The Guarantor was formed in 1923 and is an affiliate of the Sole Member. The Guarantor is a 501(c)(3) organization as a result of its status as a social ministry organization affiliated with ELCA. The Guarantor is engaged primarily in the business of owning and operating health care facilities and independent and assisted living rental apartments that provide skilled nursing, convalescent and rehabilitative care services to elderly persons. See "APPENDIX A" to this Official Statement. The Guarantor will guaranty the payment of principal and purchase price of, premium, if any, and interest on the Bonds pursuant to the terms of a

Guaranty, dated as of December 1, 2003, from the Guarantor to the Trustee. See APPENDIX A to this Official Statement.

The Facility The acquisition of a 66-unit independent senior housing and assisted-living facility located in the City of Worthington, Minnesota. See "THE PROJECT" in this Official Statement.

Form The Bonds will be registered under a book entry system in the name of the Depository Trust Company ("DTC") or its nominees. The Bonds will be issued in the denomination of \$5,000 and whole multiples thereof.

Payment Interest accrues on the Series 2003A Bonds at the rates set forth on the inside front cover page hereof and is scheduled to be paid on June 1 and December 1 of each year, commencing June 1, 2004 until the Mandatory Tender Date for the Series 2003A Bonds and after the Mandatory Tender Date interest accrues on the Series 2003A Bonds at the rates determined at the time of remarketing the Series 2003A Bonds. Interest accrues on the Series 2003B Bonds at the rate set forth on the inside front cover page hereof and is scheduled to be paid on June 1 and December 1 of each year, commencing June 1, 2004 until final maturity for the Series 2003B Bonds, December 1, 2006. Interest on the Bonds shall be paid by check or draft of the Trustee mailed to the persons who were the registered owners of Bonds as of the applicable Record Date; provided, however, that upon written request of a Holder of \$1,000,000 or more in aggregate principal amount of Bonds, interest will be paid by wire transfer to an account of the Holder specified in such written request. Principal and premium, if any, will be payable at the principal corporate trust office of the Trustee. See "THE BONDS" in this Official Statement.

Optional Redemption The Series 2003A Bonds maturing on December 1, 2033 are subject to optional redemption, in whole or in part, by the Borrower on December 1, 2006 or any Business Day thereafter, at a redemption price equal to the principal amount of the Series 2003A Bonds to be redeemed plus accrued interest to the redemption date and, on certain dates, a premium. The Bonds are also subject to optional redemption at the principal amount, without any premium, plus accrued interest upon the occurrence of certain events of damage, destruction or condemnation. The Series 2003B Bonds are not subject to optional redemption at the option of the Borrower. See "THE BONDS – Redemption of the Bonds Prior to Maturity" in this Official Statement.

Mandatory Purchase of Series 2003A Bonds The Series 2003A Bonds are subject to mandatory tender on December 1, 2008 (the "Mandatory Tender Date"), and on such date, the Series 2003A Bondholders are required to tender and the Borrower is required to purchase, all of the Series 2003A Bonds, at a purchase price equal to par plus accrued interest, if any. See "THE BONDS-Mandatory Purchase of Series 2003A Bonds." The Series 2003A Bondholders will receive from the Trustee, at least 30 days before the Mandatory Tender Date, notice of the mandatory purchase and the required tender of their Series 2003A Bonds for purchase by the Borrower. On the Mandatory Tender Date, Oppenheimer & Co. Inc. (the "Remarketing Agent") will remarket the Series 2003A Bonds on behalf of the Borrower.

Mandatory Redemption The Bonds are subject to mandatory redemption in the event of a Determination of Taxability, in whole, at a redemption price equal to the sum of the principal amount of the Bonds plus accrued interest on the Bonds plus, if the Determination of Taxability is the fault of the Borrower or the Sole Member, a three percent (3%) redemption premium on the outstanding principal amount of the Series 2003A Bonds. See "THE BONDS" in this Official Statement.

Acceleration The Bonds are subject to acceleration at the direction of the Trustee upon the occurrence of an event of default under the Loan Agreement, the Indenture, the Guaranty, or the related bond documents. See "APPENDIX D" to this Official Statement.

**Security for
the Bonds**

THE BONDS ARE NOT GENERAL OR MORAL OBLIGATIONS OF THE STATE OF MINNESOTA (THE "STATE"), THE COUNTY OF NOBLES (THE "COUNTY"), OR THE CITY AND THE TAXING POWER OF THE STATE, THE COUNTY, OR THE CITY IS NOT PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT THEREOF OR THE INTEREST OR PREMIUM, IF ANY, THEREON. THE BONDS SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE CITY. THE BONDS SHALL NOT CONSTITUTE OR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT, ASSETS, TAXING POWERS OR OTHER REVENUES OF THE STATE, THE COUNTY, OR THE CITY.

Pursuant to the Guaranty, the Guarantor has agreed, if needed, to make payments of the principal and purchase price of, premium, if any, and interest on the Bonds. Pursuant to the terms of a Loan Agreement, dated as of December 1, 2003 (the "Loan Agreement"), the City will loan the proceeds derived from the sale of the Bonds to the Borrower and the Borrower will agree to make Loan Repayments in amounts sufficient to pay the principal and purchase price of, premium, if any, and interest on, the Bonds when due. The right of the City to receive the Loan Repayments will be assigned by the City to the Trustee pursuant to the terms of the Indenture. Pursuant to a Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Rents and Leases, dated as of December 1, 2003 (the "Mortgage"), from the Borrower to the City and subsequently assigned by the City to the Trustee, the Borrower has granted to the Trustee a first mortgage lien and an assignment of rents and leases with respect to all of the Borrower's interests in the Project and a security interest to the Trustee in and to all of the Borrower's furniture, fixtures and equipment related to the Project (subject to Permitted Encumbrances), to secure payment of the Bonds. Pursuant to the Indenture, the City will pledge to the Trustee, for the benefit of the holders of the Bonds, all of its interest in the Loan Agreement (other than certain indemnification and expense reimbursement payments) to secure payment of the principal and purchase price of, premium, if any, and interest on the Bonds. ***There is no debt service reserve fund securing the Bonds.*** See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in this Official Statement.

Trustee.....U.S. Bank National Association, Saint Paul, Minnesota.

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**Pro-Forma Estimated
Annual Debt Service
Coverage of the**

Project **The following is pro-forma estimated annual debt service coverage information of the Project. Employees of the Manager have computed the pro-forma debt service coverage designated below. The debt service requirement is based upon the estimated maximum annual debt service on the Bonds until the Mandatory Tender Date.

	<u>Calendar Year Ended December 31</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Revenue	1,287,075	1,350,794	1,390,910	1,432,229	1,474,788
Total Expenses	<u>1,327,942</u>	<u>1,357,484</u>	<u>1,379,500</u>	<u>1,401,994</u>	<u>1,424,313</u>
Net Operating Income	(40,867)	(6,690)	11,410	30,235	50,475
Non Operating Income/ (Expense)	<u>9,926</u>	<u>10,224</u>	<u>10,530</u>	<u>10,846</u>	<u>11,172</u>
Net Income	(30,941)	3,534	21,940	41,081	61,647
Addback:					
Depreciation	200,000	200,000	200,000	200,000	200,000
Amortization	9,420	9,420	9,420	9,420	9,420
Interest	<u>260,663</u>	<u>283,500</u>	<u>279,600</u>	<u>275,400</u>	<u>270,224</u>
Cashflow Available for Estimated Maximum Annual Debt Service	<u>439,142</u>	<u>496,454</u>	<u>510,960</u>	<u>525,901</u>	<u>541,291</u>
Estimated Maximum Annual Debt Service	<u>390,400</u>	<u>390,400</u>	<u>390,400</u>	<u>390,400</u>	<u>390,400</u>
Pro-forma Debt Service Coverage Ratio	<u>1.125x</u>	<u>1.272x</u>	<u>1.309x</u>	<u>1.347x</u>	<u>1.387x</u>

**Based upon internal projections of the Manager. No other independent third party has verified the information listed above.

OFFICIAL STATEMENT

\$6,120,000	\$135,000
City of Worthington, Minnesota Senior Housing Revenue Bonds (Meadows of Worthington Project) Series 2003A	City of Worthington, Minnesota Taxable Senior Housing Revenue Bonds (Meadows of Worthington Project) Series 2003B

INTRODUCTORY STATEMENT

The City of Worthington, Minnesota, a home rule charter city and a political subdivision of the State of Minnesota (the "City"), will issue its (i) Senior Housing Revenue Bonds (Meadows of Worthington Project) Series 2003A (the "Series 2003A Bonds"), in the original aggregate principal amount of \$6,120,000 and its (ii) Taxable Senior Housing Revenue Bonds (Meadows of Worthington Project) Series 2003B (the "Series 2003B Bonds"), in the original aggregate principal amount of \$135,000 (the Series 2003A Bonds and the Series 2003B Bonds are hereinafter referred to collectively as the "Bonds" or the "Series 2003 Bonds"), pursuant to the terms of an Indenture of Trust, dated as of December 1, 2003 (the "Indenture"), between the City and U.S. Bank National Association, Saint Paul, Minnesota, as trustee (the "Trustee").

All capitalized terms used in this Official Statement, but not defined herein, shall have the meanings provided in APPENDIX D attached hereto unless the context clearly indicates otherwise.

Proceeds derived from the sale of the Bonds will be loaned by the City to Meadows of Worthington, LLC, a Minnesota limited liability company (the "Borrower"), the sole member of which is Maplewood Senior Housing, Inc, a Minnesota nonprofit corporation (the "Sole Member"), pursuant to the terms of a Loan Agreement, dated as of December 1, 2003 (the "Loan Agreement"). The proceeds of the Loan will be applied by the Borrower to: (i) finance the costs of acquisition of a 66-unit independent senior housing and assisted living facility (the "Facility" or the "Project") located in the City; and (ii) pay certain costs of issuance for the Bonds.

Pursuant to the terms of the Loan Agreement, the Borrower will covenant to make Loan Repayments at times and in amounts sufficient to pay the principal and purchase price of, premium, if any, and interest on the Bonds when due. The obligations of the Borrower to make the Loan Repayments will be secured by (i) payments received pursuant to the terms of the Loan Agreement, (ii) a Combination Mortgage, Security Agreement, Fixture Financing Statement, and Assignment of Rents and Leases, dated as of December 1, 2003, from the Borrower to the City and assigned by the City to the Trustee pursuant to the terms of an Assignment of Mortgage, dated as of December 1, 2003 (collectively, the "Mortgage") and, (iii) a Guaranty, dated as of December 1, 2003 (the "Guaranty"), from the Board of Social Ministry, a Minnesota nonprofit corporation (the "Guarantor") to the Trustee. Pursuant to the Mortgage, the Borrower has granted to the Trustee a first mortgage lien, subject to Permitted Encumbrances, on and an assignment of rents and leases with respect to all of the Borrower's interests in the Facility and a security interest to the Trustee in all of the Borrower's furniture, fixtures and equipment related to the Facility.

Pursuant to the terms of the Indenture, the City will pledge all of its interest in the Loan Agreement (other than certain indemnification and expense reimbursement payments) to the Trustee for the benefit of the holders of the Bonds to secure payment of the principal and purchase price of, premium, if any, and interest on the Bonds.

THE BONDS ARE NOT MORAL OR GENERAL OBLIGATION OF THE STATE OF MINNESOTA (THE "STATE"), THE COUNTY OF NOBLES, (THE "COUNTY"), OR THE CITY, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY. EXCEPT FOR THE REVENUES TO BE RECEIVED BY THE CITY UNDER THE LOAN AGREEMENT, THE CITY HAS NO OBLIGATION TO MAKE ANY OF THE PAYMENTS REQUIRED BY THE PROVISIONS OF THE BONDS, AND THERE IS NO RIGHT TO RESORT TO THE TAX REVENUES OF THE STATE, THE COUNTY, THE CITY, OR ANY OF THEIR RESPECTIVE PROPERTIES OR ASSETS, FOR PAYMENT.

The Series 2003A Bonds maturing on December 1, 2033, are subject to optional redemption, in whole or in part, at the option of the Borrower, on December 1, 2006, or any day thereafter, at a redemption price equal to the principal amount of the Series 2003A Bonds being redeemed with accrued interest to the redemption date and, on certain dates, a premium. The Bonds are also subject to redemption under certain other conditions as described under "THE BONDS" in this Official Statement.

The Series 2003A Bonds are subject to mandatory tender on December 1, 2008 (the "Mandatory Tender Date"), and on such date, the Series 2003A Bondholders are required to tender and the Borrower is required to purchase, all of the Series 2003A Bonds, at a purchase price equal to par plus accrued interest, if any. See "THE BONDS-Mandatory Purchase of Series 2003A Bonds" in this Official Statement. The Series 2003A Bondholders will receive from the Trustee, at least 30 days before the Mandatory Tender Date, notice of the mandatory purchase and the required tender of their Series 2003A Bonds for purchase by the Borrower. On the Mandatory Tender Date, Oppenheimer & Co. Inc., as remarketing agent (the "Remarketing Agent"), will remarket the Series 2003A Bonds on behalf of the Borrower at a price equal to par.

Prior to the date of issuance of the Bonds specified on the cover page of this Official Statement, the Borrower, the Guarantor, and the Trustee will enter into a Continuing Disclosure Agreement, dated as of December 1, 2003 (the "Continuing Disclosure Agreement"), for the benefit of the holders of the Bonds under which the Borrower and the Guarantor are required to deliver certain information and notices of the occurrence of certain specified events to national information repositories or to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Rule"). See "CONTINUING DISCLOSURE" in this Official Statement.

The Indenture, the Loan Agreement, the Mortgage, the Guaranty, and the Continuing Disclosure Agreement will be executed and delivered by the parties thereto on or prior to the date of issuance of the Bonds.

This Official Statement contains brief descriptions of the Bonds under the heading "THE BONDS." APPENDIX D to this Official Statement contains brief descriptions of the Loan Agreement, the Indenture, the Guaranty, and the Mortgage. Such descriptions do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each specific document. Copies of such documents are available from Oppenheimer & Co. Inc. (the "Underwriter") and the Trustee during the period of the offering of the Bonds.

The information contained in this Official Statement and the appendices hereto has been provided by the Borrower, the Guarantor, BSM Services, Inc., a Minnesota corporation (the "Manager"), the Sole Member, and other sources which are believed to be reliable. The Underwriter has reviewed the information in this Official Statement in compliance with its responsibilities under the Federal Securities Laws as applied to the facts and circumstances of the transactions referred to in this Official Statement, but the Underwriter does not make any guarantee as to the accuracy or completeness of such information. The Appendices are an integral part of this Official Statement and each potential investor should review all Appendices in their entirety.

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement that are not purely historical, are forward-looking statements, including statements regarding the expectations, intentions, or strategies of the Authority regarding the future. Also, forward-looking statements include statements in which words such as "believe," "expect," "anticipate," "intend," "will," or similar expressions are used. Potential investors should not place undue reliance on forward-looking statements. All forward-looking statements are made as of the date of this Official Statement, but are necessarily based on assumptions of future events, which have been provided by the Authority. The Borrower, the Guarantor, the Sole Member, the City and the Underwriter have not assumed any obligation to update any such forward-looking statements. While the Borrower has no reason to believe that the assumptions that have been used in these forward-looking statements are not reasonable, these assumptions involve judgments with respect to, among other things, future economic, competitive, and market conditions, future business decisions, and future legal and regulatory circumstances and conditions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Borrower. As a result, actual results will undoubtedly differ, and may differ materially, from those discussed in such forward-looking statements.

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RISK FACTORS

No representation or assurance can be made that revenues will be realized by the Borrower or the Guarantor in the amounts necessary to make payments sufficient to pay the principal and purchase price of, premium, if any, and interest on the Bonds. Future economic and other conditions, including inflation, demand for independent senior housing and assisted living facilities, the ability of the Borrower to provide the services required or requested by residents of the Facility, economic development in the service area, employee relations and unionization, competition, rates, increased costs, availability of professional liability insurance, hazard losses, third-party reimbursement and changes in governmental regulation may adversely affect revenues and, consequently, payment of the principal and purchase price of and interest and premium, if any, on the Bonds. Certain of the factors that could affect the Bonds and the future financial condition of the Borrower or the Guarantor are detailed below.

General Risk Factors

Limited Payment Sources The Bonds are not general or moral obligations of the City and are not payable from the general funds or other assets of the City. The Bonds are special, limited obligations of the City secured solely by the pledge of loan repayments to be received pursuant to the terms of the Indenture, the Loan Agreement and the Guaranty. If amounts received pursuant to the Indenture, the Loan Agreement, and the Guaranty are insufficient to pay the scheduled principal and interest due on the Bonds, the City is not required to use other revenues or sources of funds to pay the principal and purchase price of or interest on the Bonds.

The Borrower has no significant assets other than the Facility and the revenues derived therefrom. If the Facility does not generate sufficient revenues from its operations, it is unlikely the Borrower will have other resources to make payments under the Loan Agreement necessary to pay in full all principal and purchase price of, premium, if any, and interest on the Bonds when due. In such a situation, the ability of the Holders of the Bonds to receive payments will depend largely, but not solely, upon the financial ability of the Guarantor to make such payments. The ability of the Borrower to make Loan Repayments will therefore depend on the ability of the Borrower to maintain sufficient tenant occupancy in the Facility and to charge and collect sufficient rents and other charges. See "Risk Factors Relating to Guarantor."

Additional Debt; Dilution The Indenture permits the issuance of Additional Bonds with the same security as the Bonds and also permits the incurrence of other indebtedness and guarantees of indebtedness by the Borrower and the Guarantor. See "APPENDIX D – SUMMARIES OF PRINCIPAL DOCUMENTS – The Indenture." The incurrence of additional indebtedness and guarantees would increase debt service requirements and could materially and adversely affect debt service coverage on the Bonds. Certain amendments to the Indenture and the Loan Agreement may be made with the consent of the holders of a majority in principal amount of the outstanding Bonds.

No Market or Feasibility Study Neither the Borrower nor the Guarantor commissioned and does not plan to commission a market or feasibility study for the Project. The City is not under any duty to conduct a feasibility study for the Project and has no plans to do so. The ultimate success of the Facility and the future sufficiency of revenues to timely pay all debt on the Bonds are dependent on the existence of adequate tenant demand for units in the Facility at anticipated rental rates. The ability of the Borrower and the Manager, to maintain current occupancy rates at the Facility is critical to the ability of the Borrower to make payments of debt service on the Bonds. There cannot be any assurance that the internal projections of the Borrower regarding the demand for the Facility will be accurate.

No Appraisal. In connection with the Borrower's purchase of the Facility and the issuance of the Bonds, the Borrower has not obtained any appraisals of the Facility which reflects the current fair market value of the Facility. If an Event of Default occurred under the bond documents, there can be no assurance that such security would be sufficient to pay the principal and purchase price of, premium, if any, and interest on the Bonds.

No Debt Service Reserve Fund for the Bonds The Bonds will not be secured by a debt service reserve fund, but, rather, will be secured by the Guarantor's guaranty of debt service on the Bonds. The lack of a debt service reserve fund could affect the ability of the Borrower to make payments of debt service on the Bonds should revenues derived from the Facility be insufficient to make such payments and the Guarantor is not able to make the payments required under the terms of the Guaranty.

Lack of Operating Experience. The Borrower was incorporated in 2003 and has no experience in the ownership and operation of independent senior housing and assisted living facilities such as the Facility. See "THE BORROWER" in this Official Statement.

No Rating The Bonds have not been rated by any nationally recognized rating agency. The lack of a rating could affect the marketability of the Bonds and the purchase price of the Bonds in the event a Bondholder desires to sell any of the Bonds.

Source of Repayment upon Mandatory Tender Date Other than the guaranty by the Guarantor, no source of funds is presently available for the payment of the purchase price of the Series 2003A Bonds upon the Mandatory Tender Date. The ability of the Borrower and the Guarantor to pay the purchase price of the Bonds upon the Mandatory Tender thereof depends upon the ability of the Borrower to either refinance the Series 2003A Bonds at that time or to remarket the Series 2003A Bonds at a price equal to par. The ability of the Borrower to obtain refinancing of the Project, or to remarket the Series 2003A Bonds, could be adversely affected based on a number of factors that can not be known at this time, including but not limited to: adverse regulatory changes affecting Facility operations, regulatory changes disallowing tax exempt financing of the Project, adverse market conditions, a change in Facility revenues or expenses, and other factors that cannot be known with certainty at this time.

If such refinancing is not possible, or the remarketing of the Series 2003A Bonds does not result in proceeds equal to the par amount of the Series 2003A Bonds, and neither the Borrower nor the Guarantor has sufficient other funds for repayment of the Series 2003A Bonds, a default will occur on the Series 2003A Bonds, in which case the Trustee has the right to accelerate payment of the Series 2003A Bonds and exercise its rights and remedies under the Indenture, the Loan Agreement, the Guaranty, and the Mortgage, including foreclosing the Mortgage.

Borrower and Guarantor Tax Exemptions No assurance can be given that the Borrower or the Guarantor will maintain their tax-exempt status in the future as a result of new legislation or future operations. The Borrower's operations or the Guarantor's operations could be materially and adversely affected and the tax-exempt status of the Series 2003A Bonds could be jeopardized if either the Sole Member or the Guarantor loses their respective exemption from federal income taxation. In the Loan Agreement, the Borrower agrees to maintain its status as a Minnesota nonprofit corporation and as an organization exempt from Federal income taxation pursuant to Section 501(a) of the Code as a result of the application of Section 501(c)(3) of the Code. In the Guaranty, the Guarantor agrees to maintain its status as a Minnesota nonprofit corporation and as an organization exempt from Federal income taxation pursuant to Section 501(a) of the Code as a result of the application of Section 501(c)(3) of the Code.

Environmental Assessment A Phase One Environmental Site Assessment, dated December 18, 2003 (the "Phase I Report"), in connection with the Facility was prepared by SEH. The Phase I Report indicates that there is no evidence of any recognized environmental condition for the Facility being acquired by the Borrower. SEH has indicated to the Borrower that it does not believe that additional investigation will be needed beyond the Phase I Report.

Based upon discussions with representatives of SEH, management of the Borrower believes that the Borrower will be in material compliance with applicable environmental laws for the Facility. Even though the Phase I Report does not show any evidence of recognized environmental conditions for the Facility, owners of real estate may, in the future, be adversely affected by legislative, regulatory, administrative and enforcement actions involving environmental controls.

Competition The Facility faces competition from other existing nursing facilities, residential care and rental facilities, and may face additional competition in the future if and when there occurs the construction of new, or the renovation of existing facilities. No assurances can be given that occupancy or rates at the Facility will not be adversely affected by such competition.

Income Restrictions In order to purchase the Facility and for the interest on the Series 2003A Bonds to be excludable from gross income for federal income tax purposes, the Borrower is required to lease at least 20% of the independent senior housing units (but not the assisted living units) in the Facility to tenants whose incomes do not exceed 50% of the median gross income for the Worthington area, adjusted for family size. These limitations on tenant incomes may in the future limit the revenues which can be generated by the Facility, which must be sufficient to pay operating costs of the Facility and to pay principal and purchase price of, premium, if any, and interest on the Bonds. In the event that revenues of the Facility are not sufficient to pay operating costs of the Facility and to pay principal and purchase price of, premium, if any, and interest on the Bonds, the Guarantor will be required to make such payments under the terms of the Guaranty, but the Borrower would be in default under the Loan Agreement, and such default could result in an acceleration of the payments required on the Bonds.

Management The economic feasibility of the Facility depends to a large extent on actual operating expenses approximating anticipated operating expenses, and no assurances can currently be given as to the actual operating expenses of the Facility. Furthermore, should management of the Facility or the operations of the Borrower in the future prove to be inefficient, increases in operating expenses might exceed increases in revenues derived from the Facility. The operations of the Guarantor could, in the future, prove to be inefficient and increases in operating expenses might exceed increases in revenues derived from the Guarantor's facilities and affect the ability of the Guarantor to make payments under the terms of the Guaranty.

Tax-Exempt Status of the Series 2003A Bonds Failure to comply with certain legal requirements under federal law may cause interest on the Series 2003A Bonds to become subject to federal income taxation retroactive to the date of issuance. Furthermore, it is possible that future federal tax legislation could require that interest on the Series 2003A Bonds be included in the gross income of Bondholders for federal income tax purposes or that such interest become an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals. Any such legislation could adversely affect the marketability and market price of the Series 2003A Bonds. The Indenture provides for the redemption of the Bonds in the event of a Determination of Taxability. See "THE BONDS-Mandatory Redemption -Taxability" and "TAX EXEMPTION" in this Official Statement.

Risk of Early Call There are a number of circumstances under which all or a portion of the Bonds may be redeemed prior to their stated maturity. See "THE BONDS - Redemption of the Bonds Prior to Maturity" in this Official Statement.

Real Estate Taxes The Borrower will be paying real estate taxes on the Facility. Increases in the rate of property taxes on the Facility would have an adverse impact on the operating costs of the Borrower.

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

Certain Matters Relating to the Security Interest in Pledged Revenues The effectiveness of the security interest in revenues pledged to the payment of the Bonds pursuant to the Mortgage may be limited by a number of factors, including: (i) statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) constructive trusts, equitable or other rights impressed conferred or otherwise imposed by a federal or state court in the exercise of its equitable jurisdiction; (iv) federal bankruptcy laws which may affect the enforceability of the security interest in the pledged revenues of the Borrower which are earned within ninety (90) days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against the Borrower; (v) rights of third parties in pledged revenues converted to cash and not in the possession of the Trustee; and (vi) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Uniform Commercial Code as adopted in the State of Minnesota and as from time to time in effect.

Effect of Bankruptcy on Security for the Bonds Bankruptcy proceedings and equitable principles may delay or otherwise adversely affect the enforcement of Bondholders' rights in collateral granted as security for the Bonds. Furthermore, in the event the value of the collateral pledged as security for the Bonds is insufficient to pay in full the principal and purchase price of, and interest on, the Bonds, bankruptcy proceedings and other equitable principals may also limit the ability of the Trustee to seek payment from other property or assets of the Borrower, if any. See "ENFORCEABILITY OF OBLIGATIONS" in this Official Statement.

Under certain circumstances, federal bankruptcy law permits adoption of a plan of reorganization despite the fact that such plan has not been accepted by the Holders of a majority in aggregate principal amount of the Bonds, provided the Bondholders are afforded the benefit of their original lien or its "indubitable equivalent." Moreover, provisions contained in the Loan Agreement, the Indenture, the Guaranty, or the Mortgage that designate bankruptcy or insolvency as an event of default may not be enforceable in a bankruptcy proceeding involving the Borrower or the Guarantor.

Risk of Insufficient Collateral The Bonds will be secured by the mortgage lien and an assignment of rents and leases on the Facility and a security interest in all of the Borrower's furniture, fixtures and equipment related to the Facility granted to the Trustee pursuant to the Mortgage. If an Event of Default occurs, and the Guarantor cannot fulfill the terms of the Guaranty, there can be no assurance that such security would be sufficient to pay the principal, interest and premium, if any, on the Bonds.

Lack of Secondary Market Although the Underwriter intend to engage in secondary market trading of the Bonds (subject to applicable state securities laws), the Underwriter is not obligated to repurchase any of the Bonds at the request of the holders thereof and cannot assure that there will be a continuing secondary market in these Bonds. In addition, adverse developments may have an unfavorable effect upon the bid and asked prices for the Bonds in any secondary market.

Risk Factors Relating to the Guarantor

Financial Statements of the Guarantor. The Guarantor is not required to maintain any minimum net worth or otherwise comply with any financial covenants. Accordingly, the ability of the Guarantor to make payments of debt service on the Bonds may be materially different in the future. Attached to this Official Statement as APPENDIX B are the audited financial statements of the Guarantor for the years ended December 31, 2002 and 2001. The unaudited consolidated financial statements of the Guarantor for the periods ended September 30, 2003 and 2002 are attached to this Official Statement as APPENDIX C.

Government Regulation and Reimbursement

Generally. Facilities such as many of those owned or operated by the Guarantor are subject to extensive governmental regulation through state licensing requirements and, in the case of facilities such as those owned by the Guarantor, complex laws and regulations imposed at the federal and state level for facilities to remain licensed and certified to receive payments under the Medicaid and Medicare programs. The Minnesota Department of Health ("MDH") renews nursing home licenses annually and makes periodic inspections to determine compliance with licensure and certification requirements. Continuing licensure to provide nursing care is essential to the operation of the Guarantor's facilities. Further, revenues of the Guarantor are significantly dependent on payments under the Medicaid and Medicare programs such that a loss of licensure for participation in the Medicaid or Medicare program or an elimination of or a material reduction in the availability of Medicaid or Medicare payments would materially adversely affect the operations and financial condition of the Guarantor. See APPENDICES A AND B.

Medicaid. Medicaid is a government assistance program established under Title XIX of the Federal Social Security Act and is administered by state governments. One part of the Medicaid program provides payments, within certain limits, for nursing care, room and board, drugs, certain therapeutic and other services for persons who have depleted their own financial resources and are unable to provide for their own medical and living expenses. A majority of the revenues of facilities owned by the Guarantor are derived in significant part from such payments. Medicaid requires that each state pays facilities pursuant to payment rate systems established by each state and identified in the Medicaid plan of each state. Those payment systems may be implemented only after the state provides public notice of its methodologies and justifications and affords providers, beneficiaries and other interested parties a reasonable opportunity to comment on any proposed rates, methodologies and justifications. Furthermore, payments must be sufficient to enlist enough providers so that Medicaid services are available to recipients at least to the same extent that comparable services are available to the general population. Providers must also accept Medicaid payment as payment in full as a condition of participation in the Medicaid program.

Within certain federal limitations, each state participating in the Medicaid program can establish eligibility for participation and the method of determining the amount of payments to health care providers. Currently, Guarantor's nursing facilities are paid for Medicaid eligible nursing facility services under one of two existing payment systems commonly referred to as "Rule 50" and the "Alternative Payment System or APS". Currently, only one of Guarantor's nursing facilities, Bethany of Litchfield, is reimbursed under Rule 50. See APPENDIX A. Presently, Minnesota generally requires nursing facilities participating in the Medicaid program to charge private paying residents only the applicable Medicaid rate. For some facilities, an exception from the foregoing exists for private pay residents in single-bed rooms. Guarantor's nursing facilities have a significant number of Medicaid eligible residents and expect to continue participating in the Medicaid program in the future.

The State of Minnesota is expected to pay monthly payments for Medicaid patients upon billing from each facility, but from time to time payments have been known to be delayed or reduced for various reasons. From time to time, Medicaid payments to the Guarantor's nursing facilities may be subject to state audit that may result in retroactive adjustment of the payments received from the state to create liabilities which could adversely affect the Guarantor's cash flow and, in the extreme, the ability of the Guarantor to make timely payments with respect to debt service on the Bonds. See APPENDIX A. Once under the Alternative Payment System or under a modified version of Rule 50 no longer establishing rates based on cost reports, a facility's subsequent cost reports are not subject to field audit for cost years after the period used to establish the facility's base rate year. The Guarantor's nursing facilities' costs for that final cost year have been subject to such an audit with no significant reduction in rates resulting from the audit. The discussions and descriptions of financial performance of Guarantor herein are based on the Guarantor's nursing facilities' reimbursement under the currently applicable version of Rule 50 or the Alternative Payment System. If the Guarantor's nursing facilities are not reimbursed under such systems, or if the systems are altered or a new system is developed, there can be no assurances that the financial performance will not be materially and adversely affected.

The State of Minnesota is among those states having the highest proportion of nursing facility residents and Medicaid nursing home beds, and in the recent past, various proposals and studies have been directed to controlling future increases in or reducing existing levels of state funding for the Medicaid program, including an emphasis on encouraging care to be provided outside of nursing facilities, especially for the lower case-mix levels (i.e., those needing the least amount of care).

**STATE OF MINNESOTA LAWS, REGULATIONS, AND INTERPRETATIONS THEREOF
GOVERNING MEDICAID PAYMENTS CHANGE FROM TIME TO TIME. THE EFFECT OF ANY
FUTURE CHANGES CANNOT BE PREDICTED WITH ANY CERTAINTY, BUT SUCH CHANGES
COULD MATERIALLY ADVERSELY AFFECT THE FINANCIAL CONDITION OF GUARANTOR.**

Medicare. Under Minnesota law, facilities receiving Medicaid payments must also be certified for the Medicare program (Title XVIII of the Federal Social Security Act). Medicare is funded directly by the federal government and is administered by Centers for Medicare and Medicaid Services ("CMS") through fiscal intermediaries. Medicare coverage provides for nursing home care for up to 100 days following the discharge of a patient after a qualifying hospital stay. The nursing facility is then permitted to charge interim rates for services, subject to year-end adjustment based upon the actual average cost of services provided.

The Balanced Budget Act of 1997 provided for consolidation of payments to various entities providing goods or services to residents of nursing facilities under Medicare and to accomplish that objective established a prospective payment system ("PPS"), to begin with cost report periods starting on or after July 1, 1998. This system aggregated various payments previously made to variety of providers, discounted such amounts, made payment of the discounted inclusive rate payable to the nursing facilities, and placed the burden of billing for such amounts on the nursing facilities. As a result the burden, risk and potential opportunity of arranging for and negotiating rates for such services from other providers also was given to the nursing facilities. In order to provide for a phased transition to the new, more inclusive PPS rate, a facility-specific rate and a federal rate was determined by establishing a base payment amount (the "Base"), based on allowable costs for services from fiscal year 1995. During the phase-in period, nursing facility rates were determined by a weighted "blend" of the facility-specific rate and the federal rate of (i) for the first fiscal year, 75% facility-specific rate and 25% federal rate, (ii) for the second fiscal year, 50% of each of the facility-specific rate and the federal rate, and (iii) for the third fiscal year, 25% facility-specific rate and 75% federal rate. For each fiscal year after the three-year phase-in period, the PPS rate is to be based 100% on the federal rate and will be updated for subsequent fiscal years by the rate

of inflation. In addition, Medicare payments for post-hospital extended care in skilled nursing facilities will be based on the level of care required for each resident under a national, uniform resident assessment system required under federal law for all skilled nursing facilities. Under federal law, a general rate reduction of approximately 10% was implemented effective October 1, 2002 for Medicare's payments to nursing facility care. Impact on the Guarantor's nursing facilities from such rate reductions are estimated to be approximately \$1,000,000 for the Company's fiscal year ending September 30, 2003. Subsequent increases in rates, commencing October 2003, are projected by Guarantor to restore approximately \$600,000 of that amount. There can be no assurances of the effect, if any, continued implementation of, or future changes in, the Medicare PPS system will have on the net revenues of the Company.

Managed Care Plans. Nursing facilities such as many of those operated by the Guarantor are facing a health care environment that is becoming increasingly dominated by the development of risk based managed care plans. The necessity for nursing facilities to contract with managed care plans is increasing not only for privately insured residents, but also for certain Medicare beneficiaries. There can be no assurance that the Guarantor will be able to enter into satisfactory contracts with such managed care plans or that the revenues generated for the Guarantor by any managed care plans with which the Borrower may enter into contracts will be sufficient to meet the Guarantor's actual operating costs.

Changes in Law-Recent Legislation. Licensing and certification requirements are subject to change, and there can be no assurance that the Guarantor's nursing facilities will be able to maintain all necessary licenses or certifications or that they will not incur substantial costs in doing so. Both federal and state regulation relating to health care and the payment thereof have been subject to change in the past, and future change can be expected, the effect of which may materially adversely affect the operations and financial condition of the Guarantor. In attempts to limit federal and state expenditures, there have been, and the Borrower expects that there will continue to be, a number of proposals to limit Medicaid and Medicare payments, including those for care provided by nursing facilities. Although these cutbacks may affect nursing facilities, at this time, the effect of such reductions on nursing facilities has not been determined. In addition, changes have been made, and are expected to continue, in Medicare reimbursement under the prospective payment system ("PPS"), as further detailed above.

In 2001, changes in Minnesota law authorized nursing facilities (Rule 50 and APS) to charge Medicaid and private paying residents an additional 20% over the otherwise applicable rate for their case mix level for the first 30 days after admission, and a reduced add-on of 10% over the otherwise applicable rate for the next 60 days. In 2003, changes in Minnesota law eliminated the 10% increase period while retaining the additional 20% for the first 30 days with some minor technical revisions. In 2003, changes in Minnesota law also reduced payment for leave days and increased the state surcharge on licensed beds by approximately \$5.56 per bed. In 2003, changes in Minnesota law provided no inflation adjustment for facilities under Rule 50 and an inflation adjustment applicable only to the property-related rate of the facilities in APS. In recent years, a certain portion of the annual increase allowed for all nursing facilities (Rule 50 and APS), was limited to use for staff compensation and conditioned upon DHS approval of the compensation plan proposed by each facility. This has led to some delays in implementation of annual rate increases pending receipt of approval of such plans and provision of proper notice. In 2003, changes in Minnesota law authorized nursing facilities to initiate rate increases on an expedited basis if the State does not notify the facilities of their final rate in a timely manner. Facilities are required to refund any excess charges calculated from the final rate notice upon its receipt from DHS.

In 1998, the Minnesota legislature enacted a law requiring the commissioner of DHS to implement a performance-based contracting system to replace the current method of setting operating cost payment rates under the cost based system and the Alternative Payment System. This legislation, as amended in 1999, required the new system to be implemented effective July 1, 2001. Periodic amendments in subsequent years have resulted in current law that requires only that DHS develop and

report to the legislature on a new system of reimbursement for nursing facilities by January 15, 2004. There can be no assurance or certainty if or when any such performance-based contract system will be enacted and implemented. Nor can there be any degree of certainty as to the effect of any new system on the Company's financial condition as compared with the effect of reimbursement under the currently applicable Rule 50 or Alternative Payment System.

Dependence on Medicaid. The Guarantor's percentage of revenues derived from Medicaid payments for recent fiscal years was as follows: 57.35% in 2002, 59.7% in 2001, 67.8% in 2000, 66.3% in 1999, and 66.0% in 1998. Medicaid payment rates are established under the Minnesota Medical Assistance Program ("MA"). Each state currently funds a substantial portion of Medicaid payments and exercise considerable discretion in determining payments allowed to care providers. Regulations promulgated by the CMS provide that states are not required to pay for long-term care services on a cost-related basis, but may do so according to payment rate systems established by the state and identified in a state Medicaid plan. This political emphasis on budget cutting, further changes in the government and the State of Minnesota may have an adverse effect upon the revenues of the Guarantor. See APPENDIX B.

Standard Minnesota Medicaid Reimbursement. Many of the Guarantor's facilities have entered into contracts with the State of Minnesota to participate in the Alternative Payment System, but it is possible, for various reasons, that such facilities would be reimbursed in the future under Rule 50 or some other program. The State of Minnesota generally requires a facility with Medicaid residents to charge other residents the same rates paid under MA. The Minnesota legislature has discussed enacting a law to effectively replace the current reimbursement system with a new payment mechanism for nursing facilities. See above and APPENDIX A.

Anti-Kickback Laws. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a criminal felony offense (subject to certain exceptions) to knowingly or willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement may be provided under the Medicare or Medicaid programs. The arrangements prohibited under the Anti-Kickback Law can involve hospitals, physicians and other health care providers such as nursing homes. Prohibited arrangements may include joint ventures between providers, space and equipment rentals, purchases of physician practices, physician recruiting programs and management and personal services contacts. In addition to criminal penalties, violations of the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the Medicare and Medicaid programs for not less than five years. Exclusion from either of these programs would have a material adverse impact on the operations and financial condition of the Guarantor.

Management of the Guarantor believes that it is presently in material compliance with the Anti-kickback Law. However, in light of the narrowness of the statutory exception, lack of regulatory guidance and the scarcity of case law interpreting the Anti-kickback Law, there can be no assurances the Guarantor will not be found to have violated the Anti-kickback Law, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Guarantor, the financial condition of the Guarantor, or the Guarantor's status as an organization described in Section 501(c)(3) of the Code.

Restrictions on Referrals The federal Anti-Self Referral Legislation ("Stark Law") is the federal law prohibiting certain enumerated patient referrals. Specifically, the Stark Law prohibits a physician, or an immediate family member of such physician, that maintains a financial relationship with an entity, from referring patients to that entity. The Stark Law also prohibits an entity receiving a prohibited referral from billing the Medicare or Medicaid programs for any services rendered to the patient. The Stark Law contains certain exceptions which protect parties from liability under the Stark Law if the parties comply with the requirements of the exceptions. The sanctions under the Stark Law

include denial and refund of payments, civil monetary penalties and exclusion from the Medicare and Medicaid programs.

Management of the Guarantor believes that it is presently in material compliance with the Stark Law. However, in light of the narrowness of the statutory exception, lack of regulatory guidance and the scarcity of case law interpreting the Stark Law, there can be no assurances the Guarantor will not be found to have violated the Stark Law, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Guarantor, the financial condition of the Guarantor, or the Guarantor's status as an organization described in Section 501(c)(3) of the Code.

Labor Issues In recent years, many nursing facilities have suffered from an increasing scarcity of skilled nursing personnel and aides to staff their facilities. The trend in the scarcity of qualified personnel has forced owners of nursing facilities, including the Guarantor, to pay increased salaries to such personnel as competition for such employees intensified. If a facility cannot maintain adequate staffing levels, the facility's license may be at risk.

Other Factors Generally Affecting the Guarantor's Facilities In the future, the following factors, among others, may affect the operations of the Guarantor's nursing facilities, to an extent that cannot be determined at this time:

1. The Guarantor's revenues may be affected by future medical and scientific advances resulting in decreasing usage of nursing facilities, and by efforts by insurers, private employers and government agencies to limit the cost of nursing services, and to reduce utilization of nursing facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, including changes in contracts for reimbursement limiting the amount of reimbursement for interest costs.
2. An inflationary economy and difficulties in increasing room charges and other fees charged while at the same time maintaining the scope and quality of health services may affect the health care industry's ability to maintain sufficient operating margins.
3. Nursing facilities face the possible inability to obtain future governmental approvals to undertake projects which the Guarantor deems necessary to remain competitive both as to rates and charges and scope of care.
4. A shortage of qualified professional personnel, including nurses and certified nursing assistants, could significantly impact the Guarantor's ability to provide needed skilled nursing services, or may increase payroll costs of the Guarantor. Recruitment of qualified health care professionals is often a problem for health care providers located in rural areas.
5. Cost increases without corresponding increases in revenue could result from, among other factors: (i) increases in the salaries, wages, and fringe benefits of employees, and (ii) increases in costs associated with inflation or future legislation which would prevent or limit the ability of the Guarantor to increase or maintain revenues.
6. The cost and effect of any future additional unionization of the employees of the Guarantor.
7. Adoption of proposals to eliminate the tax-exempt status of bonds issued to finance health facilities and independent senior living facilities, or to limit the use of such tax-exempt bonds.

8. Changes in law or revenue rulings governing the tax-exempt status of religiously affiliated charitable corporations requiring tax-exempt nursing homes, as a condition of maintaining their tax-exempt status, to provide specific levels of indigent care at reduced rates or without charge.

9. In recent years, the number of malpractice suits against health care and nursing facilities, such as those operated by the Guarantor, and the dollar amounts of damage recoveries has been increasing nationwide. The ability of, and the costs to, the Guarantor to insure or otherwise protect itself against professional malpractice claims may adversely affect the Guarantor. Changes in the cost of paying claims in excess of insurance coverage could directly adversely affect the operating results of the Guarantor. Prohibitive cost and unavailability of other types of insurance which the Guarantor desires to obtain may also adversely affect the Guarantor.

10. The occurrences of natural disasters may (i) damage some or all of the Guarantor's facilities; (ii) interrupt utility service to some or all of the Guarantor's facilities; (iii) otherwise impair the operation of some or all of the Guarantor's facilities; or (iv) impair the generation of revenues from some or all of the Guarantor's facilities.

Other Factors

An investment in the Bonds, involves a substantial element of risk. In order to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement in order to make a judgment as to whether the Bonds are an appropriate investment. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States of America), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security benefits, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds.

Summary

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed decision, potential investors should be thoroughly familiar with this entire Official Statement and the appendices hereto.

SUITABILITY STANDARDS FOR MINNESOTA INVESTORS

The Bonds have not been rated by any rating agency. Consequently, in accordance with regulations of the State of Minnesota Commerce Department, *with respect to Minnesota residents*, the Bonds may be offered solely to and may be purchased only by persons having a minimum annual gross income of \$30,000 and a net worth of \$30,000, or in the alternative, a net worth of \$75,000. Net worth in either case is determined exclusive of home, home furnishings and automobiles.

THE CITY

The City is a home rule charter city and a political subdivision of the State of Minnesota. The City is authorized to issue the Bonds and lend the proceeds of the issue and sale of the Bonds to the Borrower pursuant to Minnesota Statutes, Chapter 462C, as amended, and to finance costs incurred in

connection with the Project. The City has approximately 11,300 residents and is located approximately 180 miles south of Minneapolis, Minnesota.

THE BONDS ARE NOT GENERAL OR MORAL OBLIGATIONS OF THE CITY AND THE TAXING POWER OF THE CITY IS NOT PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT THEREOF OR THE INTEREST OR PREMIUM, IF ANY, THEREON. THE BONDS SHALL CONSTITUTE A SPECIAL, LIMITED OBLIGATION OF THE CITY. THE BONDS SHALL NOT CONSTITUTE OR GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT, ASSETS, TAXING POWERS OR OTHER REVENUES OF THE CITY.

THE PROJECT

General. The Project is an existing independent and assisted living senior housing complex located in Worthington, Minnesota, which provides housing to the elderly. The Project is being acquired from Meadows of Worthington, Inc., a Minnesota corporation (*herein* "Meadows Inc.") for a purchase price of \$6,000,000 by way of a stock purchase transaction. The Project was constructed in 1991 by, and is currently the sole asset of Meadows Inc. The Project site, consisting of 5.494 net acres, is located at 1801 Collegeway, one mile west of the City's downtown central business and shopping district and located near the northwestern shore of Lake Okebena, which is within the city limits.

Financial and operating data, and certain other information about the Project contained in this section and elsewhere in this Official Statement, were provided to the Borrower by Meadows Inc. None of the financial statements or other financial and operating data of Meadows Inc. has been audited. No independent appraisal of the Project has been conducted or obtained in relation to the acquisition price of the Project or the issuance of the Series 2003 Bonds.

The Facility. The Facility is a contiguous two-story building, except for the Assisted Living wing which is a one-story wing. The Facility is slab on grade and contains approximately 56,000 gross square feet of interior area. Constructed in 1991, the building is a wood frame structure with brick veneer siding and an asphalt shingle roof. The Facility is registered with the State of Minnesota as a Housing With Services Provider and carries a Class E Home Care License. BSM Services, Inc., which will manage the Facility for Borrower, is licensed to provide home care services and expects to obtain expanded authority to cover the Project. The Facility building contains sixty-six (66) units, of which fifty-two (52) units are classified as independent living and fourteen (14) units are classified as assisted living. The living units include:

<u>Unit Description</u>	<u>Number of Units</u>	<u>Square Feet/Unit*</u>
Studio	4	450
One Bedroom**	13	620
Executive One Bedroom	14	716
Two Bedroom	10	820
Deluxe Two Bedroom	2	900
Executive Two Bedroom	9	980
Assisted Living Suites	14	325

* Except for the Studio apartment and the Assisted Living Suites, all measurements include the unit's patio, balcony, and HVAC closet.

** One of the One Bedroom units (#102) is specifically designated as accessible to physically disabled persons.

The assisted living suites do not have independent cooking facilities. The Facility also includes one (1) twenty-space garage, two (2) congregate dining rooms, one (1) commercial kitchen facility, two (2) laundry facilities, five (5) common areas, two (2) activity rooms, two (2) executive offices, and a front desk area. The Facility owns one (1) van used for transporting residents.

Management's Discussion of Operations. Acknowledging the risks inherent in managing and operating senior housing and assisted living facilities, historical data relating to this Project suggest that operations have successfully realized a consistent year-end gain in revenues. Management believes that, due to the long-standing history and expertise of the BSM affiliate entities in these kinds of projects, future year-end gains in revenue will meet or exceed past performance. Management expects to provide additional supportive services, including additional nursing and assisted care services, additional social, spiritual, and physical activities and programs, and anticipates that current residents will purchase these services to maintain a high degree of independence as they age in place and require greater levels of assistance and support.

Occupancy and Rents. During the past two years, occupancy of the building's rental units have been maintained an average of ninety-five percent (95%). Rent for building units is bifurcated to (1) base rent without supportive services and (2) base rent with supportive services. As of October 31, 2003, the Facilities garnered collectable monthly rent amounts ranging from \$1,380.00 to \$2,805.00 per unit and an average collectable monthly rent amount of \$1,791.92 per unit.

<u>Unit Description</u>	<u>Base Rent</u>	<u>Rent Range*</u>
Studio	\$1,380	\$1,380 – 1,880
One Bedroom	\$1,470	\$1,470 – 1,970
Executive One Bedroom	\$1,625	\$1,625 – 2,125
Two Bedroom	\$1,745	\$1,745 – 2,245
Deluxe Two Bedroom	\$1,885	\$1,885 – 1,895
Executive Two Bedroom	\$1,850	\$1,850 – 2,805

* The Rent Range represents the range of actual amounts currently received for individual units and, in addition to Base Rent, may include any or all of the following fees: Supportive Services fee (*see The Project – Supportive Services*), Garage Rent (\$50 per unit per month), and rent for additional tenants (\$100 per additional tenant per month).

Basic Services Included with Base Rent. Basic services included with the base rent include scheduled transportation to "in-town" destinations; weekly housekeeping services and laundry services of flat linens; all utilities except telephone; interior and exterior maintenance; two daily meals; emergency call system to on-site, trained staff; scheduled social, spiritual, and physical programs and activities; building and site security; and personal banking services.

Supportive Services. Supportive services currently includes the following amenities: Assistance in bathing, grooming, and dressing; assistance with "Medication Reminders;" three daily meals; laundry and housekeeping services; and nightly bed checks. Current demand for some or all of these supportive services is moderate. Less than 45% of the residents request at least one of these supportive services. Bundled supportive services, which include all of the forgoing services, are available at a rate of \$750.00 per month. Residents may elect to purchase the bundled supportive services without meal services for \$490.00 per month.

Low and Moderate Income Requirements. To comply with the requirements of the Code for tax exemption of interest on the 2003A Bonds, at least eleven (11) independent living units, which is not less than twenty-percent (20%) of the portion of the Project constituting residential rental property for purposes of Sections 142(d) and 145(d) of the Code, will be affordable, to persons and families with incomes at or below 50% of the median gross income for the Worthington area, adjusted for family size, as determined by the United States Department of Housing and Urban Development. These requirements will be memorialized in a Regulatory Agreement, dated as of December 1, 2003, among the Borrower, the City, and the Trustee. See "APPENDIX D – THE REGULATORY AGREEMENT."

To provide greater access to the Project for low income elderly persons, negotiations are currently in process with Nobles County for the Project to be included in the Nobles County EW/AC waiver program (Elderly Waiver / Alternative Care). The Elderly Waiver (EW) program funds home and community-based services for people age 65 and older who are eligible for Medical Assistance (MA) and require the level of medical care provided in a nursing home, but choose to reside in the community. The Minnesota Department of Human Services (DHS) operates the EW program under a federal waiver to Minnesota's Medicaid State Plan. Counties administer the program. Covered services include visits by a skilled nurse, home health aide, homemaker, companion, personal care assistant, as well as home-delivered meals, adult day care, supplies and equipment, home modifications, and certified community residential services, such as assisted living, foster care, and residential care.

The Alternative Care (AC) Program is a state-funded program that supports certain home and community-based services for Minnesotans who are 65 years of age or older, at risk of nursing home placement, and have low levels of income and assets. Counties administer the program. Covered services include adult day care, adult foster care, homemaker services, home health aides, personal care assistance, case management, respite care, assisted living, care-related supplies and equipment, home-delivered meals, transportation, skilled nursing, chore services, companion services, nutrition services, residential care services, training for informal caregivers and modifications to the home. Counties also may offer consumer-directed options.

Under these programs, certain payments could be made to the Borrower for services provided to qualifying tenants. Although the initial response of the County has been generally positive, no binding agreement has been concluded with the County. Accordingly, the Borrower's projections of revenues and expenses set out herein do not include any payments which might be received under this program.

Personnel and Staffing. As of October 31, 2003, the Facility was staffed by a total of 27 persons with 20.31 full time equivalents. A full-time employee equivalent represents a 2,080-hour-per-year employee. Most employees are expected to remain as employees of the Borrower's property manager. The following details the positions and number of employees the Borrower expects will be employed at the Facility during the initial period subsequent to Borrower's acquisition of the Property:

<u>Position</u>	<u>Number of Employees</u>
Registered Nurse (Full Time)	1
Personal Care Attendant (Full Time)	3
Personal Care Attendant (Part Time)	3
Bath Aide (Full Time)	1
Housekeeping Aide (Full Time)	2
Cook (Full Time)	1
Cook (Part Time)	1
Waiter (Part Time)	3
Operations Supervisor (Full Time)	1
Seasonal Operations Worker (Part Time)	1
Site Administrator (Full Time)	1
Evening Receptionist (Part Time)	1
Activities Director (Part Time)	1

Historical Cash-flow Analysis of the Facility. The table below shows the historical operating results of the Facility. A representative of the corporation selling the Facility has authorized the inclusion of the following information in this Official Statement. The information is a summary of information that has been provided to the Borrower by the Seller. The information has not been audited and there have been no independent third party reviews conducted.

	<u>Calendar Year Ended December 31</u>			
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Income	1,173,734	1,180,932	1,158,288	1,200,080
Total Expenses	<u>963,075</u>	<u>953,884</u>	<u>943,442</u>	<u>937,222</u>
Net Operating Income	210,659	227,048	214,846	262,858
Other Income	<u>7,185</u>	<u>3,197</u>	<u>4,437</u>	<u>3,355</u>
Net Income	217,844	230,245	219,283	266,213
Add-back:				
Depreciation	147,677	145,060	143,795	138,442
Amortization	1,298	1,298	1,298	1,298
Interest	<u>153,145</u>	<u>131,476</u>	<u>111,876</u>	<u>87,419</u>
Cash-flow Available for Debt Service	<u>519,964</u>	<u>508,079</u>	<u>476,252</u>	<u>493,373</u>

Management. The Borrower will enter into a Management Agreement with BSM Services, Inc., a Minnesota corporation and an affiliate of the Guarantor, to provide management of the Facilities. See "THE MANAGER AND THE MANAGEMENT AGREEMENT," below. Such Management Agreement will comply with the applicable provisions of the Code.

Competition. The primary competition for the Facility is independent living and assisted living facilities for the elderly and physically disabled in the City of Worthington, Nobles County, and the surrounding region. There are currently four (4) existing independent living facilities and one (1) existing assisted living for the elderly within the region, with a total of 245 units. Competition may always increase due to new construction or conversion of residential facilities within the region. One new assisted living facility of approximately twenty-five (25) units is under construction across the street. No market study has been undertaken by the Borrower or otherwise in connection with the acquisition of the Project and the issuance of the Series 2003 Bonds to determine current or future needs or competition regarding the character and cost of the facilities and services offered by the Project.

THE BORROWER

General. The Borrower is Meadows of Worthington, LLC, organized on December 12, 2003, as a limited liability company under the laws of the State of Minnesota (*herein* "Borrower" or "Meadows LLC"). The Borrower was established to purchase, own, and operate facilities such as the Project. To date, the Borrower has conducted no business, other than in connection with the offering of the Series 2003 Bonds, and the proposed acquisition of the Project, has no operating history, and has no significant assets and no liabilities. The Borrower has and expects to have no employees.

Purchase of Stock. The proceeds of the Series 2003 Bonds, together with other funds, will be used by the Borrower to acquire the Project as described herein. The Project will be acquired pursuant to a Share Purchase Agreement for the purchase of the outstanding shares of Meadows Inc. The total purchase price for all of the shares of Meadows Inc. is six million dollars (\$6,000,000.00). Upon satisfaction of the Share Purchase Agreement, Meadows LLC, as the sole shareholder of Meadows Inc., will cause Meadows Inc. to deed the Project to Meadows LLC.

Governance and Management. The management and direction of the business of the Borrower is vested in its Board of Governors. The Borrower's sole member is Maplewood Senior Housing, Inc. The number, terms of office, powers, authorities, and duties of the Governors of the Borrower, the time and place of their meetings, and such other associative regulations that are not inconsistent with the express provisions of the Articles of Organization of the Borrower, are specified in the Operating Agreement of the Borrower.

Operating Agreement. The Operating Agreement of the Borrower provides for a minimum of one (1) Governor and a maximum of three (3) Governors on the Board of Governors. The Board of Governors and the officers of the Borrower are as follows:

<u>Name</u>	<u>Position</u>
Don Fultz	Governor
Don Jacobson	Governor
Don Mills	Governor
Kathryn R. Roberts	Chief Manager

Mssrs Fultz, Jacobson, and Mills constitute the Board of Directors of Maplewood Senior Housing, Inc., the sole member of Borrower. See "THE SOLE MEMBER" below.

Kathryn R. Roberts is the President/CEO of the Guarantor. Ms. Roberts has a 28-year career in public service leadership and management. Ms. Roberts holds a Ph.D. in Education Administration from the University of Minnesota. She served as a vice president at the Minneapolis Foundation and as director of the Minnesota Zoological Garden for 12 years and was chair of the Metropolitan Sports Facilities Commission until February 2003. Prior to her zoological tenure, she held a number of leadership positions in Minnesota state government.

Reimbursement Agreement; Guaranty Fee. In connection with the Guaranty to be executed and delivered by the Guarantor in favor of the Trustee, guaranteeing payment of the principal and purchase price of, premium, if any, and interest on the Bonds, the Borrower will enter into a Reimbursement Agreement, dated as of December 1, 2003, with the Guarantor (the "Reimbursement Agreement"). Under the Reimbursement Agreement, Borrower will be obligated to reimburse the Guarantor for any amounts paid by the Guarantor pursuant to the Guaranty. In addition, Borrower shall be required to pay to Guarantor an annual Guaranty Fee equal to one percent (1%) of the outstanding principal amount of the Bonds in such year.

THE SOLE MEMBER

General. The sole member of the Borrower is Maplewood Senior Housing, Inc, incorporated on February 21, 2003, as a non-profit corporation under the laws of the State of Minnesota ("Sole Member" or "Maplewood Housing"). The Sole Member is an affiliate of the Guarantor identified and described more fully in Appendix A of this Official Statement, and an affiliate of and subject to the general supervision of Evangelical Lutheran Church in America, a voluntary association (*herein* "ELCA"). The Sole Member is controlled by the Member Assembly, a group of approximately forty (40) persons elected directly and indirectly by the six Minnesota synods of the ELCA (*herein* "Assembly"). The Sole Member is an organization described in Section 501(c)(3) of the Code, which is exempt from taxation under Section 501(a) of the Code, by reason of its affiliation with the ELCA.

Purpose; Officers. The Articles of Incorporation and Bylaws of the Sole Member provide that Maplewood Housing shall be operated exclusively for religious, charitable, and educational purposes including the operation, maintenance, improvement, expansion, and development of residential facilities for individuals who are, *inter alia*, physically disabled or fifty-five (55) years of age or older. The management of the Sole Member is vested in a Board of Directors, elected by the members of Maplewood Housing. The members of Maplewood Housing are those individuals who are concurrently members of the Assembly. The Articles of Incorporation of the Sole Member may be amended only by a majority of the total number of directors; moreover, the members of Maplewood Housing must approve all amendments. In addition, certain amendments to provisions in the Articles and Bylaws must be submitted for approval by the Division for Church in Society of the ELCA.

The Board of Directors of the Sole Member and the principal occupations of each are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Don Fultz	Retired-Pastor Faith Lutheran Church of Forest Lake
Don Jacobson	Retired-Construction Manager Kraus-Anderson Companies
Don Mills	Retired-CEO Bethesda Hospital

The officers of the Sole Member are as follows:

<u>Name</u>	<u>Position</u>
Don Fultz	President
Don Mills	Secretary

Management. The Sole Member has no employees. Management and administration services required by the activities of the Borrower, including with respect to the acquisition, ownership, and operation of the Project, have been and are expected to be provided to the Borrower by management and employees of BSM.

Lakeview Commons Project. Since its organization in February, 2003, the Sole Member has had limited operating history and does not have any significant assets or liabilities, except for the following. In November, 2003, the Sole Member acquired an existing 100-unit senior multifamily rental housing project known as Rosewood Estates of Maplewood, located in Maplewood, Minnesota, which BSM Services, Inc. now operates on behalf of the Sole Member under the name "Lakeview Commons". The Sole Member acquired Lakeview Commons for a \$100 option payment and took title subject to, but did not assume, a mortgage and other financing documents which secure revenue bonds issued by the city of Maplewood in 1994 and currently outstanding in the amount of \$11,830,000. The revenue bonds are currently in default. In connection with the purchase, the Sole Member and the Manager entered into a Forbearance and Refinancing Agreement with all of the owners of the bonds (the "Forbearance Agreement"). The Forbearance Agreement provides, among other things, that (i) the bond owners will not exercise, and will direct the bond trustee not to exercise, rights under the mortgage until February 1, 2006, (ii) the Sole Member may (but is under no obligation to) refinance prior to that date, and (iii) the rights of the Manager and the Sole Member to recover amounts contributed by them toward the property and its operation are treated as senior to payment of principal of and interest on the revenue bonds, with respect to application of project revenues and in the event of refinancing or a foreclosure of the mortgage following February 1, 2006.

THE MANAGER AND MANAGEMENT AGREEMENT

General. Under the Management Agreement, the Manager shall be responsible for certain financial and accounting services, administrative management, program and long-range planning, regulatory compliance, marketing and census development, human resources management, including staff training, and the day-to-day marketing, leasing, maintenance, operation, and general oversight of the operations of the Facility. The Manager shall prepare and submit an annual budget for the Facilities to the Borrower for approval. The initial term of the Management Agreement shall be one (1) year, subject to termination upon the occurrence of certain events. During the term of the Management Agreement, Manager shall be

entitled to an annual management fee, payable in twelve monthly installments, which fee shall be equal to five percent (5%) of the gross revenues of the Project.

Manager. The Manager was organized as a Minnesota corporation in June, 1993. The Manager is a marketing and property management firm based in Shoreview, Minnesota. The Manager currently manages approximately fifteen (15) senior housing, seven (7) assisted living, and twelve (12) nursing home projects in Minnesota and Wisconsin, including the following:

<u>Facility Name</u>	<u>Number of Units</u>	<u>Location</u>
Augustana Apartments	42	Fergus Falls, MN
Brookside Manor	62	Montevideo, MN
Cardinal Homes	65	Fergus Falls, MN
Clarkfield Care Center	80	Clarkfield, MN
Colonial Manor of Balaton	57	Balaton, MN
Colonial Manor Nursing Home	54	Lakefield, MN
Elders' Home, Inc.	80	New York Mills, MN
First Christian Church Residence	65	Minneapolis, MN
Good Shepherd Nursing Home	162	Sauk Rapids, MN
Good Shepherd Apartments	58	Sauk Rapids, MN
Heritage Living Center	130	Park Rapids, MN
Heritage Manor	26	Park Rapids, MN
Grand Village Nursing Home	118	Grand Rapids, MN
Lakeland Shores Apartments	46	Duluth, MN
Lakeview Commons	100	Maplewood, MN
Lilac Parkway Apartments	49	Robbinsdale, MN
Madison Lutheran Home	124	Madison, MN
Manor House/Woodland Homes	92	Grand Rapids, MN
Meadow Woods	109	Bloomington, MN
Old Shakopee North Condominiums	65	Bloomington, MN
Park Villa	27	Park Rapids, MN
Pelican Valley Health Center	46	Pelican Rapids, MN
Realife Cooperative of Mankato	57	Mankato, MN
Realife Cooperative of Owatonna	32	Owatonna, MN
Realife Cooperative of Waseca	22	Waseca, MN
Riverfront Manor	20	Pelican Rapids, MN
Shepherd Court Apartments	54	Sauk Rapids, MN

Shepherd Oak Apartments	42	Sauk Rapids, MN
Shepherd Oak West Apartments	46	Sauk Rapids, MN
Signe Burckhardt Manor	42	Minneapolis, MN
Sunnyside Nursing Home	61	Lake Park, MN
Sunrise Nursing Home	55	Two Harbors, MN
Sunrise on Superior	41	Two Harbors, MN
Uptown Maple Commons	<u>29</u>	North Branch, MN
Total Units:	2,158	

The significant executive and administrative officers of the Manager are as follows:

<u>Name</u>	<u>Position</u>
Kathryn Roberts	Chief Executive Officer
Kathy Bakkenist	Director of Senior Housing
Kenneth G. Borle	Chief Financial Officer

Kathryn R. Roberts has a 28-year career in public service leadership and management. Ms. Roberts holds a Ph.D. in Education Administration from the University of Minnesota. She served as a vice president at the Minneapolis Foundation and as director of the Minnesota Zoological Garden for 12 years and was chair of the Metropolitan Sports Facilities Commission until February 2003. Prior to her zoological tenure, she held a number of leadership positions in Minnesota state government.

Kathy Bakkenist is a leader with extensive experience in the long-term care field. She oversees all operations including nursing homes, assisted living properties and long-term care facilities and campuses. Ms. Bakkenist most recently served as chief operating officer of LifeSource, the St. Paul-based organ procurement organization for the Upper Midwest. Prior to that, she served as director of Courage Residential Rehabilitation Programs for 13 years. Earlier in her career, she was director of social services, program planning coordinator and assistant administrator at CrestView Lutheran Home, Columbia Heights. Ms. Bakkenist co-chairs the National Kidney Foundation Fundraising Committee for the 2004 U.S. Transplant Games, is treasurer of the Women's Health Leadership Trust, serves on the Musculoskeletal Transplant Foundation board, and has been a licensed nursing home administrator since 1987.

Kenneth G. Borle is a certified public accountant who served ten years with the Internal Revenue Service as a management analyst, tax shelter coordinator and Minneapolis field group manager prior to joining Guarantor. Mr. Borle holds an M.B.A. degree and supervises the finance functions of Guarantor. He also serves on several committees of the Minnesota Health and Housing Alliance (MHHA) and is a frequent participant in MHHA's legislative initiatives.

ESTIMATED SOURCES AND USES OF FUNDS

Set forth below are the estimated sources and uses of funds expected to be required for the following: (i) the acquisition of a 66-unit independent senior housing and assisted living facility located in the City; and (ii) paying the costs of issuance for the Bonds.

<u>SOURCES OF FUNDS</u>	<u>Series 2003A</u>	<u>Series 2003B</u>	<u>Total</u>
Par Amount of Bonds	<u>\$6,120,000</u>	<u>\$135,000</u>	<u>\$6,255,000</u>
<u>USES OF FUNDS</u>			
Costs of Issuance(1)	\$122,400	\$132,600	\$255,000
Deposit to Acquisition Account for purchase of the Facility	<u>\$5,997,600</u>	<u>\$2,400</u>	<u>\$6,000,000</u>
TOTAL USES	<u>\$6,120,000</u>	<u>\$135,000</u>	<u>\$6,255,000</u>

(1) *Includes Underwriter's commission/discount/fee; fees and expenses of Bond Counsel, counsel for the City, counsel for the Borrower and the Guarantor; and counsel for the Underwriter; printing costs; recording and filing fees, and other miscellaneous costs and related expenses.*

THE BONDS

Description of the Bonds, Registration, Transfer and Exchange

The Bonds are (i) issuable only in fully registered, book entry form, (ii) issuable only in denominations of \$5,000 and whole multiples thereof (an "Authorized Denomination"), (iii) to be dated the date of issuance thereof, and (iv) to bear interest from the date of issuance thereof, payable on June 1 and December 1 in each year commencing June 1, 2004. The Bonds bear interest at the rates per annum and mature (subject to the redemption provisions described below) in the amounts and at the times set forth on the inside front cover page of this Official Statement.

Payment of the principal and purchase price of and premium, if any, on any Bonds when due, whether upon maturity, redemption, acceleration or otherwise, will be made to its Registered Owner at the principal trust office of the Trustee upon presentation and surrender of the Bonds to be paid. Payment of interest on any Bond will be made to its Registered Owner without the necessity of surrendering the Bond on which payment is being made (i) by check mailed by first-class mail by the Trustee to the Registered Owner at the address of the Registered Owner shown in the registration books maintained by the Trustee or (ii) by wire transfer to any bank in the continental United States for a Registered Owner of \$1,000,000 or more in aggregate principal amount of Bonds who, by written request delivered to the Trustee no later than the Record Date for the payment, has requested the Trustee to make any payments of interest due to it by wire transfer at a specified wire transfer address (which request needs to be given only once unless the Registered Owner wishes to change the wire transfer address). All payments of principal and purchase price of, premium, if any, and interest on any Bonds will be made in lawful money of the United States of America.

Any Bond may be transferred upon its presentation at the principal trust office of the Trustee if it has been duly endorsed for transfer or is accompanied by a written instrument of transfer satisfactory to the Trustee which has been executed by the Registered Owner. The Trustee will transfer any Bond so presented by making an appropriate entry in the registration books maintained by the Trustee for the Bonds and delivering to the transferee(s) one or more new Bonds which have been executed by the City, have been authenticated by the Trustee, are in an Authorized Denomination and have the same form, terms, interest rate, maturity and aggregate principal amount as the Bonds by surrendering the Bonds to be exchanged at the principal trust office of the Trustee. The Trustee will exchange any Bond so presented by making an appropriate entry in the registration books maintained by the Trustee for the Bonds and delivering to the Registered Owner presenting the Bonds for exchange one or more new Bonds which have been executed by the City, have been authenticated by the Trustee, are in an Authorized Denomination and have the same form, terms interest rate, maturity and aggregate principal amount as the Bond being exchanged. The Registered Owner requesting any transfer or exchange of any Bonds must pay, as a condition to the transfer or exchange, any resulting tax or other governmental charge but may not otherwise be charged for an exchange or transfer. The Trustee is not required to register, transfer, exchange or replace any Bonds (a) during the 10-day period immediately preceding the first mailing or publication of a notice of redemption with respect to any Bonds of a particular maturity or (b) after a Bond has been called for redemption.

The City and the Trustee may treat the Registered Owner of any Bond as that Bond's absolute owner (whether or not the Bond is overdue) for all purposes.

Mandatory Purchase of Series 2003A Bonds

The Series 2003A Bonds are subject to mandatory tender on December 1, 2008 (the "Mandatory Tender Date"), and on such date, the Series 2003A Bondholders are required to tender and the Borrower is required to purchase, all of the Series 2003A Bonds, at a purchase price equal to par plus accrued interest, if any. The Series 2003A Bondholders will receive from the Trustee, at least 30 days before the Mandatory Tender Date, notice of the mandatory purchase and the required tender of their Series 2003A Bonds for purchase by the Borrower. On the Mandatory Tender Date, the Remarketing Agent will remarket the Series 2003A Bonds on behalf of the Borrower at a price equal to par. If proceeds of the remarketing of the Series 2003A Bonds are not sufficient to pay the purchase price of the Series 2003A Bonds, the Guarantor will be required, pursuant to the terms of the Guaranty, to advance funds sufficient to pay the purchase price of the Series 2003A Bonds on the Mandatory Tender Date.

Redemption of the Bonds Prior to Maturity

The Bonds are subject to redemption and prepayment prior to their maturity in the following events:

Optional Redemption Due to Casualty or Condemnation. All Bonds are subject to redemption and prepayment prior to maturity at any time on any Business Day, in whole but not in part, at the principal amount thereof, plus accrued interest to the redemption date, and without premium, upon the optional prepayment by the Borrower of amounts payable under the Loan Agreement in the event of (a) certain damage or destruction to the Facility, (b) the Facility or any portion thereof is condemned or taken for any public use, or (c) as a result of any changes in laws or as a result of a judicial or administrative determination, the Loan Agreement shall become void, unenforceable or impossible to perform.

Optional Redemption. The Series 2003A Bonds maturing on December 1, 2033, are callable for redemption by the City, at the direction of the Borrower, in whole or in part on December 1, 2006, or any day thereafter upon the exercise by the Borrower of its option to redeem and prepay the Bonds as provided in the Loan Agreement. The Series 2003A Bonds redeemed pursuant to optional redemption will be redeemed on the redemption date at a price equal to the sum of the percentage of the principal amount of the Series 2003A Bonds being redeemed set forth in the table below plus the full amount of the unpaid interest which has accrued on the Series 2003A Bonds and will accrue through the date the Series 2003A Bonds are redeemed.

<u>Redemption Period</u>	<u>Percentage</u>
December 1, 2006 through November 30, 2007	101%
December 1, 2007 through November 30, 2008	100%

Mandatory Sinking Fund Redemption. Both the Series 2003A Bonds and the Series 2003B Bonds are subject to mandatory sinking fund redemption payments. In connection with the Mandatory Tender Date, the Remarketing Agent shall establish a schedule for mandatory sinking fund redemption payments such that the scheduled annual debt service on the Series 2003A Bonds throughout the remaining term of the Series 2003A Bonds will be approximately level, taking into account the interest rate to go into effect on the Mandatory Tender Date.

Prior to the Mandatory Tender Date, the Series 2003A Bonds are subject to mandatory sinking fund redemption, in part, on December 1 of the years and in the principal amounts set forth below at the principal amount thereof plus accrued interest and without premium:

Sinking Fund Payments to be made for the Series 2003A Bonds Maturing December 1, 2033
Prior to Mandatory Tender on December 1, 2008

<u>Redemption Date</u>	<u>Sinking Fund Principal Amount</u>
2007	\$115,000
2008	120,000

The Series 2003B Bonds are subject to mandatory sinking fund redemption, in part, on December 1 of the years and in the principal amounts set forth below at the principal amount thereof plus accrued interest and without premium:

Sinking Fund Payments to be made for the Series 2003B Bonds Maturing December 1, 2006

<u>Redemption Date</u>	<u>Sinking Fund Principal Amount</u>
2005	\$65,000
2006*	70,000

*Stated Maturity.

Mandatory Redemption—Determination of Taxability. The Bonds are also subject to mandatory redemption in the event of a Determination of Taxability, in whole at a redemption price equal to the sum of the principal amount of the Bonds plus accrued interest on the Bonds plus, if the Determination of Taxability is the fault of the Borrower or the Sole Member, a three percent (3%) redemption premium on the outstanding principal amount of the Series 2003A Bonds.

Notice of Redemption. When any Bonds are to be redeemed the Trustee will mail a notice by first class, postage prepaid to the Registered Owner of each Bond which will be redeemed in whole or in part at the address for the Registered Owner shown in the registration books maintained by the Trustee for the Bonds. The notice will be mailed at least thirty (30) days prior to the date fixed for the redemption of the Bonds.

Selection of Bonds to be Redeemed. In the case of any optional partial redemption, the Bonds must be redeemed in Authorized Denominations, in the amounts and of the maturities designated by the Borrower and by lot or other random means within a maturity and each Bond having a principal amount greater than \$5,000 being treated as if each portion equal to \$5,000 was a separate Bond.

Book Entry Form of Ownership

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized Book-Entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSAC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Agent, or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the

responsibility of Authority or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to (Tender/Remarketing) Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to (Tender/Remarketing) Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a Book-Entry credit of tendered Bonds to (Tender/Remarketing) Agent's DTC Account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Authority or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of Book-Entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry system has been obtained from sources that the Borrower believes to be reliable, but the Borrower takes no responsibility for the accuracy thereof.

THE INFORMATION IN THIS SECTION DISCUSSING THE BOOK-ENTRY SYSTEM HAS BEEN FURNISHED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE TRUSTEE, THE COMPANY, OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE CITY, THE BORROWER, THE SOLE MEMBER, THE GUARANTOR, THE TRUSTEE, OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. THE AUTHORITY AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS, OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL AND PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

Special, Limited Obligations/Security for the Bonds

THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY AND ARE PAYABLE SOLELY FROM (A) PAYMENTS OR PREPAYMENTS PLEDGED UNDER THE INDENTURE; (B) LOAN REPAYMENTS TO BE MADE UNDER THE LOAN AGREEMENT; (C) MONEY AND INVESTMENTS HELD BY THE TRUSTEE UNDER, AND TO THE EXTENT PROVIDED IN, THE INDENTURE; (D) IN CERTAIN CIRCUMSTANCES, PROCEEDS FROM CERTAIN INSURANCE AND CONDEMNATION AWARDS OR PROCEEDS FROM SALES CONSUMMATED UNDER THREAT OF CONDEMNATION, AND (E) THE OBLIGATIONS OF THE GUARANTOR UNDER THE TERMS OF THE GUARANTY FOR THE PAYMENT OF PRINCIPAL AND PURCHASE PRICE OF AND INTEREST ON THE BONDS. THE OBLIGATIONS OF THE BORROWER TO MAKE PAYMENTS OF DEBT SERVICE ON THE

BONDS WILL BE ADDITIONALLY SECURED BY THE MORTGAGE. THE GUARANTOR WILL GUARANTY THE PAYMENT OF PRINCIPAL AND PURCHASE PRICE OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS PURSUANT TO THE TERMS OF A GUARANTY. SEE APPENDIX D IN THIS OFFICIAL STATEMENT.

The Guaranty. The Guarantor, under the terms of the guaranty, agrees to make payments of principal and purchase price of, premium, if any, and interest on the Bonds should revenues derived from the Indenture and the Loan Agreement not be sufficient to make such payments.

The Loan Agreement. The rights of the City to amounts payable to the City under the Loan Agreement (other than the Unassigned Rights) have been assigned to the Trustee to provide for and to secure the payment of principal and purchase price of, premium, if any, and interest on the Bonds. The Borrower agrees under the Loan Agreement to make payments on the debt service for the Bonds directly to the Trustee in monthly installments.

The Loan Agreement imposes certain restrictions on the Borrower's actions for the benefit of the City and the owners of the Bonds. See "APPENDIX D - SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT." The Loan Agreement provides that the Borrower is required to make designated payments to the Trustee for deposit into the Debt Service Account in amounts sufficient to pay the principal and purchase price of and interest on the Bonds when due.

The Mortgage. To secure its obligations for the Bonds, the Borrower, by the Mortgage, grants to the City, as has been assigned by the City to the Trustee, (subject to Permitted Encumbrances) a mortgage lien upon the Facility and an assignment of leases and rents with respect to the Facility. The Mortgage lien in the Facility consists generally of the Borrower's fee title to the Facility upon its acquisition by the Borrower and all of its furniture, fixtures and equipment related to the Facility.

The Indenture. The City, under the terms of the Indenture, pledges and grants to the Trustee, as security for the Bonds, a security interest in the City's entire interest in the Loan Agreement (other than the rights of the City to indemnification, fees and administrative and legal expenses), including, without limitation, its right to receive payments thereunder.

Further Descriptions

Further descriptions of certain provisions of the Indenture, including the funds and accounts established thereby, the Loan Agreement, the Guaranty, and the Mortgage are set forth in APPENDIX D to this Official Statement.

TAX EXEMPTION

In General

The opinion of McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, as Bond Counsel, and the descriptions of the Bonds contained in this Official Statement, are based on laws and official interpretations of them which are in existence the tax laws on the date the Bonds are issued. There can be no assurance that those laws or the interpretation of them will not change or that new laws will not be enacted or regulations issued while the Bonds are outstanding in a manner that would adversely affect the value of an investment in the Series 2003A Bonds or the tax treatment of the interest paid on the Series 2003A Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Series 2003A Bonds be and remain excludable from gross income under Section 103 of the Code. These requirements include, but are not limited to: (i) provisions relating to the expenditure of Series 2003A Bond proceeds; (ii) provisions which prescribe yield and other limits relative to the investments of the proceeds of the Series 2003A Bonds and other amounts; (iii) provisions which require that certain investment earnings be rebated periodically to the federal government; and (iv) provisions relating to the ownership and operation of the facilities financed or refinanced by the Series 2003A Bonds. Noncompliance with such requirements may cause interest on the Series 2003A Bonds to become includable in gross income for federal income taxation and, to the same extent, net taxable income of individuals, trusts, and estates for State of Minnesota income tax purposes retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained.

At closing, McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, Bond Counsel, will render an opinion based upon present federal and State of Minnesota laws (which excludes any pending legislation which may have a retroactive effect), regulations, ruling and decisions, that at the time of the issuance of the Bonds, the interest on the Series 2003A Bonds is excludable from gross income for United States income tax purposes and is excludable, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than State of Minnesota franchise taxes measured by income and imposed on corporations and financial institutions).

The Borrower and the Sole Member will covenant to comply with requirements necessary under the Code to establish and maintain the interest on the Series 2003A Bonds as excludable from gross income under Section 103 thereof, including without limitation requirements relating to temporary periods for investments, limitations on amounts invested at a yield greater than the yield on the Series 2003A Bonds, and, if necessary, the rebate of excess investment earnings to the United States.

Interest on the Series 2003B Bonds is includable in gross income for federal income taxation and, to the same extent, net taxable income of individuals, trusts, and estates for State of Minnesota income tax purposes. See "APPENDIX E – FORM OF BOND COUNSEL OPINION."

Series 2003A Bonds Designated as Qualified Tax-Exempt Obligations

The Series 2003A Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Other Federal Income Tax Considerations

As noted above, interest on the Series 2003A Bonds is included in the adjusted current earnings of corporations for purposes of the alternative minimum tax imposed by Section 55 of the Code. The Code also contains numerous other provisions which could adversely affect the value of an investment in the Series 2003A Bonds for particular Bondholders. For example, (i) interest on the Series 2003A Bonds may affect the federal income tax liabilities of life insurance companies and, with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2003A Bonds, (ii) interest on the Series 2003A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest on the Series 2003A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than twenty-five percent (25%) of the gross receipts of the Subchapter S corporation is passive investment income, and (iv) Section 86 of the Code

requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account receipt or accruals of interest on the Series 2003A Bonds in determining gross income. There may be other provisions of the Code which could adversely affect the value of an investment in the Series 2003A Bonds for particular Bondholders. Investors should consult their tax advisors to determine how the provisions described under this heading, and other provisions of the Code relating to the ownership of tax-exempt obligations apply to them.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM RECEIPT OF INTEREST ON THE BONDS. BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE CALCULATIONS OF ALTERNATIVE MINIMUM TAX, ENVIRONMENTAL TAX OR FOREIGN BRANCH PROFITS TAX LIABILITY, THE INCLUSION OF SOCIAL SECURITY OR OTHER RETIREMENT PAYMENTS IN TAXABLE INCOME AND OTHER COLLATERAL TAX CONSEQUENCES.

ENFORCEABILITY OF OBLIGATIONS

On the date of delivery of the Bonds, McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, as Bond Counsel, will issue its opinion, dated the date thereof, that the Bonds are valid and legally binding special, limited obligations of the City, enforceable in accordance with their terms, and that the Loan Agreement and the Indenture are valid and legally binding agreements of the City, enforceable in accordance with their respective terms. McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, as counsel to the Borrower, will also issue its opinion that the Loan Agreement, the Continuing Disclosure Agreement, and the Mortgage are valid and legally binding agreements of the Borrower, enforceable in accordance with their respective terms. In addition, McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, as counsel to the Guarantor, will issue its opinion that the Continuing Disclosure Agreement and the Guaranty are valid and legally binding agreements of the Guarantor, enforceable in accordance with their respective terms. The foregoing opinions will be generally qualified to the extent that the enforceability of the respective instruments may be limited by principles of equity and by bankruptcy, insolvency, moratorium or other laws affecting the enforcement of creditors' rights.

While the Bonds are secured or payable pursuant to the Indenture, the Loan Agreement, the Guaranty, and the Mortgage, the practical realization of payment from any security will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified in the above documents may not be readily available or may be limited.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the issuance and sale of the Bonds and with regard to the tax-exempt status of interest on the Bonds under existing laws are subject to the approving legal opinion of McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, as Bond Counsel and as counsel for the Borrower and the Guarantor. The Underwriter has been represented in this transaction by Kennedy & Graven, Chartered. Certain legal matters will be passed upon for the City by its counsel Dorsey & Whitney LLP.

NO LITIGATION

The City. As of the date of delivery of the Bonds to the Underwriter, authorized officials of City will certify that there is no pending or, to the best of their knowledge, threatened litigation to which the City is party, which in any way questions or affects the validity of the Bonds, or any proceedings or transactions relating to their issuance, sale and delivery.

The Borrower, the Sole Member, and the Guarantor. As of the date of delivery of the Bonds to the Underwriter, the Borrower, the Sole Member, and the Guarantor will certify that there is no pending or, to the best of their knowledge, threatened litigation to which the Borrower, the Sole Member or the Guarantor is a party, which in any way questions or affects the validity of the Bonds, or any proceedings or transactions relating to their issuance, sale and delivery.

RELATIONSHIPS AMONG THE PARTIES

In connection with the issuance of the Bonds, the City, the Underwriter, the Guarantor, and the Borrower are being represented by the attorneys or law firms identified above under the heading "APPROVAL OF LEGAL PROCEEDINGS." In other transactions not related to the Bonds each of these attorneys or law firms may have acted as Bond Counsel or represented the City, the Underwriter, the Guarantor, the Borrower or their affiliates, in capacities different from those described under "APPROVAL OF LEGAL PROCEEDINGS," and there will be no limitations imposed as a result of the issuance of the Bonds on the ability of any of these firms or attorneys to act as Bond Counsel or represent any of these parties in any future transactions, or to represent any person or firm who may purchase a limited partnership interest in the Company. Furthermore, the Borrower, the Underwriter, the Guarantor and their affiliates are not limited in engaging in future business transactions with each other. Potential purchasers of the Bonds should not assume that the City, the Underwriter, the Guarantor, the Borrower or their respective counsel or Bond Counsel have not previously engaged in, or will not after the issuance of the Bonds engage in, other transactions with each other or with any affiliates of any of them, and no assurance can be given that there are or will be no past or future relationships or transactions between or among any of these parties or these attorneys or law firms.

Mr. Ralph McGinley, Senior Vice President of Oppenheimer & Co. Inc. is (i) one of 14 members of the Board of Trustees of BSM (since 1999); (ii) the Treasurer of BSM for the 2003 fiscal year and has been Treasurer since July 2000, and (iii) as Treasurer is also a member of the executive committee of the Guarantor. Mr. McGinley's term as Treasurer is for one year, but Mr. McGinley may be elected to future terms as Treasurer at any time that he is serving on the Board of Trustees of the Guarantor. Mr. McGinley has served a two-year term as a member of the Board of Trustees of the Guarantor, is currently serving a three-year term which expires in 2004, and may serve one additional three-year term. All of the members of the Board of Trustees of the Guarantor are volunteers.

UNDERWRITING

Pursuant to the terms and conditions of a Bond Purchase Agreement, the Underwriter has agreed to purchase the Bonds from the City at an aggregate purchase price of \$6,129,900 (98.00% of the original aggregate principal amount of the Bonds). The Bonds are being offered for sale to buyers at a price of par. The offering prices may be changed from time to time and may be reduced for sales to selected dealers. The Underwriter retains the right to join with other dealers in offering the Bonds to the public.

The Bonds are offered, subject to prior sale, when, as and if issued by the City, subject to the opinions as to validity and certain other matters and certain other conditions.

Subject to prevailing market conditions the Underwriter intends, but is not obligated, to effect secondary market transactions for the Bonds. The Underwriter is not obligated to repurchase any of the Bonds at the request of the Holders thereof.

CONTINUING DISCLOSURE

The Borrower and the Guarantor have undertaken all responsibilities for any continuing disclosure concerning the Borrower, the Guarantor and the Facility to the owners of the Bonds as described below, and the City is to have no liability to the holders of the Bonds or any other person with respect to such disclosures by the Borrower, the Guarantor, or others.

The Borrower and the Guarantor will covenant, pursuant to the Continuing Disclosure Agreement, to provide annually certain audited financial information (for the Fiscal Year ending December 31), and operating data relating to the Facility by not later than one hundred twenty (120) days after the end of each fiscal year, commencing with the report for the Fiscal Year ending December 31, 2004 (the "Annual Report"). The Annual Reports to be filed by the Borrower and the Guarantor with each Nationally Recognized Municipal Securities Information Repository certified by the Securities and Exchange Commission (the "Repositories") and a State repository, if any, and the Trustee.

The Borrower and the Guarantor will also agree in the Continuing Disclosure Agreement to provide timely notice to each Nationally Recognized Municipal Securities Information Repository and to any State Repository, as designated for purposes of Rule 15c2-12 of the occurrence of any of the events listed below, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Series 2003A Bonds.
7. Modifications to rights of Bondholders.
8. Any redemption of Bonds other than mandatory sinking fund redemption.
9. Defeasance of the Bonds or any portion thereof.
10. Any release, substitution of sale of property securing repayment of the Bonds.
11. Rating changes.

The disclosure provided for in the Continuing Disclosure Agreement is in addition to, and does not replace, notices required to be given to Bondholders under the Indenture. The Trustee has no obligation to verify or investigate any information disclosed pursuant to the Continuing Disclosure Agreement, or to make disclosure about the Bonds, the Borrower, the Guarantor, the Project, or any other matter except as expressly provided in the Continuing Disclosure Agreement.

MISCELLANEOUS

The foregoing does not purport to be comprehensive or definitive and all references to any document discussed in this Official Statement are qualified in their entirety by reference to each such document. All references to the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of the documents and the form of the Bonds discussed in this Official Statement are available for inspection during the period of the offering at the offices of the Underwriter, and thereafter at the principal corporate trust office of the Trustee.

The Borrower, the Guarantor, and the City have authorized the use and distribution of this Official Statement, although the City has not reviewed or approved any matters herein, other than the sections entitled "THE CITY" and "NO LITIGATION-The City," the City assumes no responsibility for the accuracy or completeness of the information herein. The Borrower and the Sole Member have approved the information contained in this Official Statement and the Guarantor has approved the information contained in this Official Statement as such information relates to the Guarantor, the risk factors related to the Guarantor, the operations of the Guarantor, and the Guarantor's guaranty of debt service on the Bonds.

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APPENDIX A

THE GUARANTOR, ITS OPERATIONS AND FACILITIES

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General:

The current principal offices of the Board of Social Ministry ("BSM" or the "Guarantor") are located at 3530 Lexington Avenue North, Shorewood, Minnesota 55126, its telephone number is (651) 766-4300, and its web site is www.bsm1.org.

BSM is engaged primarily in the business of owning and operating health care facilities that provide housing, skilled nursing, convalescent and rehabilitative care to elderly persons on an inpatient basis, it also is engaged in other activities providing a continuum of care. These activities include residential housing and independent living facilities for the elderly, management services for health care facilities and residential housing facilities, and home health care services. Since 1986, BSM has sponsored many new corporations created specifically for the ownership of housing for the elderly. These projects are listed in the table below. BSM has a nonprofit subsidiary home care and hospice agency that provides services in Litchfield, Mankato, and Minneapolis. BSM's professional management organization, BMS Services, Inc. ("Services"), was incorporated as a business corporation in 1993 and currently has contracts to manage 10 nursing homes, one personal care apartment building, five board and lodging facilities, a hospital, three clinics and three home care agencies throughout Minnesota.

In furtherance of its focus on community-based services, BSM has established advisory boards in each of the communities in which it has nursing facilities. The advisory boards serve as a liaison between BSM and the local community, providing support to each facility and to BSM in the areas of community relations, long-range planning and fundraising.

Through its governance structure, BSM views each of its facilities as a community resource and focuses on meeting the needs of the residents and staff at each facility. BSM operates on a team concept of management, giving staff of each facility the opportunity to work together in addressing problems and staying informed of the ever-changing requirements of providing health care services. The communities in which BSM provides services support BSM and the facilities through volunteer services and monetary contributions.

Management and Governance

Management and Governance

Management. The key management staff of BSM is as follows:

Name	Title	Since
Kathryn R. Roberts	President/CEO	2003
Kenneth G. Borle	Vice President of Finance	1983
Kathy Bakkenist	Vice President of Operations	2003
Steve Ordahl	Vice President of Business Development	2003

President/CEO. Kathryn R. Roberts has a 28-year career in public service leadership and management. Ms. Roberts holds a Ph.D. in Education Administration from the University of Minnesota. Kathryn served as a vice president at the Minneapolis Foundation and as director of the Minnesota Zoological Garden for 12 years. Ms. Roberts was chair of the Metropolitan Sports Facilities Commission until February 2003. Prior to her zoological tenure, she held a number of leadership positions in Minnesota state government.

Vice President of Finance. Kenneth G. Borle is a certified public accountant who served ten years with the Internal Revenue Service as a management analyst, tax shelter coordinator and Minneapolis field group manager prior to joining BSM. Mr. Borle, who holds an M.B.A. degree, supervises the finance functions of BSM. He also serves on several committees of the Minnesota Health and Housing Alliance (MHHA) and is a frequent participant in MHHA's legislative initiatives.

Vice President of Operations. Kathy Bakkenist is a leader with extensive experience in the long-term care field. Kathy oversees all operations including nursing homes, assisted living properties and long-term care facilities and campuses. Kathy most recently served as chief operating officer of LifeSource, the St. Paul-based organ procurement organization for the Upper Midwest. Prior to that, Kathy served as director of Courage Residential Rehabilitation Programs for 13 years. Earlier in her career, she was director of social services, program planning coordinator and assistant administrator at CrestView Lutheran Home, Columbia Heights. Kathy co-chairs the National Kidney Foundation Fundraising Committee for the 2004 U.S. Transplant Games, is treasurer of the Women's Health Leadership Trust, serves on the Musculoskeletal Transplant Foundation board and has been a licensed nursing home administrator since 1987.

Vice President of Business Development. Steve Ordahl has more than thirty years experience as a leader in business, government, and the military. His strengths are leadership and entrepreneurship; he has engineered several successful turn-arounds of financially distressed enterprises. He holds a BA from the University of Minnesota and has been CEO of two major entertainment venues, the Texas Aquarium and Underwater Adventures at the Mall of America. Steve also served more than 28 years in the United States Army and Army Reserve, holding a variety of staff and command positions. He retired as a Lieutenant Colonel. At the Board of Social Ministry, Steve is responsible for business development, revenue expansion and diversification, and communications/marketing.

Board of Trustees. The Trustees for BSM are normally elected for three-year terms by members of BSM representing the six Minnesota synods of ELCA. With certain exceptions for officers of the board, no trustee may serve more than three consecutive terms.

Chair	James Pederson (since 1995), Stillwater, Minnesota. Administrator, Minnesota Historical Society
Vice Chair	John Lundblad (since 2000), Northfield, Minnesota. Attorney, Lundblad & Simons
Secretary	Sherry Ristau (from 1990 to 1996 and since 1999), Redwing, Minnesota. Treasurer from 1992 to 1996 and secretary since July 2001. President of Southwestern Minnesota Foundation
Treasurer	Ralph McGinley (since 1999 and Treasurer since July 2000), North Oaks, Minnesota. Senior Vice President, Oppenheimer & Co., Inc.

Members

John Coumbe (since July 2001), Park Rapids, Minnesota. Retired human resources executive at Central Data Borrower. Currently owns resort

Michael Gerlach (since July 2003). Duluth, Minnesota. Attorney, Gerlach Beaumier Attorneys at Law

David Karsnia (since July 2003) Detroit Lakes, Minnesota. Funeral director

Mary Jane Thompson (since July 2001) White Bear Township, Minnesota. Health care consultant

Loanne Thrane (since July 2003) St. Paul, Minnesota. Former member University of Minnesota Board of Regents; former chair of Minnesota IR party

Bishop Harold Usgaard (since July 2000) Rochester, Minnesota. Bishop, ELCA Southeast Synod

Sheryl Voth (since 1999) Redwing, Minnesota. Public Health Nurse

History

BSM was formed as a Minnesota nonprofit corporation in 1923 for the purpose of providing health care services to the elderly and others in need. Its origins trace back to an 1862 relief program of the Lutheran Conference (Swedish). Subsequently, the Vasa Children's Home for orphaned and dependent children was founded in 1865, followed by the Tabitha Society in 1880, Bethesda Hospital in 1882, Bethesda Old People's Home at Chisago City in 1904, and the Bethany Children's Home in Duluth in 1916. These facilities became programs of BSM in 1923, and expansion of operations continued in the decades that followed. By the early 1950's, BSM, then known as the Board of Christian Service, was operating the largest social service program of any church body in Minnesota, with two acute care hospitals, three homes for the aged, a home for the disabled, two children's homes and a child adoption agency.

In 1962, the parent Minnesota Conference of Augustana Lutheran Church, the Northwest Synod of United Lutheran Church, the Minnesota Conference of the Suomi Synod (Finnish), and seven congregations of the Evangelical Lutheran Church in America merged into the Minnesota Synod-Lutheran Church in America. The Board of Christian Service was renamed Board of Social Ministry, and many of its programs and facilities other than its long-term health care facilities were transferred to other church affiliated organizations. Since the formation of the Evangelical Lutheran Church in America ("ELCA"), BSM has been governed by a members' assembly of representatives of the six Minnesota ELCA synods. The members elect the Board of Trustees of BSM.

BSM formed the Board of Social Ministry Foundation (the "Foundation") in 1983 to serve the needs of BSM's entire organization for charitable fund investment, management and administration and has designated the Foundation as the entity to receive, invest, manage and administer charitable gifts given to BSM or any of its affiliates. The Foundation also controls Emmanuel Foundation in Detroit Lakes, Minnesota, and Bethany Home Foundation in Alexandria, Minnesota.

Future Expansion Policy and Plans

BSM has a strategic plan that calls for the continued expansion of BSM's nursing home and residential facility management services. That strategic plan also contains a commitment to transition from traditional nursing home care to more desirable models. Consistent with this commitment is the intention of BSM's Board of Trustees to encourage the research and development of alternative noninstitutional support service programs. The strategic plan calls for cautious growth regarding the development and purchase of new facilities and the issuance of additional long-term debt.

Facilities

BSM and its affiliates own and operate nine nursing facilities with 972 beds and 19 elderly-oriented apartment facilities with 808 apartment units and provide other services such as Hospice and Homecare to the elderly in more than 100 communities in Minnesota. BSM leases one additional nursing facility with 108 beds, Services leases one additional nursing facility with 199 beds, and BSM or Services provides management services to 11 nursing or acute care facilities, 29 residential projects, 3 clinics and 3 home healthcare agencies. The following tables indicate the facilities (all of which are located in Minnesota) that are (a) owned or leased by BSM or by separately incorporated nonprofit corporations under the control of BSM and managed by BSM under management contracts and (b) owned by third parties but managed by BSM or by Services under contract:

Facilities Owned, Leased or Controlled By BSM or an Affiliate

Name of Facility or Agency	Type of Facility	Location	Available Units/Beds
Highland Manor	Adult Foster Care	Bloomington	5
Point Pleasant Heights Retirement Village	Apartments and Townhouses	Chisago City	109
Margaret S. Parmly Residence	Nursing Home	Chisago City	101
Margaret's House	Board and Lodging	Chisago City	9
Vindauga View	Assisted Living	Chisago City	25
Emmanuel Nursing Home	Nursing Home	Detroit Lakes	140
Bethany Home	Board and Care Home	Litchfield	30
Emmaus Place	Board and Lodging	Litchfield	45
Twin City Linnea Home	Board and Care Home	St. Paul	71
Green Acres Country Care Center (leased)	Nursing Home	North Branch	108
Bethany Home	Nursing Home and Board and Lodging	Alexandria	122
Martin Luther Manor	Nursing Home	Bloomington	178
Bayshore Health Center (leased)	Nursing Home	Duluth	199
Lakeshore Lutheran Home	Nursing Home	Duluth	151
Emmanuel Home	Nursing Home	Litchfield	110
Mankato Lutheran Home	Nursing Home	Mankato	69
Sibley Manor East	Assisted Living	Mankato	44
Sibley Manor West	Assisted Living	Mankato	25
Augustana Home Care	Home Health Care	Litchfield	N/A
Augustana Hospice	Hospice	Litchfield	N/A
Mankato Lutheran Home Care	Home Health Care	Mankato	N/A
1710 Plymouth Home Care	Home Health Care	Minneapolis	N/A
Signe Home Care	Home Health Care	Minneapolis	N/A
Bethel Manor I	HUD Apartments	Alexandria	63
Bethel Manor II	HUD Apartments	Alexandria	69
Lamplighter Manor	HUD Apartments	Detroit Lakes	65
Gloria Dei Manor	HUD Apartments	Litchfield	70
Lilac Parkway Apartments	HUD Apartments	Robbinsdale	48
Willow Woods Apartments	HUD Apartments	White Bear Lake	46
Lakeland Shores Apartments *	HUD Apartments	Duluth	46
Winona Arms **	HUD Apartments	Winona	49
Park Villa	HUD Apartments	Park Rapids	27
Parmly Lakeview Apartments	HUD Apartments	Chisago City	60
Boarding Meadows	HUD Apartments	New Richland, WI	36
Winona Shores	HUD Apartments	Alexandria	27

Facilities Owned by Third Parties and Managed by BSM or Services

Name of Facility or Agency	Type of Facility	Location	Available Units
Meadow Woods	Personal Care Apartments	Bloomington	109
Old Shakopee North Condominiums	Housing	Bloomington	66
North Shore Town Homes	Town Homes	Detroit Lakes	16
RealLife Cooperative	Housing Cooperative	Mankato	57
RealLife Cooperative	Housing Cooperative	Waseca	22
RealLife Cooperative	Housing Cooperative	Owatonna	32
Itasca Nursing Home	County Nursing Home	Grand Rapids	118
Manor House	Apartments	Grand Rapids	92
Woodland Homes	Assisted Living	Grand Rapids	20
Clarkfield Care Center	City Nursing Home	Clarkfield	75
Clarkfield Home Care	Home Health Care	Clarkfield	N/A
Heritage Living Center	County Nursing Home	Park Rapids	124
Heritage Manor	Assisted Living	Park Rapids	26
Cardinal Homes	HUD Apartments	Fergus Falls	61
Augustana Apartments	HUD Apartments	Fergus Falls	42
Sunnyside Nursing Home	County Nursing Home	Lake Park	58
Signe Burkhardt Manor	City Apartments	Minneapolis	42
First Christian Church Residence	Nursing Home	Minneapolis	60
Madison Lutheran Home	Nonprofit Nursing Home	Madison	97
Laq Qui Parle Hospital	Hospital	Madison	18
Laq Qui Parle Clinic	Clinic	Madison	N/A
Marietta Clinic	Clinic	Madison	N/A
Hilltop Residence	Apartments	Madison	36
Western Home Health and Hospice Care	Home Health Care and Hospice	Madison	N/A
Colonial Manor	City Nursing Home	Lakefield	48
Country Neighbors	Board and Lodging	New Richland	19
Brookside Manor Residence	HUD Apartments	Montevideo	62
Uptown Maple Commons	Apartments	North Branch	29
Sunrise Home	Nursing Home	Two Harbors	55
Sunrise on Superior	Assisted Living	Two Harbors	41
The Wilds	Assisted Living	St. Peter	42
The Oaks	Assisted Living	Hutchinson	42
The Brooks	Assisted Living	Owatonna	50
Good Shepherd Homes, Inc.	HUD Housing	Sauk Rapids	58
Shepherd Court Apartments	Apartments	Sauk Rapids	54
Shepherd Oak Apartments	HUD Housing	Sauk Rapids	42
Shepherd Oak West Apartments	HUD Housing	Sauk Rapids	46
Good Shepherd Lutheran Home	Nursing Home	Sauk Rapids	162
Good Shepard Home Care	Home Health Care	Sauk Rapids	N/A
Colonial Manor	City Nursing Home	Balaton	44
Pelican Valley Health Center	Nursing Home	Pelican Rapids	46
Riverfront Manor	Assisted Living	Pelican Rapids	20
Country Neighbors	Board and Lodging	Lake Crystal	24
Country Neighbors	Board and Lodging	LeCenter	26
Country Neighbors	Board and Lodging	Mapleton	18
Lakeview Commons	Assisted Living	Maplewood	99
Bellinghan Clinic	Clinic	Madison	N/A

While a number of BSM's facilities were constructed many decades ago, BSM has a capital allocation policy addressing facility repair and replacement and has provided funds on an annual basis.

Mortgage Liens and Security Interests

A significant amount of the real property owned by BSM and its affiliates is subject to mortgage liens granted by BSM to secure its outstanding long-term indebtedness incurred to finance the acquisition or renovation of such property. In addition, with respect to indebtedness incurred to finance the acquisition or renovation of certain of its nursing homes and residential facilities, BSM has also granted a security interest in accounts receivable relating to those facilities.

Utilization

The following table sets forth information regarding the average occupancy at the nursing homes and housing facilities and housing owned by the Guarantor and its affiliates:

UTILIZATION
Percentages of Average Occupancy

<u>Nursing Facilities</u>	Location	Licensed Beds	<u>Fiscal Year Ended</u>		
			<u>12/31/02</u>	<u>12/31/01</u>	<u>12/31/00</u>
Bayshore Health Center (1)	Duluth	199	88.8%	N/A	N/A
Bethany Home	Litchfield	40	86.3	85.6%	68.42%
Bethany Home	Alexandria	150	90.8	92.0	92.15
Emmanuel Home	Litchfield	120	93.2	94.1	89.98
Emmanuel Nursing Home	Detroit Lakes	144	97.8	96.4	96.29
Green Acres Country Care Center (1)	North Branch	133	92.3	91.2	94.00
Lakeshore Lutheran Home	Duluth	202	83.5	89.4	84.74
Mankato Lutheran Home	Mankato	69	99.5	99.2	99.53
Margaret S. Parmly Residence	Chisago City	101	96.1	99.0	98.46
Martin Luther Manor	Bloomington	208	95.8	91.5	85.02
Twin City Linnea Home	St. Paul	71	95.4	94.6	96.01
TOTAL LICENSED BEDS		<u>1,437</u>			
AVERAGE OCCUPANCY			92.5%	93.2%	90.46%

Percentages of Average Occupancy

<u>Housing Facilities</u>	Location	Units	<u>Fiscal Year Ended</u>		
			<u>12/31/02</u>	<u>12/31/01</u>	<u>12/31/99</u>
Bethel Manor I	Alexandria	63	94.0%	97.46%	99.73%
Bethel Manor II	Alexandria	69	93.0	96.84	100.00
Emmaus Place	Litchfield	45	90.0	90.00	91.12
Gloria Dei Manor	Litchfield	70	89.0	90.00	87.58
Lakeland Shores Apartments	Duluth	46	100.0	100.00	97.80
Lamplighter Manor	Detroit Lakes	65	96.0	98.16	98.44
Parmly Lakeview Apartments	Chisago City	68	99.9	99.70	99.93
Point Pleasant Heights	Chisago City	109	99.9	99.72	99.81
Lilac Parkway Apartments	Robbinsdale	49	96.0	97.90	98.70
Sibley Manor	Mankato	69	100.0	99.72	99.56
Winona Arms	Winona	49	98.0	98.00	93.20
Willow Wood Apartments	White Bear Lake	46	100.0	100.00	98.20
Park Villa Apartments	Park Rapids	27	99.9	99.90	81.83
TOTAL UNITS		<u>775</u>			
AVERAGE OCCUPANCY			<u>97.3%</u>	<u>97.56%</u>	<u>95.97%</u>
					<u>97.24%</u>

(1) Green Acres Country Care Center and Bayshore Health Center is leased by the Guarantor.

Services of the Guarantor

Nursing Homes. The nursing facilities owned or managed by BSM provide health care and convalescent treatment primarily for in-patient elderly persons, including those admitted as an intermediate step after hospitalization and before returning to their homes, as well as those admitted for long-term residency. The nursing homes are licensed by the Department of Health of the State of Minnesota, are in compliance with all requirements for eligibility in the federal Title XIX (Medicaid) Medical Assistance Program and are certified with respect to 1,127 beds for Medicare.

BSM's nursing homes provide rooms designed principally for two beds, but also include one-, three- and four-bed rooms. Each home contains a dining room, one or more recreation areas, day rooms, therapy area, fully-equipped kitchen and laundry facilities. All homes have approved fire detection and alarm systems and each nursing home, with the exception of Bethany Home of Litchfield, is equipped with an automatic sprinkler system. Each nursing home provides a beauty and barber shop on location.

Residential Facilities. The residential facilities owned and managed by BSM require no entrance or endowment fees, only monthly rent. Certain of the facilities offer options to lease monthly, quarterly, semi-annually or annually. The residential facilities are designed and operated to allow senior adults to live and enjoy an independent lifestyle in a secure and convenient community atmosphere. Full-time professional managers provide assistance to residents. An emergency call system at each facility is monitored 24 hours a day to put the residents in contact with emergency medical services. An optional assurance package, which provides assistance with daily living activities and medication assistance, is available for an additional fee. Social and activity programs provide residents with the opportunity fully to enjoy the facilities and are designed to meet the social and emotional needs of the residents. Such activities also provide additional opportunities for supervision and checking on the well-being of the residents. Physical therapy services are provided to residents on a fee-for-service basis at the adjacent skilled nursing facility at some residences. Transportation and meal service are optional features at most facilities, and individual meals may be purchased by residents or guests.

Home Care. BSM operates licensed home care agencies in Mankato, Minneapolis, and Litchfield, Minnesota, and manages home care agencies in Clarkfield, Madison and Sauk Rapids, Minnesota. Non-institutional services include administering medicines, treatments and procedures requiring specialized nursing skill. Nursing services also involve counseling patients and families regarding nursing care needs and related problems of the patient in the home. Nursing aides are assigned when there is a specific need for assistance with personal hygiene, ambulation and exercise and when mental health monitoring is required. The home care agencies also provide homemaker and other personal services such as light housekeeping, meal preparation, washing dishes, laundry, shopping and meal planning.

Patients serviced are those recuperating from surgery, illness or injury, patients with terminal illnesses, long-term disabilities or chronic conditions, and persons needing help with everyday tasks so they may live independently in their own home.

Governmental Regulation

Operation of BSM's facilities is subject to continuing compliance with various federal, state and local statutes, ordinances, rules and regulations with respect to licensing, health, medications, building standards and fire and life safety codes. BSM's nursing homes are licensed and regulated by the Minnesota Department of Health. Annual renewal of a license is dependent upon compliance with statutes, ordinances, rules and regulations which, if amended, could require changes in the Project, equipment, personnel or services of the Project and might adversely affect its operations.

BSM's nursing facilities are subject to the regulatory and licensing requirements of federal, state and local government authorities and presently have all necessary licenses and certifications. These licenses are annually renewable, and periodic inspections are made by the Minnesota Department of Health to determine compliance with applicable State rules. In addition, the homes are subject to continuing compliance with various other government statutes, ordinances, rules and regulations governing, among other things, building standards, Life Safety Code, food

preparation and special services rendered. Services to certain residents of the facilities are paid for in part by government programs such as Medicare and Medicaid.

Sources of Revenue

As a result of cost reimbursement regulations, there are limitations on a significant portion of the revenues that BSM receives from the operations of its facilities. BSM continues to carry the risk of operating deficits in the event utilization of its facilities should fall below the occupancy rates used to calculate permitted charges. Reductions in occupancy could result from reduced needs for health care services, over-construction of nursing homes or similar facilities (although new nursing homes cannot be constructed in Minnesota without a government-issued exception to the statutory prohibition on new facility construction), population shifts to other service areas, building obsolescence, development of new forms of retirement environments for the elderly and other factors. In addition, inflation of costs for labor, services or materials in excess of allowable costs and related funding through cost reimbursement programs could contribute to operating deficits despite the maintenance of high occupancy levels.

The percentage of resident days covered under the Medicaid and Medicare programs varies from facility to facility. As of December 31, 2002, such percentages in the facilities owned by BSM ranged from 36.14% on Medicaid at Mankato Lutheran Home in Mankato to 86.76% on Medicaid at Twin City Linnea Home in St. Paul. The highest Medicare percentage on December 31, 2002, was 30.43% at Lakeshore Lutheran Home in Duluth and the lowest Medicare percentage (at Medicare-certified facilities) was 6.687% at Emmanuel Nursing Home in Detroit Lakes.

The following table sets forth the average combined census population in the facilities owned by BSM by percentages of revenue source for fiscal years ended December 31, 2002, 2001, 2000, 1999, and 1998:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Medicaid	57.3%	59.7%	67.8%	66.3%	66.0%
Medicare	12.1	9.0	7.6	6.3	8.2
Private Pay and Other	30.6	31.3	24.6	27.4	25.8
TOTAL	100.0	100.0	100.0	100.0	100.0

Volunteer Services

BSM's operations are enhanced by the numerous volunteers who provide a wide variety of services to BSM without compensation. During the past year, approximately 2,200 volunteers served a total of approximately 100,000 hours at BSM's facilities. Volunteers range in age from elementary school age to senior citizens. In some facilities, Cub Scouts participate in junior volunteer programs. Each nursing facility has a volunteer coordinator. A partial list of the many widely varied services volunteers provide to BSM and its residents include visiting and companionship, assistance in the dining rooms and chapels, driving, meal delivery, assistance with crafts and games, gardening, accompaniment to medical appointments, and assistance in business offices.

Employees

BSM, or its subsidiaries, employs approximately 2,100 full and part-time employees, including administrative personnel. In addition, approximately 2,000 full and part-time employees are employed in the facilities managed by BSM. Approximately 467 full and part-time employees of BSM are covered under collective bargaining agreements, 125 full-time and part-time employees at Green Acres Country Care Center in North Branch and 130 full and part-time employees at Lakeshore Nursing Home in Duluth. In addition, certain full-time and part-time employees at [212 full and part-time employees] at Bayshore Health Center are union members. BSM considers its relations with its bargaining units to be positive.

Benefit Plans

In an effort to control costs, BSM has established a self-insured health insurance plan, along with an optional cafeteria benefits plan, for its employees. The result has been a stabilization of benefits and premium increases. The Plan is administered by two independent plan managers, one of which pays claims and manages other day-to-day operations and the other of which establishes reserves and funding. BSM maintains reserves for the payment of claims in amounts based on prior years' experience. BSM also maintains two self-directed defined contribution retirement plans.

Tax-Exempt Status

BSM is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, by virtue of BSM's recognition as a social ministry organization of the Evangelical Lutheran Church of America, and is exempt from federal income taxation under Section 501(a). Accordingly, BSM is not subject to federal income taxation and donations to it are tax deductible.

Competition

The nursing homes and residential care facilities of BSM compete on a local and regional basis with other nursing homes, convalescent centers, extended care facilities, home care agencies, residential facilities and apartment projects. Included among these are private, nonprofit, charitable and government facilities. There may be competition with general hospitals as they expand services beyond their acute care emphasis. BSM's nursing homes are intended to supplement hospital care rather than to compete directly with hospitals. Home care agencies provide limited competition for residential facilities but also serve as a referral source for the residential care facility when an individual requires a more structured lifestyle and the convenience of many health care and assisted living services in one location. BSM believes that it is competitive in the industry with respect to the service area of each nursing home and residential facility by the quality of services rendered and resident charges.

The future rate setting and service delivery environment for long term care is expected to include managed care, including integrated service networks. In managed care arrangements, service providers contract with third party payors for the rates that will be charged for a given population. It will be the responsibility of the provider to project its costs and service utilization, determine a price for its services and monitor its services on an ongoing basis.

In Minnesota, managed care in nursing facilities has begun to make inroads in the metropolitan areas of Minneapolis and St. Paul. Because BSM's facilities are located primarily outside those metropolitan areas, it is likely that their involvement with managed care will begin later than that of the metropolitan nursing facilities. Nevertheless, BSM is actively beginning to develop a cost accounting system to track its cost of services. BSM's Facilities in the metro area have begun planning and negotiating with third party payors for the delivery of acute and long term care services to their resident populations.

Future Expansion Policy and Plans

BSM has a strategic plan that calls for the continued expansion of The Guarantor's nursing home and residential facility management services. That strategic plan also contains a commitment to transition from traditional nursing home care to more desirable models. Consistent with this commitment is the intention of The Guarantor's Board of Trustees to encourage the research and development of alternative noninstitutional support service programs. The strategic plan calls for cautious growth regarding the development and purchase of new facilities and the issuance of additional long-term debt.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE GUARANTOR FOR THE YEARS
ENDED DECEMBER 31, 2002 AND 2001**

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**BOARD OF SOCIAL MINISTRY AND
BOARD OF SOCIAL MINISTRY FOUNDATION**

**Financial Statements
Including Independent Auditors' Report**

December 31, 2002 and 2001

**BOARD OF SOCIAL MINISTRY AND
BOARD OF SOCIAL MINISTRY FOUNDATION**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Board of Social Ministry
Shoreview, Minnesota

We have audited the accompanying combined balance sheets of Board of Social Ministry, its affiliates and Board of Social Ministry Foundation (herein after referred to as Board of Social Ministry) as of December 31, 2002 and 2001 and the related combined statements of changes in net assets, unrestricted activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Board of Social Ministry's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Board of Social Ministry, its affiliates and Board of Social Ministry Foundation at December 31, 2002 and 2001 and the combined changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Minneapolis, Minnesota
March 11, 2003

Virchow, Krause & Company, LLP

BOARD OF SOCIAL MINISTRY
COMBINED BALANCE SHEETS
December 31, 2002 and 2001

	ASSETS		LIABILITIES AND NET ASSETS	
	2002	2001	2002	2001
CURRENT ASSETS			CURRENT LIABILITIES	
Cash and cash equivalents	\$ 811,757	\$ 2,258,634	Current maturities of long-term debt and capital leases	\$ 739,731
Investments	4,457,825	5,511,105	Accounts payable - trade	1,811,162
Current portion of assets whose use is limited	3,418,963	2,541,156	Accrued salaries and payroll taxes	2,640,782
Accounts receivable, net			Accrued leave benefits	2,817,248
Service and care	6,825,823	4,767,517	Accrued interest	700,215
Management contracts	544,996	449,061	Accrued real estate taxes	42,662
Third party payors	700,058	556,250	Workers' compensation reserve	51,725
Pledges receivable	98,463	8,067	Residents' funds and deposits	2,454,486
Supplies inventories	194,589	189,504	Other current liabilities	841,547
Prepaid expenses	606,836	514,536	Total Current Liabilities	12,298,925
Other current assets	1,784,087	2,339,891		11,523,187
Total Current Assets	19,443,397	19,135,721		
			LONG-TERM LIABILITIES	
			Long-term debt and capital leases, less current maturities	43,220,040
			HUD capital advances	5,275,206
			Total Long-Term Liabilities	5,190,102
				5,190,102
				5,190,102
				5,190,102
ASSETS WHOSE USE IS LIMITED				
Residents' funds and deposits	505,672	429,707		
Under bond and mortgage indenture agreements	7,184,966	4,745,884		
Under HUD mortgage agreements	1,579,843	1,544,248		
Total assets whose use is limited	9,270,481	6,719,839		
Less: Current portion of assets whose use is limited	(3,418,963)	(2,541,156)		
Noncurrent Assets Whose Use is Limited	5,851,518	4,178,683		
PROPERTY AND EQUIPMENT				
Land	1,062,827	960,349		
Land improvements	2,030,295	1,986,162		
Buildings and improvements	71,758,283	66,474,390		
Furniture and equipment	15,827,405	14,767,744		
Total	90,678,810	84,168,845		
Less: Accumulated depreciation	(38,825,563)	(35,782,529)		
Total Property and Equipment	51,853,247	48,386,116		
OTHER ASSETS				
Unamortized intangible assets	1,705,826	1,370,199		
Construction in progress	4,137,661	3,108,385		
Foundation investments	4,009,835	4,627,281		
Investment in perpetual trusts	2,498,909	3,042,705		
Pledges receivable	168,447			
Total Other Assets	12,520,678	12,148,590		
TOTAL ASSETS	\$ 89,668,840	\$ 83,849,110		

See accompanying notes to combined financial statements.

BOARD OF SOCIAL MINISTRY

COMBINED STATEMENTS OF UNRESTRICTED ACTIVITIES
Years Ended December 31, 2002 and 2001

	2002		2001	
	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUE AND GAINS				
Daily services, board and care	\$ 56,317,449	65.7 %	\$ 52,127,252	65.0 %
Apartment and housing	5,967,171	7.0	5,344,168	6.7
Ancillary and other services	15,614,033	18.2	13,094,932	16.3
Management fees	2,839,290	3.3	3,034,187	3.8
Investment income	243,803	0.3	341,753	0.4
Other operating revenue	3,627,862	4.2	4,085,738	5.1
Donations and bequests	1,070,751	1.3	1,421,190	1.8
Net assets released from restrictions - operations	19,366	0.0	784,844	0.9
Total Revenue and Gains	<u>85,699,725</u>	<u>100.0</u> %	<u>80,234,064</u>	<u>100.0</u> %
OPERATING EXPENSE				
Nursing	32,085,972	37.4 %	29,641,470	37.0 %
Other care related	6,686,289	7.8	6,276,207	7.8
Ancillary and other services	3,914,551	4.6	3,184,415	4.0
Dietary	8,616,685	10.0	7,804,261	9.7
Laundry	1,154,794	1.3	1,143,185	1.4
Housekeeping	2,463,715	2.9	2,170,706	2.7
Plant operations	5,814,064	6.8	5,439,863	6.8
Property and interest	7,040,709	8.2	6,282,917	7.8
Administrative	14,971,902	17.5	12,370,708	15.4
Other operating expense	3,219,657	3.8	3,013,943	3.8
Total Operating Expense	<u>85,968,338</u>	<u>100.3</u>	<u>77,327,675</u>	<u>96.4</u>
OPERATING INCOME (LOSS)				
	(268,613)	(0.3) %	2,906,389	3.6 %
Loss on market value of investments	(1,333,449)		(868,113)	
Net assets released from restrictions - purchase of property and equipment	<u>473,501</u>		<u>357,395</u>	
CHANGE IN UNRESTRICTED NET ASSETS	\$ (1,128,561)		\$ 2,395,671	

See accompanying notes to combined financial statements.

BOARD OF SOCIAL MINISTRY
COMBINED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2002 and 2001

	2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating income	\$ (268,613)			\$ (268,613)
Loss on market value of investments	(1,333,449)	\$ (104,578)		(1,438,027)
Contributions and gifts		633,744	\$ 100,000	733,744
Investment income		3,372		3,372
Unrealized loss on beneficial interest in perpetual trusts			(543,796)	(543,796)
Net assets released from restrictions - operations	(19,366)			(19,366)
Net assets released from restrictions - purchase of property and equipment	473,501	(473,501)		
CHANGE IN NET ASSETS	(1,128,561)	39,671	(443,796)	(1,532,686)
NET ASSETS - December 31, 2001	26,871,338	493,312	3,042,705	30,407,355
NET ASSETS - DECEMBER 31, 2002	\$ 25,742,777	\$ 532,983	\$ 2,598,909	\$ 28,874,669

	2001			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating income	\$ 2,906,389			\$ 2,906,389
Loss on market value of investments	(868,113)	\$ (26,743)		(894,856)
Contributions and gifts		199,366		199,366
Investment income		174		174
Unrealized loss on beneficial interest in perpetual trusts			\$ (333,648)	(333,648)
Net assets released from restrictions - operations		(784,844)		(784,844)
Net assets released from restrictions - purchase of property and equipment	357,395	(357,395)		
CHANGE IN NET ASSETS	2,395,671	(969,442)	(333,648)	1,092,581
NET ASSETS - December 31, 2000	24,475,667	1,462,754	3,376,353	29,314,774
NET ASSETS - DECEMBER 31, 2001	\$ 26,871,338	\$ 493,312	\$ 3,042,705	\$ 30,407,355

See accompanying notes to combined financial statements.

BOARD OF SOCIAL MINISTRY

COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,532,686)	\$ 1,092,581
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,195,042	2,833,501
Amortization	66,390	47,930
Loss on disposal of property and equipment	103,191	
Unrealized loss on perpetual trust investments	543,796	333,648
Realized loss on investments	7,298	
Unrealized loss on investments	1,438,027	894,856
Change in assets and liabilities		
Accounts receivable	(2,298,049)	(766,733)
Pledges receivable	(258,843)	970,853
Supplies inventories	(5,085)	(17,463)
Other current assets	463,504	115,342
Residents' funds and deposits	(75,965)	(5,609)
Accounts payable	200,448	310,626
Accrued taxes, interest and expenses	1,079,548	969,784
Other liabilities	(607,799)	(210,535)
Contributions restricted for long-term investment	(100,000)	
Net Cash Flows From Operating Activities	<u>2,218,817</u>	<u>6,568,781</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,661,562)	(5,545,222)
Investment sales (purchases), net	225,411	(1,554,682)
Increase in assets under bond and mortgage indenture agreements	(2,439,082)	(265,061)
Increase in HUD mortgage reserve and escrow funds	(35,595)	(133,387)
Net Cash Flows From Investing Activities	<u>(9,910,828)</u>	<u>(7,498,352)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	7,051,629	1,920,368
Principal payments of long-term debt	(906,495)	(660,149)
Contributions received restricted for long-term investment	100,000	
Net Cash Flows From Financing Activities	<u>6,245,134</u>	<u>1,260,219</u>
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>(1,446,877)</u>	<u>330,648</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 811,757</u>	<u>\$ 2,258,634</u>

SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Property and equipment acquired through accounts payable	\$ 213,095	\$ 308,921
Property and equipment acquired through HUD capital advance	85,104	28,676
Financing costs paid from bond proceeds	402,017	84,632
Additional capitalization of HUD mortgage and buildings	143,790	
Property and equipment acquired through settlement of accounts receivable		1,142,541
HUD mortgage reserve deposits financed by capital advance		26,849
Prior year construction accounts payable financed by capital advance in current year		314,535

See accompanying notes to combined financial statements.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS

Nature of Operations - Board of Social Ministry (BSM) and Board of Social Ministry Foundation, formerly Foundation for the Elderly, (Foundation) are Minnesota nonprofit corporations organized to own, manage or support licensed nursing facilities, residential apartment facilities and other programs and services for the elderly throughout the State of Minnesota.

The combined financial statements are comprised of the accounts and records of Board of Social Ministry and Board of Social Ministry Foundation and their related nonprofit and proprietary corporations with common ownership and control as follows. All intercompany balances have been eliminated in the combined financial statements.

Entity	Operation	Relationship
Board of Social Ministry	Licensed Nursing Facilities, Senior Apartments and Alternative Care	Parent
BSM Services, Inc.	Management Services	BSM Subsidiary
Bridge Rehabilitation Services, Inc.	Therapy Company	BSM Subsidiary
Board of Social Ministry Home Care, Inc.	Home Health Agencies	BSM Support Organization
Diversified Business Insurance Agency, Inc.	Insurance Agency	BSM Subsidiary
Parmly Lakeview Apartments	HUD Senior Apartments	BSM Owned
Board of Social Ministry Foundation	Investment and Fund Raising	Parent
Bethany Home Foundation of Alexandria	Investment and Fund Raising	Foundation Support Organization
Emmanuel Foundation	Investment and Fund Raising	Foundation Support Organization
Augustana Lutheran Homes, Inc. DBA: Gloria Dei Manor	HUD Senior Apartments	BSM Support Organization
Bethel Manor, Inc.	HUD Senior Apartments	BSM Support Organization
Bethel Manor II, Inc.	HUD Senior Apartments	BSM Support Organization
Lamplighter Manor, Inc.	HUD Senior Apartments	BSM Support Organization

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Nature of Operations (Continued)

Robbinsdale Senior Housing, Inc. DBA: Lilac Parkway Apartments	HUD Senior Apartments	BSM Support Organization
White Bear Lake Senior Housing, Inc. DBA: Willow Woods Apartments	HUD Senior Apartments	BSM Support Organization
Hubbard County Senior Housing, Inc. DBA: Park Villa Apartments	HUD Senior Apartments	BSM Support Organization

The operations of Board of Social Ministry and related nonprofit corporations are as follows:

Licensed Nursing Facilities	Number of Licensed Beds	Location
Board of Social Ministry DBA: Bethany Home	123	Alexandria, Minnesota
Bethany Home	40	Litchfield, Minnesota
Emmanuel Nursing Home	140	Detroit Lakes, Minnesota
Emmanuel Nursing Home	120	Litchfield, Minnesota
Green Acres Country Care Center	133	North Branch, Minnesota
Lakeshore Lutheran Home	151	Duluth, Minnesota
Mankato Lutheran Home	69	Mankato, Minnesota
Margaret S. Parmly Residence	101	Chisago City, Minnesota
Martin Luther Manor	208	Bloomington, Minnesota
Twin City Linnea Home	71	St. Paul, Minnesota
Bayshore Health Center	215	Duluth, Minnesota
Total Licensed Nursing Facilities Beds	1,371	
Senior Apartments and Alternative Care	Number of Units	Location
Board of Social Ministry DBA: Vindauga View	25	Chisago City, Minnesota
Emmaus Place	40	Litchfield, Minnesota
Highland Manor	5	Bloomington, Minnesota
Parmly Lakeview Apartments	60	Chisago City, Minnesota
Point Pleasant Heights	110	Chisago City, Minnesota
Sibley Manor	69	Mankato, Minnesota
Augustana Lutheran Homes, Inc. DBA: Gloria Dei Manor	80	Litchfield, Minnesota
Bethel Manor, Inc.	63	Alexandria, Minnesota
Bethel Manor II, Inc.	69	Alexandria, Minnesota
Lamplighter Manor, Inc.	65	Detroit Lakes, Minnesota
Robbinsdale Senior Housing, Inc. DBA: Lilac Parkway Apartments	49	Robbinsdale, Minnesota
White Bear Lake Senior Housing, Inc. DBA: Willow Woods Apartments	46	White Bear Lake, Minnesota
Hubbard County Senior Housing, Inc. DBA: Park Villa Apartments	27	Park Rapids, Minnesota
Total Senior Housing Units	708	

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Nature of Operations (Continued)

Board of Social Ministry Foundation (Foundation) is a Minnesota nonprofit corporation organized to serve the needs of the entire BSM family for charitable fund investment, management and administration. The Foundation has been designated by BSM as the entity to receive, invest, manage and administer charitable gifts given to any BSM family member. Board of Social Ministry has no control over the Foundation nor does it have membership in the Foundation. The Foundation also controls Emmanuel Foundation in Detroit Lakes and Bethany Home Foundation of Alexandria.

Bridge Rehabilitation Services, Inc. operates a therapy company for owned, managed and unrelated organizations in Minnesota.

Board of Social Ministry Home Care, Inc. is a home health care and hospice program with operations in Minneapolis, Litchfield and Mankato, Minnesota.

Diversified Business Insurance Agency, Inc. acts as an agent for the placement of general insurance contracts for health care organizations.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of Board of Social Ministry and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the Board of Trustees has discretionary control. Designated amounts represent those revenues that the Board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions that will be satisfied by actions of the Organization or passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned on related investments for unrestricted or temporarily restricted purposes.

Standards of Accounting and Financial Reporting - BSM follows the accounting guidance in the audit and accounting guide, *Health Care Organizations*, which is in conformity with the recommendations of the American Institute of Certified Public Accountants.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Operating Revenues - Operating revenues (daily services, board and care, apartment and housing, ancillary and other services, and management fees) includes room charges and ancillary services for residents of the licensed nursing facilities, rental fees for the residential apartment facilities and service fees for all other services. Operating revenue is recorded at established billing rates, net of contractual adjustments resulting from agreements with third-party payors. Certain rental arrangements are subject to regulations by HUD as to operations and amounts charged.

Provisions for estimated third-party payor settlements were provided in the period the related services were rendered. Differences between the estimated amounts accrued and interim and final settlements were recorded in operations in the year of settlement. In 1999, the facilities switched to the prospective payment system for reimbursement from third-parties. There are no settle-ups under this system.

Operating Income - The combined statement of unrestricted activities includes operating income. Changes in unrestricted net assets which are excluded from operating income, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Third Party Reimbursement Agreements

Medicaid - The licensed nursing facilities participate in the Medicaid program that is administered by the Minnesota Department of Human Services (DHS). Per diem rates for residents are determined on a cost-related basis subject to certain limitations as prescribed by Rule 50. The facilities must submit a cost report for each reporting year ending September 30, from which its per diem rates effective the following July 1 are determined. These rates are subject to retroactive adjustment by field audit.

Minnesota statutes passed in 1995 imposed additional operating cost limitations by controlling the maximum operating cost per diem increase a facility may incur for rate setting. In addition, if a facility is determined to be high cost as defined in Minnesota statutes, the operating cost per diem for rate setting will be reduced.

In 1995, the State of Minnesota also authorized the DHS by statute to establish a contractual alternative payment system, called the "Nursing Home Contract Project." The purpose of the Project is to explore a contract-based reimbursement system as an alternative to the current cost-based system for reimbursement. Facilities participating in the program are paid their reimbursement rates in effect at the time of acceptance with annual inflationary adjustment. As of the date of this report, ten of the licensed nursing facilities have been accepted as participants under the system.

By Minnesota statute, a nursing facility may not charge private paying residents in multiple occupancy rooms per diem rates in excess of the approved Medicaid rates for similar services.

Medicare - By Minnesota statute, a skilled nursing facility that participates in the Medicaid program must also participate in the Medicare program. The home health, hospice and rehab agencies operated by BSM also participate in the Medicare program. This program is administered by the federal Department of Health and Human Services. Annual cost reports must be submitted to the designated intermediary for cost settlement. These reports are subject to retroactive adjustment by field audit.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Third Party Reimbursement Agreements (Continued)

During the years ended December 31, 2002 and 2001, the licensed nursing facility occupancy percentages and the percentages of resident days covered under the Medicaid and Medicare programs were as follows:

Facility	Occupancy		Medicaid		Medicare	
	2002	2001	2002	2001	2002	2001
Bethany Home - Alexandria	90.75%	89.37%	64.02%	67.88%	11.25%	9.25%
Bethany Home - Litchfield	86.32	85.49	56.82	47.58	0.00	0.00
Emmanuel Nursing Home - Detroit Lakes	97.88	96.47	59.48	58.07	6.68	5.18
Emmanuel Nursing Home - Litchfield	93.18	94.14	58.47	61.91	10.73	7.25
Green Acres Country Care Center	92.29	90.21	61.15	68.71	8.56	7.29
Lakeshore Lutheran Home	83.45	89.39	43.40	48.35	30.43	19.19
Mankato Lutheran Home	99.46	99.24	36.14	44.38	11.61	9.47
Margaret S. Parmly Residence	96.05	99.02	56.27	60.39	7.05	5.19
Martin Luther Manor	95.82	91.48	56.38	54.40	9.72	9.16
Twin City Linnea Home	95.39	94.65	86.76	85.73	0.00	0.00
Bayshore Health Center	88.84	N/A	73.92	N/A	10.11	N/A

The occupancy percentages for senior housing units are as follows:

Facility	2002	2001
Vindauga View	100.00%	N/A
Atonement Manor	N/A	100.00%
Emmaus Place	90.00	90.90
Grace Manor	N/A	100.00
Highland Manor	97.87	100.00
Parmly Lakeview Apartments	99.99	99.91
Point Pleasant Heights	99.97	99.70
Sibley Manor	100.00	99.72
Gloria Dei Manor	89.00	90.00
Bethel Manor, Inc.	94.00	96.70
Bethel Manor II, Inc.	93.00	95.21
Lamplighter Manor, Inc.	96.00	98.60
Lilac Parkway Apartments	96.00	97.92
Willow Woods Apartments	100.00	100.00
Park Villa Apartments	99.98	99.90

Cash and Cash Equivalents - Cash equivalents include certificates of deposit with maturity dates of three months or less and money market accounts. The certificates of deposit are stated at cost, which approximates market.

Investments - Investments are primarily investments in debt and equity securities. Debt and equity securities are carried at fair value with gains and losses reported as unrestricted, temporarily restricted or permanently restricted net assets, as appropriate. For unrestricted investments, interest and dividends, amortization, and realized gains and losses are included in investment income. The cost of securities sold is based on the specific identification method.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Accounts Receivable - BSM accounts for uncollectible accounts by the reserve method. At December 31, 2002 and 2001, the allowance for uncollectible accounts was approximately \$102,000.

Pledges Receivable - Future nonreciprocal transfers of cash and other assets are recorded as pledges receivable when the Organization enters into a written or oral agreement with a donor. Pledges to give that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met.

The Organization accounts for uncollectible pledges receivable by the reserve method. There was no allowance for uncollectible pledges at December 31, 2002 and 2001.

Supplies Inventories - Supplies inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

Assets Whose Use is Limited - Assets whose use is limited include assets held by trustees under indenture agreements and resident funds held in trust.

Depreciation - Property and equipment are valued at cost and are being depreciated over their estimated useful lives by the straight-line method of depreciation. BSM capitalizes property and equipment expenditures in excess of \$500. No depreciation is taken in the year of acquisition and a full year's depreciation is taken in the year of disposal.

The estimated useful lives for depreciation are as follows:

Buildings and improvements	10 - 60 Years
Furniture and fixtures	5 - 15 Years
Vehicles	3 - 5 Years
Land improvements	10 - 20 Years
Rental property	10 - 25 Years

Unamortized Intangible Assets - Intangible assets at December 31, 2002 and 2001 consisted of unamortized financing costs, which are being amortized over the terms of the applicable obligations.

Construction in Progress - At December 31, 2002 and 2001, there were various remodeling and renovation projects under way that are recorded as construction in progress until placed in service. BSM anticipates additional expenditures of approximately \$13,000,000 in order to complete the projects. Included in construction in progress at December 31, 2002 was \$2,059,278 of costs for townhomes being constructed at the Emmanuel - Detroit Lakes facility. Once completed and sold to outside parties, these townhomes will be eliminated from the financial statements. Except for these townhomes, the construction projects will be financed through a combination of debt, contributions and operations.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OPERATIONS (CONTINUED)

Real Estate Taxes - The real estate of BSM related to providing health care has been exempted from ad valorem property taxes by the State of Minnesota and its political subdivisions.

Income Taxes - All corporations except BSM Services, Inc. have been granted exempt status relative to federal and state corporate income taxes under Section 501(c)(3) of the federal Internal Revenue Code and applicable state codes.

Income taxes for BSM Services, Inc. are recorded at the prevailing statutory rates and are included in operating expense. There were no taxes payable at December 31, 2002 and 2001.

Other Operating Revenue and Expense - Other operating revenue and expense consists primarily of additional services that are provided to the residents and other members of the senior population in Minnesota. These services include adult day care, home delivered meals, outreach services, transportation, vending and other miscellaneous services.

Annuities - Board of Social Ministry Foundation accepts, as gifts, annuities from donors in which the principal becomes a contribution to the Foundation with a commitment by the Foundation to pay the donor a specified interest rate on the contribution for the life of the donor. The liability for the present value of the future interest benefit is recomputed annually based upon actuarially determined life expectancies. Annuities payable at December 31, 2002 and 2001 were \$20,362 and \$29,231, respectively, and are recorded in other liabilities on the financial statements.

Advertising Expenses - Advertising expenses approximated \$307,900 and \$239,300 for the years ended December 31, 2002 and 2001, respectively. Advertising costs are expensed when incurred.

Reclassifications - For comparability, certain 2001 amounts have been reclassified to conform with classifications adopted in 2002. The reclassifications have no effect on reported amounts of net assets or change in net assets.

NOTE 2 - INVESTMENTS

The fair value of investments is estimated based upon quoted market prices for those or similar investments. The fair values at December 31, 2002 and 2001 were as follows:

	2002		
	Current	Long-Term	Total
Marketable equity securities	\$ 4,357,794	\$ 2,937,355	\$ 7,295,149
Certificates of deposit and money market funds	<u>100,031</u>	<u>1,072,480</u>	<u>1,172,511</u>
Total	<u>\$ 4,457,825</u>	<u>\$ 4,009,835</u>	<u>\$ 8,467,660</u>

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 2 - INVESTMENTS (CONTINUED)

	2001		
	Current	Long-Term	Total
Marketable equity securities	\$ 5,223,592	\$ 4,322,428	\$ 9,546,020
Certificates of deposit and money market funds	<u>287,513</u>	<u>304,863</u>	<u>592,376</u>
Total	<u>\$ 5,511,105</u>	<u>\$ 4,627,291</u>	<u>\$ 10,138,396</u>

NOTE 3 - MANAGEMENT FEES

BSM manages a number of other facilities that are not included in the accompanying combined financial statements because BSM had no ownership interest. Total management fee income and the divisions generating management fee income were as follows for the years ended December 31, 2002 and 2001:

	2002	2001
BSM Services, Inc.	\$ 2,723,139	\$ 2,573,973
BSM Central Office	<u>116,151</u>	<u>460,214</u>
Total	<u>\$ 2,839,290</u>	<u>\$ 3,034,187</u>

As of December 31, 2002, BSM has guaranteed \$4,350,000 of the long-term debt of Second Century Housing, which owns seven managed facilities.

The managed facilities were as follows:

Licensed Nursing Facilities	Number of Licensed Beds	Location
Balaton Nursing Home	78	Balaton, Minnesota
Clarkfield Care Center	86	Clarkfield, Minnesota
Colonial Manor	54	Lakefield, Minnesota
First Christian Church Residence	65	Minneapolis, Minnesota
Good Shepherd Nursing Home	174	Sauk Rapids, Minnesota
Heritage Living Center	130	Park Rapids, Minnesota
Itasca Nursing Home	118	Grand Rapids, Minnesota
Madison Lutheran Home	177	Madison, Minnesota
Pelican Valley Health Center	46	Pelican Rapids, Minnesota
Sunnyside Nursing Home	63	Lake Park, Minnesota
Sunrise Home	<u>55</u>	Two Harbors, Minnesota
Total	<u>1,046</u>	

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 3 - MANAGEMENT CONTRACTS (CONTINUED)

Senior Apartments and Alternative Care	Number of Units	Location
1710 Plymouth	40	Minneapolis, Minnesota
Augustana Apartments	46	Fergus Falls, Minnesota
Brookside Manor	62	Montevideo, Minnesota
Cardinal Homes	61	Fergus Falls, Minnesota
Country Neighbors	18	Mapleton, Minnesota
Country Neighbors	19	New Richland, Minnesota
Country Neighbors	22	Lake Crystal, Minnesota
Hilltop Residence	36	Madison, Minnesota
Lakeland Shores Apartments	46	Duluth, Minnesota
Meadow Woods	108	Bloomington, Minnesota
Realife Cooperative of Mankato	57	Mankato, Minnesota
Realife Cooperative of Owatonna	32	Owatonna, Minnesota
Realife Cooperative of Waseca	22	Waseca, Minnesota
Signe Burckhardt Manor	42	Minneapolis, Minnesota
Winona Arms, Inc.	49	Winona, Minnesota
Good Shepherd Homes, Inc.	58	Sauk Rapids, Minnesota
Shepherd Court Apartments	53	Sauk Rapids, Minnesota
Shepherd Oak Apartments	42	Sauk Rapids, Minnesota
Shepherd Oak West Apartments	45	Sauk Rapids, Minnesota
Wilds of Sand Prairie	42	St. Peter, Minnesota
The Oaks	42	Hutchinson, Minnesota
The Brooks	42	Owatonna, Minnesota
Windmill Ponds	65	Alexandria, Minnesota
Heritage Manor	26	Park Rapids, Minnesota
Sunrise on Superior	41	Two Harbors, Minnesota
Uptown Maple Commons	31	North Branch, Minnesota
Riverfront Manor	10	Pelican Valley, Minnesota
Manor House	92	Grand Rapids, Minnesota
Woodland Manor	20	Grand Rapids, Minnesota
Adult Day Stay	N/A	Grand Rapids, Minnesota
Total	<u>1,269</u>	

Acute Care Services	Location
Lac Qui Parle Hospital of Madison	Madison, Minnesota
Lac Qui Parle Clinic of Madison	Madison, Minnesota
Marietta Clinic	Madison, Minnesota

Home Health Care	Location
Clarkfield Home Care	Clarkfield, Minnesota
Good Shepherd Home Care	Sauk Rapids, Minnesota
Western Home Health and Hospice Care	Madison, Minnesota

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 4 - CLASSIFICATION OF NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Construction of a chapel	\$ 60,230	\$ 338,991
Purchases of property and equipment	70,000	66,448
Resident care and services	135,843	79,806
Pledges receivable	<u>266,910</u>	<u>8,067</u>
 Total	 <u>\$ 532,983</u>	 <u>\$ 493,312</u>

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the operations of certain nursing facilities. At December 31, 2002 and 2001, permanently restricted net assets consisted of beneficial interests in perpetual trusts whose incomes are restricted for the support of the operations of Margaret S. Parmly Residence, Lakeshore Lutheran Home and Bethany Home - Litchfield. Also, at December 31, 2002, permanently restricted net assets include a \$100,000 gift from which income is restricted for the support of the operations of Martin Luther Manor.

NOTE 5 - DONOR RESTRICTIONS RELEASED

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors were as follows for the years ended December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Restrictions Accomplished:		
Released for operations	\$ 19,366	\$ 784,844
Purchase of property and equipment	<u>473,501</u>	<u>357,395</u>
 Total	 <u>\$ 492,867</u>	 <u>\$ 1,142,239</u>

NOTE 6 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are available for obligations classified as current liabilities are reported in current assets.

Bond Service Funds - Bond service funds have been established for BSM to deposit monthly amounts necessary to pay semi-annual principal and interest on the bonds.

Bond Reserve Funds - Bond reserve funds have been established to provide a reserve for payment of principal and interest on the bonds in the event BSM's principal and interest payments are insufficient to meet debt service requirements.

Bond Repair and Replacement Funds - Bond repair and replacement funds have been established to provide for repair and replacement of property funded by revenue bonds.

Bond Construction Funds - Construction funds have been established to provide funds for expansion of plant facilities.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 6 - ASSETS WHOSE USE IS LIMITED (CONTINUED)

The following is a summary of the bond and mortgage funds at fair value at December 31, 2002 and 2001:

	2002	2001
Bond Service Funds:		
Money market funds	\$ 649,663	\$ 298,476
Government debt obligations		186,899
Total Bond Service Funds	<u>649,663</u>	<u>485,375</u>
Bond Reserve Funds:		
Money market funds	652,428	552,511
Government debt obligations	594,286	824,828
Total Bond Reserve Funds	<u>1,246,714</u>	<u>1,377,339</u>
Bond Repair and Replacement Funds:		
Money market funds	65,860	13,669
Government debt obligations	413,771	499,651
Total Bond Repair and Replacement Funds	<u>479,631</u>	<u>513,320</u>
Bond Construction Funds:		
Money market funds	603,275	2,369,850
Guaranteed investment contract	4,205,683	
Total Bond Construction Funds	<u>4,808,958</u>	<u>2,369,850</u>
Total	\$ 7,184,966	\$ 4,745,884

HUD Mortgage Escrows and Reserves - Various escrow and reserve funds have been established under the loan agreements with the Federal Department of Housing and Urban Development (HUD). The funds accumulate in accordance with the loan agreements for payment of real estate taxes, insurance and building and equipment repairs and replacements. All HUD funds are held in money market accounts, certificates of deposit or savings accounts.

NOTE 7 - LONG-TERM DEBT

BSM's long-term debt at December 31, 2002 and 2001 is summarized below:

	2002	2001
City of Alexandria, Minnesota, Health Care Facilities Revenue Bonds Series 2002A and 2002B due annually in varying amounts on July 1 starting in 2004	\$ 4,595,000	
Port Authority of the City of St. Paul Tax Exempt Revenue Bonds Series 2002-5 and Taxable Revenue Bonds Series 2002-6 due in varying lump sum amounts on September 1 starting in 2007	2,500,000	
City of Chisago City, Minnesota, Health Facility Revenue Bonds Series 2001 due annually in varying amounts on July 1 starting in 2004	2,005,000	\$ 2,005,000
City of Mankato, Minnesota, Housing Facilities Revenue Bonds Series 2000 due annually in varying amounts on October 1	2,875,000	2,915,000

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>2002</u>	<u>2001</u>
Duluth Economic Development Authority Health Care Facilities Revenue Bonds Series 1998A due semiannually in varying amounts on December 1 and June 1	\$ 10,985,000	\$ 11,170,354
Department of Housing and Urban Development Mortgages due monthly	6,924,534	6,973,951
Flexible Subsidy Assistance Loan	862,825	862,825
City of Mankato, Minnesota, Health Care Facilities Revenue Bonds Series 1996 A and B due annually in varying amounts on October 1	5,035,000	5,125,000
City of Detroit Lakes, Minnesota, Health Care Facilities Revenue Bonds, Series 1993 due annually in varying amounts on April 1	1,025,000	1,055,000
City of Chisago City, Minnesota, Health Facility Refunding Revenue Bonds Series 1995A and 1995B due annually in varying amounts on July 1	4,045,000	4,115,000
Various notes payable with interest rates ranging from 4.25% to 7.50%	<u>824,806</u>	<u>695,414</u>
Total	\$ 41,677,165	\$ 34,917,544

The City of Alexandria, Minnesota, Health Care Facilities Revenue Bonds Series 2002A and 2002B have varying interest rates of 4.00% to 6.00%. Series 2002A will be retired from 2004 to 2012 in annual amounts ranging from \$60,000 to \$85,000 with the final payment of \$3,200,000 due July 1, 2032. Series 2002B will be retired from 2006 to 2007 in annual amounts of \$375,000.

The Port Authority of the City of St. Paul Tax Exempt Revenue Bonds Series 2002-5 and Taxable Revenue Bonds Series 2002-6 have varying interest rates of 5.25% to 7.50%. Series 2002-5 will be retired in lump sum payments of \$290,000, \$785,000 and \$1,300,000 on September 1, 2012, 2022 and 2031, respectively. Beginning in 2007, BSM is required to make annual sinking fund payments for a period of 25 years of \$35,000 to \$185,000. Series 2002-6 will be retired in a lump sum payment of \$125,000 on September 1, 2007. Beginning in 2004, BSM is required to make annual sinking fund payments for a period of four years of \$10,000 to \$40,000.

The City of Chisago City, Minnesota, Health Facility Revenue Bonds Series 2001 have varying interest rates of 5.00% to 5.75% and will be retired in annual installments of \$30,000 to \$40,000 on July 1, 2004 through 2010 with a payment of \$1,750,000 due July 1, 2031. The term bond maturing in 2031 is subject to annual sinking fund payments on July 1 in the years 2011 through 2031 in amounts varying from \$45,000 to \$135,000.

The City of Mankato, Minnesota, Housing Facilities Revenue Bonds Series 2000 have an interest rate of 6.0% and will be retired from 2003 to 2030 in annual amounts ranging from \$40,000 to \$205,000.

The Duluth Economic Development Authority Health Care Facilities Revenue Bonds Series 1998A have varying interest rates of 4.80% to 5.875% and will be retired from 2003 to 2011 in semiannual amounts ranging from \$95,000 to \$150,000. Beginning in 2012, BSM is required to make semiannual sinking fund payments for a period of 17 years of \$155,000 to \$390,000 with the final payment of \$405,000 due December 1, 2028.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The Department of Housing and Urban Development mortgages include seven notes having varying interest rates of 3.00% to 8.50% and are due in monthly payments ranging from \$1,615 to \$15,943, including interest.

The Flexible Subsidy Assistance loan is an agreement with HUD for funds for repairs, replacements and improvements of a HUD senior apartment facility. The loan agreement, dated October 10, 1985, calls for a loan of up to \$862,825. The loan carries an annual interest rate of one percent. Principal and interest payments are not due until, or if, the current mortgages mature or are paid off or the facility is sold, foreclosed upon or disposed of.

The City of Mankato, Minnesota, Health Care Facilities Revenue Bonds Series 1996A have varying interest rates of 5.6% to 7.5% and will be retired from 2003 to 2011 in annual amounts ranging from \$90,000 to \$145,000. Beginning in 2012, BSM is required to make annual sinking fund payments for a period of 15 years of \$155,000 to \$360,000 with the final payment of \$595,000 due October 1, 2026.

The City of Detroit Lakes, Minnesota, Health Care Facilities Revenue Bonds Series 1993 have varying interest rates of 6.00% to 7.00% and will be retired from 2003 to 2006 in annual amounts ranging from \$35,000 to \$40,000. Beginning in 2007, BSM is required to make annual sinking fund payments for a period of 13 years of \$45,000 to \$90,000 with the final payment of \$100,000 due on April 1, 2019.

The City of Chisago City, Minnesota, Health Facility Refunding Revenue Bonds Series 1995A have varying interest rates of 6.40% to 7.40% and will be retired from 2003 to 2005 in annual amounts ranging from \$75,000 to \$85,000 and in lump sum payments of \$405,000, \$1,040,000, \$405,000 and \$1,955,000 on July 1, 2009, 2016, 2018 and 2025, respectively. Beginning in 2006, BSM is required to make annual sinking fund payments for a period of 20 years of \$90,000 to \$320,000 with the final payment of \$340,000 due on July 1, 2025.

The estimated principal payments for long-term debt are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2003	\$ 830,500
2004	861,900
2005	914,800
2006	1,235,100
2007	1,330,100
Later Years	<u>36,504,765</u>
Total	<u>\$ 41,677,165</u>

Interest expensed and interest paid (excluding capitalized interest) on debt was \$2,290,000 and \$2,159,000, respectively, for the year ended December 31, 2002. Interest expensed and interest paid (excluding capitalized interest) on debt was \$2,120,000 and \$2,079,000, respectively, for the year ended December 31, 2001.

BSM follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use. Capitalized interest for the years ended December 31, 2002 and 2001 approximated \$170,000 and \$198,000, respectively.

BSM is subject to various covenants under the bond, loan and mortgage agreements. These covenants require minimum working capital levels, limit capital expenditures and require minimum net revenues, among other items. In the case of the City of Mankato, Minnesota, Housing Facilities Revenue Bonds, the Duluth Economic Authority Health Care Facilities Revenue Bonds, the City of Mankato, Minnesota, Health Care Facilities Revenue Bonds, the City of Alexandria, Minnesota, Health Care Facilities Revenue Bonds and the HUD mortgages, the debt payments and covenants are the obligation of the facilities that incurred the debt and are not the obligation of the other facilities owned or managed by BSM.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 8 - LEASES

Operating Leases - As of December 31, 2002 and 2001, BSM leased a licensed nursing facility under an arrangement that went into effect on January 1, 1988. The current monthly lease payments are approximately \$16,000. The minimum annual lease payment shall be an amount equal to 80% of the property component of the medical assistance payment rate, as determined by the Minnesota Department of Human Services, multiplied by the lessee's actual resident days for the period. The lease has a ten-year term expiring on January 1, 2008.

As of December 31, 2002, BSM leased a licensed nursing facility under an arrangement that went into effect July 31, 2002. The current monthly lease payments are approximately \$74,000. The lease has a three-year term expiring on July 31, 2005.

Total rental expense charged to operations amounted to \$796,000 and \$215,000 for the years ended December 31, 2002 and 2001, respectively. Minimum future rental payments under the current facility leases and other significant noncancelable operating leases having remaining terms in excess of one year as of December 31, 2002, for each of the next five years and in the aggregate are:

Year Ending December 31	Amount
2003	\$ 1,306,000
2004	1,306,000
2005	936,000
2006	418,000
2007	<u>418,000</u>
 Total	 <u>\$ 4,384,000</u>

Capital Leases - During the year ended September 30, 1997, BSM entered into a capital lease agreement for building (\$2,666,483) and equipment (\$46,457) with the Litchfield Economic Authority. These amounts are recorded in building and equipment on the financial statements. The term of the lease is from October 31, 1997 to February 1, 2022. Lease payments commenced on February 1, 1998. The lease bears interest at 5.5% and the monthly payment varies from \$16,000 to \$19,000. The lease is being amortized over 24 years. In addition, BSM has other capital leases for copiers and other equipment.

The estimated future minimum lease payments on all capital leases are as follows:

Year Ending December 31	Amount
2003	\$ 225,000
2004	207,000
2005	207,000
2006	202,000
2007	200,000
Later Years	<u>2,975,000</u>
 Subtotal	 4,016,000
Less: Amounts representing Interest	<u>(1,534,027)</u>
 Total	 <u>\$ 2,481,973</u>

Depreciation expense on capital leases amounted to \$123,413 and \$142,430 for the years ended December 31, 2002 and 2001, respectively. Accumulated depreciation at December 31, 2002 and 2001 includes \$627,987 and \$504,574 relating to leased assets, respectively.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 9 - HUD CAPITAL ADVANCES

At December 31, 2002 and 2001, three and two, respectively, of the HUD senior apartments were participants in a capital advance program with the Department of Housing and Urban Development. Under this program, the capital advances bear no interest and repayment is not required so long as the housing remains available for very low-income, elderly persons, for a period of at least 40 years. Noncompliance would result in HUD billing the facilities for the entire capital advances plus interest at rates varying from 5.75% to 7.25%.

NOTE 10 - WORKERS' COMPENSATION INSURANCE

As of January 1, 2002 BSM formed a self-insured workers' compensation insurance plan. BSM allocates the gross workers' compensation premium to its facilities based on their respective wages paid and employee job classifications. BSM, aided by CompCost, Inc., a licensed service company, calculates the annual premium based on projected wages and employee job classifications. Quarterly deposits are made to the plan based on the annual premium. All claims are administered through CompCost, Inc. which processes claim checks.

Reserves are recorded on the balance sheet for claims outstanding for 1991 and 1992 for the difference between the estimated total policy premium and the premium paid to date. These years, together with prior years, are covered by retrospective premium policies where premiums are adjusted based on actual claims. The reserve for workers' compensation claims for these policy years was \$51,725 and \$59,544 at December 31, 2002 and 2001, respectively

NOTE 11 - PENSION PLAN

BSM provides defined contribution pension plans for its employees. Participation in plans is available to employees upon meeting certain eligibility requirements. Contributions are based on defined or discretionary formulas. Contributions to the plans by BSM were approximately \$1,441,000 and \$1,467,000 for the years ended December 31, 2002 and 2001, respectively. Benefits payable upon retirement are determined by the amount contributed by the employee and by BSM on the employee's behalf.

NOTE 12 - PLEDGES RECEIVABLE

Included in pledges receivable at December 31, 2002 and 2001 are the following unconditional promises to give:

	2002	2001
Restricted to Future Periods	\$ 309,132	\$ 8,067
Less: Current Portion	(98,463)	(8,067)
Total	210,669	
Less: Unamortized Discount	(42,222)	
Long-Term Portion	<u>\$ 168,447</u>	<u>\$ -</u>
Amounts Due in:		
Less than One Year	\$ 98,463	\$ 8,067
One to Five Years	196,379	
Over Five Years	14,290	
Total	309,132	8,067
Less: Unamortized Discount	(42,222)	
Net Pledges Receivable	<u>\$ 266,910</u>	<u>\$ 8,067</u>

Imputed interest rate is 8%.

BOARD OF SOCIAL MINISTRY

NOTES TO COMBINED FINANCIAL STATEMENTS December 31, 2002 and 2001

NOTE 13 - FUNCTIONAL CLASSIFICATION OF EXPENSES

Functional classification of expenses for the years ended December 31, 2002 and 2001 consisted of the following:

	<u>2002</u>	<u>2001</u>
Program	\$ 64,886,677	\$ 63,567,992
Management and general support	20,471,653	13,298,508
Fund raising	<u>610,008</u>	<u>461,175</u>
 Total Expenses	 <u>\$ 85,968,338</u>	 <u>\$ 77,327,675</u>

NOTE 14 - CONTINGENT LIABILITIES

Government Regulations - Medicaid - The Minnesota Department of Human services reserves the right to perform field audit examinations of the records of the long-term health care facilities. The cost report periods from October 1, 1999 to September 30, 2002 remain open to examination. Any adjustments resulting from such an examination could retroactively adjust Medicaid revenue.

Government Regulations - Medicare - The Medicare intermediary has the authority to audit the long-term health care facilities' records any time within a three-year period after the date BSM receives a final notice of program reimbursement for each cost reporting period. Any adjustments resulting from the audit process could retroactively adjust Medicare revenue.

NOTE 15 - COMMITMENT

During 2001, BSM signed a development agreement with Senior Housing Partners, LLC to provide services in connection with development of a project at Lakeshore Lutheran Home. The development fee is \$700,000 and is payable as follows: \$50,000 upon execution of the development agreement (paid in 2001), \$175,000 upon closing on permanent financing of the project, \$315,000 during the anticipated construction period and \$160,000 on the date a certificate of occupancy is signed for the project.

NOTE 16 - CREDIT RISK

Financial instruments that potentially subject BSM to concentrations of credit risk consist principally of cash, short-term investments, marketable securities and accounts receivable. BSM places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Resident receivables are derived from individuals who are primarily concentrated in Minnesota.

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APPENDIX C

**UNAUDITED BALANCE SHEETS AND CONSOLIDATED INCOME STATEMENTS
OF THE GUARANTOR FOR THE PERIODS ENDED SEPTEMBER 30, 2003 AND 2002**

**Unaudited Consolidated Balance Sheet of the Board of Social Ministry
for the period ending September 30, 2003**

Assets	Nursing Homes & Alternate Care	BSM Housing	Home Care	BSM Corp. And Other	BSM HUDS	Eliminations	Total less Eliminations
Current Assets							
Unrestricted cash and cash equivalents	16,978,844	(9,537,251)	669,766	(7,784,567)	125,793		452,584
Resident Receivables	6,439,908	1,372	663,455	474,500	5,247		7,584,883
Other receivables	467,307	296,958	106,278	799,100	907,751		2,577,394
Intercompany Receivables	5,409,087	1,108,743	467,991	2,479,257	8,650	(2,862,739)	6,610,989
Inventories	184,481	968		9,140	6,789		201,377
Prepaid expense	145,177	38,027	13,080	994,054	19,969		1,210,306
Total current Assets	29,624,803	(8,091,184)	1,920,570	(3,028,516)	1,074,198	(2,862,739)	18,637,133
Assets whose use is limited							
Funds held for trusts							
Restricted Assets	1,138,336	48,195		2,584,835	1,610,427		5,381,794
Reserved for endowment							
Residents funds held in trust	264,097	158,486			146,702		569,285
Workers comp/insurance reserve							
Reserved for debt service	3,492,593	1,166,750		82,444			82,444
Total Assets whose use is limited	4,895,026	1,373,432		2,695,299	1,812,844		4,743,079
Other Assets							
Investment Securities	6,901,152	184,538		5,579,913	13,303	(7,181,309)	5,497,597
Mortgage Notes Receivable & Other	1,319,399	763,368		155,535			
Deferred Bond Costs							
Total Other Assets	8,220,551	947,906		5,735,448	13,303	(7,181,309)	2,238,302
Property, Plant, and Equipment							
Land	1,929,376	397,595	109,820	846,483	914,533		4,197,807
Buildings	42,333,380	22,091,463	295,194	1,846,353	16,263,495		82,829,885
Equipment and Furnishings	11,306,836	1,307,420	358,135	3,257,609	1,020,569		17,250,568
Construction in progress	6,775,438				27,425		6,802,864
Subtotal	62,345,030	23,796,478	763,148	5,950,445	18,226,022		111,081,124
Less Accumulated Depreciation	(27,983,729)	(5,617,712)	(320,139)	(1,594,221)	(7,335,267)		(42,851,069)
Total Property Plant & Equipment	34,361,301	18,178,766	443,009	4,356,224	10,890,755		68,230,055
Total Assets	77,101,681	12,408,920	2,363,580	9,758,455	13,791,100	(10,044,048)	105,379,688

<u>Nursing Homes & Alternate Care</u>	<u>BSM Housing</u>	<u>Home Care</u>	<u>BSM Corp. And Other</u>	<u>BSM HUDS</u>	<u>Eliminations</u>	<u>Total less Eliminations</u>
Liabilities & Fund Balance						
Current Liabilities						
Current Maturities of long term debt						
Accounts Payable	845,328	90,321	3,672	76,670	40,969	1,056,960
Accrued expenses:						
Salaries, vacation & taxes	4,118,709	128,432	129,320	917,001	21,112	5,314,575
Accrued Interest Payable	515,848	132,258			196,847	844,953
Other liabilities	2,323,174	2,502,656	2,478	257,521	51,398	5,137,227
Due to third party payors	44			620,883		620,927
Amounts due to affiliated corporation	1,355,603	42,367	111	8,458,558	192,899	12,980.131
9,158,706	2,896,034	135,581	10,330,633	503,226	(10,044,048)	5,491
Total current liabilities	26,886,377	17,315,000	179,180	2,689,931	12,829,814	59,900,301
Long Term Debt						
Other Liabilities						
Charitable trusts						
Annuities Payable	7,474	380,322				387,796
Deferred revenue and other	9,805					903,396
Residents funds held in trust	280,075	154,588				565,673
Total other liabilities	297,354	534,910				1,856,865
Fund Balances						
General	39,282,821					
Unrestricted Net Assets Curr	1,058,969	345,886	729,232	(211,790)	(130,163)	1,792,134
Endowment	411,455				68,321	485,777
Total fund balances	40,759,245	(8,337,023)	2,048,819	(3,267,219)	(561,432)	30,642,390
Total Liabilities and Fund Balance	77,101,681	12,408,920	2,363,580	9,758,455	13,791,100	(10,044,048)
						105,379,688

Unaudited Consolidated Income Statement Including:
Board of Social Ministry
Actual as of September 30, 2003

	BSM	Housing & Alternate Care	Home Care	BSM Corp. and Other	BSM HUDS	Eliminations	Total	Less Eliminations
Nursing Homes								
Operating Revenues								
Service Revenues	53,115,784	7,293,285	2,346,228	10,688,555	2,018,010	(4,835,943)	70,625,919	(1,865,958)
Deductions from Revenue	(1,532,466)	(14,451)	150,872	(470,813)	901			
Net Service Revenue	51,583,318	7,278,834	2,497,100	10,217,742	2,018,911	4,835,943)	68,759,961	
Other operating Revenue	1,776,067	47,274	32,492	92,896	43,195		1,991,924	
Total Operating Revenue	53,359,385	7,326,108	2,529,592	10,310,639	2,062,106	(4,835,943)	70,751,885	
Operating Expenses								
Salaries	29,375,351	2,017,429	1,173,868	5,094,064	282,862		37,943,574	
Employee Benefits	6,979,434	392,879	227,447	103,289	69,849		8,772,899	
Purchased Services	2,965,307	147,410	83,400	604,924	80,831		3,881,872	
Supplies	5,081,261	543,947	112,402	218,722	78,025		6,034,356	
Rent and Insurance	1,363,261	108,058	29,873	139,113	58,411		1,698,716	
Utilities	1,001,429	308,346	2,904	45,187	249,475		1,607,340	
Other operating expense	3,984,503	724,499	130,858	968,142	443,002		6,251,005	
Depreciation	1,348,584	790,401	36,117	348,234	400,796		2,924,131	
Interest	751,424	1,279,215	9,603	176,052	404,364		2,620,657	
Central Office Expense	2,173,173	343,268	69,183	2,098,281	152,038	(4,835,943)		
Total Operating Expense	55,023,727	6,655,452	1,875,655	10,796,008	2,219,652	(4,835,943)	71,734,552	
Income (Loss) from Operations	(1,664,343)	670,656	653,937	(485,370)	(157,546)		(982,666)	
Nonoperating Revenue/Expense								
Investment Income	75,066	76,708	1	12,196	26,406		190,376	
Contributions	1,506,133	9,790	45,085	78,741	300		1,640,048	
Increase/decrease in Market Value	895,449	2,706	30,209	185,136	503		1,114,002	
Grant to facilities/programs	34,035	(33,105)	(2,319)	(2,319)			(1,389)	
Gain/loss on disposal	(1,759)	(166,480)	(174)	175			(168,238)	
Net Nonoperating Revenue	2,508,924	(110,381)	75,295	273,580	27,383		2,774,800	
Net Income (Loss)	844,581	560,275	729,232	(211,790)	(130,163)		1,792,134	

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**Unaudited Consolidated Balance Sheet of the Board of Social Ministry
for the period ending September 30, 2002**

Assets	Nursing Homes & Alternate Care	BSM Housing	BSM Corp and Other	BSM HUDS	Eliminations	Total less Eliminations
Current Assets						
Unrestricted cash and cash equivalents	1,385,131	1,378,893	(4,469,327)	108,734	(217,676)	
Resident Receivables	6,674,208	18,034	592,631	9,824	7,312,731	
Other Receivables	1,135,099	8,981	49,794	35,353	1,238,207	
Intercompany Receivables	19,053,236	405,820	16,969,004	10,180	(31,558,238)	5,285,822
Inventories	179,071	1,305	9,123	5,207	196,012	
Prepaid expense	221,622	6,207	428,796	33,072	695,904	
Total Current Assets	28,648,366	1,819,239	13,580,021	202,371	(31,558,238)	14,510,999
Assets whose use is limited						
Funds held for trusts					5,320,771	
Restricted Assets	774,888	19,477	2,934,072	1,572,857		
Reserved for endowment	202,038	119,621	111,691	143,015		
Residents funds held in trust					584,295	
Workers comp/insurance reserve	2,580,405	364,157		56,063	111,691	
Reserved for debt service	3,557,331	503,254	3,045,763	1,771,935		
Total Assets whose use is limited	9,381,538					
Other Assets						
Investment Securities	6,185,792	797,793	4,926,201	12,841	(7,093,587)	5,626,833
Mortgage Notes Receivable & Other	33,897					3,897
Deferred Bond Costs	1,066,028	169,533	11,933			1,417,027
Total Other Assets	7,285,716	967,326	4,938,135	12,841	(7,093,587)	7,077,757
Property, Plant, and Equipment						
Land	1,825,529	146,089	53,350	910,006		3,081,063
Buildings	39,705,670	10,648,191	592,144	16,079,510		77,673,706
Equipment and Furnishings	10,437,306	354,233	3,604,289	991,921		15,741,982
Construction in progress	3,345,330	1,738,325				6,821,981
Subtotal	55,313,835	12,886,839	4,249,782	17,981,437		103,318,732
Less Accumulated Depreciation	(25,909,188)	(3,834,203)	(1,356,912)	(6,806,207)		(41,740,714)
Total Property Plant & Equipment	29,404,648	9,052,635	2,892,870	11,175,230		61,578,018
Total Assets	68,896,061	12,342,455	24,456,789	13,162,377	(38,651,825)	92,548,312

	<u>Nursing Homes & Alternate Care</u>	<u>BSM Housing</u>	<u>Home Care</u>	<u>BSM Corp. and Other</u>	<u>BSM HUDS</u>	<u>Eliminations</u>	<u>Total less Eliminations</u>
Liabilities & Fund Balance							
Current Liabilities							
Current maturities of long term debt	495,693	27,700	2,297	55,130	23,722		604,540
Accounts Payable	3,651,683	46,332	115,773	930,010	21,767		4,765,565
Accrued expenses:	504,645	101,473			188,289		794,407
Salaries, vacation & taxes	2,076,843	2,506,499	2,447	153,541	37,355		4,776,685
Accrued Interest Payable	3,152			477,271			480,423
Other liabilities	787,864	11,659,998	439,787	24,750,755	138,188	(38,651,825)	(875,233)
Due to third party payors							
Amounts due to affiliated corporation	7,519,880	14,342,001	560,304	26,366,706	409,321	(38,651,825)	10,546,388
Total current liabilities	20,583,153	6,050,000	61,391	210,596	13,024,987		39,930,127
Long Term Debt							
Other Liabilities							
Charitable trusts	8,194						8,194
Annuities Payable	6,009						6,009
Deferred revenue and other	203,820	117,942			128,112		449,874
Residents funds held in trust							
Total other liabilities	218,023	117,942			128,112		464,077
Fund Balances							
General	39,873,304	(8,145,782)	912,894	(1,539,256)	(428,367)		30,672,793
Unrestricted Net Assets Curr	284,246	(21,706)	329,848	(581,257)	(39,997)		(28,867)
Endowment	417,455				68,321		485,777
Total fund balances	40,575,005	(8,167,488)	1,242,742	(2,120,513)	(400,043)		31,129,702
Total Liabilities and Fund Balances	68,896,061	12,342,455	1,864,437	24,456,789	13,162,377	(38,651,825)	82,070,294

**Unaudited Consolidated Income Statement Including:
Board of Social Ministry
Actual as of September 30, 2002**

	<u>Nursing Homes</u>	<u>BSM Housing</u>	<u>Alternate Care</u>	<u>Home Care</u>	<u>BSM Corp. and Other</u>	<u>BSM HUDDS</u>	<u>Eliminations</u>	<u>Total Less Eliminations</u>
Operating Revenues								
Service Revenues	45,398,929	1,465,302	1,496,457	2,204,744	10,584,043	1,965,429	(4,285,778)	58,829,127
Deductions from Revenue	1,458,188	(16,432)	(150)	(92,046)	(292,437)	7,401		1,064,524
Net Service Revenue	46,857,117	1,448,871	1,496,307	2,112,698	10,291,606	1,972,831	(4,285,778)	59,893,651
Other Operating Revenue	1,630,400	85,147	6,750	26,543	45,481	52,542		1,846,862
Total Operating Revenue	48,487,517	1,534,017	1,503,057	2,139,241	10,337,087	2,025,373	(4,285,778)	61,740,513
Operating Expenses								
Salaries	26,103,783	301,717	508,513	1,165,483	5,286,361	277,713		33,643,570
Employee Benefits	5,841,777	73,653	116,314	222,672	1,061,735	63,115		7,379,265
Purchased Services	2,390,714	50,816	3,588	47,072	646,759	68,199		3,207,148
Supplies	4,094,958	176,940	32,506	130,379	246,243	76,753		4,757,778
Rent and Insurance	635,410	31,129	18,429	31,465	237,736	52,246		1,006,415
Utilities	811,379	82,347	52,522	2,759	28,712	221,786		1,199,505
Other operating expense	4,062,892	160,750	250,326	141,916	915,945	395,312		5,927,140
Depreciation	1,256,492	269,564	141,549	12,134	346,694	388,655		2,415,088
Interest	771,453	352,203	242,587	2,453	10,944	413,987		1,793,628
Central Office Expense	1,900,170	71,812	71,647	57,789	2,038,854	145,506		
Total Operating Expense	47,869,029	1,570,932	1,437,982	1,814,120	10,819,982	2,103,271	(4,285,778)	61,329,538
Income (Loss) from Operations	618,488	(36,914)	65,075	325,120	(482,895)	(77,899)		410,975
Nonoperating Revenue/Expense								
Investment Income	95,649	9,613	11,257	46	41,710	37,915		196,189
Contributions	923,582	6,066	1,196	40,882	141,226	716		1,113,668
Increase/decrease in Market Value	(1,479,592)	(471)	(3,184)	(36,200)	(299,023)	(729)		(1,819,200)
Grant to facilities/programs	50,575				8,500			59,075
Gain/Loss on disposal	1,200				9,225			10,425
Net Nonoperating Revenue	(408,587)	15,208	9,269	4,728	(98,362)	37,902		(439,842)
Net Income (Loss)	209,902	(21,706)	74,344	329,848	(581,257)	(39,997)		(28,867)

APPENDIX D

**SUMMARIES OF PRINCIPAL DOCUMENTS AND
DEFINITIONS OF CERTAIN TERMS**

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DEFINITIONS OF CERTAIN TERMS

In addition to the words and terms defined elsewhere in this Official Statement, the following words and terms as used herein will have the following meanings unless the context or use clearly indicates another or different meaning or intent.

“Act” means the Minnesota Statutes, Chapter 462C, as in effect on the Date of Issuance or as otherwise applicable to any Series of Bonds.

“Acquisition Account” means the account so named in the Indenture.

“Acquisition Costs” means Capital Expenditures paid or incurred by Borrower for acquisition of the Project.

“Additional Bonds” means any bonds issued in compliance with the terms of the Indenture and secured by the Indenture.

“Additional Long-Term Indebtedness” means Long-Term Indebtedness other than the Series 2003 Bonds.

“Affiliate” means with respect to any person, any second person who controls, is controlled by or is under common control with the first person, directly or indirectly (including through one or more intermediaries).

“Authorized Borrower Representative” means any person at the time designated to act on behalf of the Borrower by written certificate furnished to the City and the Trustee, containing the specimen signature of such person and signed by the Chief Manager of the Borrower. Such Certificate may designate an alternate or alternates.

“Authorized City Representative” means the Mayor, the City Clerk, the City Administrator, or any other person at the time designated to act on behalf of the City by written certificate furnished to the Borrower and Trustee containing the specimen signature of such person and signed on behalf of the City by the Mayor or the City Clerk. Such certificate may designate an alternate or alternates.

“Authorized Denomination” means, (i) in the case of Series 2003 Bonds, any multiple of \$5,000, and (ii) in the case of any Additional Bonds of any Series, the amounts designated as Authorized Denominations in any Supplemental Indenture for the Additional Bonds.

“Balloon Indebtedness” shall have the meaning set forth in of the Loan Agreement.

“Beneficial Owner” means with respect to any Series of Bonds while in Book-Entry Form, each person who beneficially owns such Bond(s) and on whose behalf, directly or indirectly, such Bond is held by the Depository pursuant to a Book-Entry System.

“Bond Counsel” means McGrann Shea Anderson Carnival Straughn & Lamb, Chartered, or any other firm of Independent attorneys nationally recognized as experienced in passing on the validity and tax status of interest on obligations of state or local governments.

“Bond Resolution” means the resolution of the City adopted by the City Council on December 22, 2003, authorizing the Series 2003 Bonds, as the same may be amended, modified or supplemented by any amendments or modifications thereof.

“Bond Year” means for the Series 2003 Bonds, the twelve-month period beginning on December 1 in any year; provided that the first Bond Year for each Series shall commence on its Date of Issuance, and for any Series of Additional Bonds, the period so designated in the Supplemental Indenture for the Additional Bonds.

“Bonds” means, collectively, any of the Series 2003 Bonds and any Additional Bonds.

“Book-Entry Form” means Bonds of any Series that are held in the name of the Depository (or its nominee), with each maturity of the Series evidenced by a single Bond certificate.

“Book-Entry System” means a system of record keeping, securities clearance and funds transfer and settlement maintained for securities by the Depository and Participants.

“Borrower” means Meadows of Worthington, LLC, a Minnesota limited liability company, its successors and assigns.

“Buildings” means buildings, structures and other improvements now standing or at any time hereafter constructed or placed upon the Land.

“Business Day” means any day other than a Saturday, Sunday or a day on which the Trustee is not open for business.

“Capital Expenditure” means any costs of a type that is properly chargeable to a capital account (or would be chargeable with a proper election) under general Federal income tax principles.

“Certificate” means a certification in writing required or permitted by the provisions of the Loan Agreement or the Indenture signed and delivered to the Trustee or other proper person or persons. If and to the extent required by the provisions of the Indenture, each Certificate shall include the statements provided for in such section.

“Certified Resolution” means a copy of a resolution of the City Council, certified by the City Clerk to have been duly adopted by the City Council and to be in full force and effect on the date of such certification.

“City” means the City of Worthington, a Minnesota municipal corporation, its successors and assigns.

“City Council” or “Council” means the City Council of the City, or its successor as governing body of the City.

“Closing Date” means the date of issuance and initial delivery to the Original Purchaser of the Series 2003 Bonds.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and as applicable to any Series of Bonds.

“Costs of Issuance Account” means the account by such name created by the Indenture.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of December 1, 2003, among the Trustee, the Borrower and the Guarantor.

“Dated Date” means in the case of Series 2003 Bonds, their Date of Issuance, and in the case of any Series of Additional Bonds, the date on which interest is deemed to first commence accruing, as established in the Supplemental Indenture authorizing the Series.

“Date of Issuance” means, with respect to any Series of Bonds, the date on which all Bonds of the Series are first issued are delivered to the Original Purchaser thereof.

“Debt Service Coverage Ratio” means for any or all Series of Bonds and for any period the ratio of Net Revenues Available for Debt Service to the actual Debt Service Requirement for any or all Series of Bonds.

“Debt Service Requirement” means, with respect to any period, the aggregate principal and interest due on Indebtedness, including amounts due with respect to sinking fund or similar scheduled payments.

“Default” means any event or condition, which, with the passage of time, notice or both, will constitute an Event of Default.

“Depository” means The Depository Trust Company in New York, New York, its successors or assigns, or any other person who shall be a Holder of all Bonds of a single Series, directly or indirectly for the benefit of Beneficial Owners, and approved by the City and Original Purchaser for the Series to act as the Depository; provided that any Depository shall be registered or qualified as a “clearing agency” within the meaning of Section 17A of the Securities Exchange Act, as amended.

“Determination of Taxability” means the receipt by the Trustee of a statutory notice of deficiency by the Internal Revenue Service, a ruling from the National Office of the Internal Revenue Service, or a final decision of a court of competent jurisdiction which holds in effect that interest payable on the Tax-Exempt Bonds is includable for federal income tax purposes in the gross income of a Bondholder because of any act or omission of the Borrower (or any successor or transferee) or of the Trustee; provided, however, that the Borrower shall have an opportunity for no more than 180 days after receipt by the Trustee to contest any such statutory notice, ruling or final decision and that no such statutory notice, ruling or final decision shall be deemed a “Determination of Taxability” if the Borrower is contesting the same during such 180 day period in good faith until the earliest of (a) abandonment of such contest by the Borrower, (b) the date on which such statutory notice, ruling or final decision becomes final, or (c) the 181st day after the initial receipt by the Trustee of such statutory notice, ruling or final decision; and provided further that no Determination of Taxability shall arise from the interest on the Tax-Exempt Bonds being included, for example, (1) as a specific “tax preference” item for individual or corporate taxpayers in computing the alternative minimum tax; (2) in income for purposes of calculating alternative minimum taxable income of any company pursuant to Section 55 of the Code; (3) in earnings and profits of branches of foreign corporations for purposes of calculating the “branch profits” tax; (4) within gross income of certain recipients of social security and railroad retirement benefits; or (5) as passive investment income to certain subchapter S corporations which have subchapter C earnings and profits.

“Equipment” means all items of furnishings, furniture, equipment, and other tangible personal property.

“Event of Default” means an Event of Default described in the Indenture that has not been cured.

“Fiscal Year” means the fiscal year of the Borrower designated from time to time in writing to the Trustee, and shall initially mean the 12-month period commencing each January 1.

“501(c)(3) Organization” means an organization described in Section 501(c)(3) of the Code whose income is exempt from taxation under Section 501(a) of the Code.

“Force Majeure” means any one or more of the following: acts of God; strikes, lockouts or other economic disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts, floods or other adverse weather conditions; explosions; breakages or accident to machinery, transmission pipes or canals; temporary inability to obtain supplies or materials or governmental permits or licenses (other than licenses and permits necessary to commence construction of the Project); or any other cause or event not reasonably within the control of the Borrower.

“Government Obligations” means direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, the payment of the principal of, premium, if any, and the interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities issued or held in book-entry form on the books of the Treasury of the United States of America).

“Governmental Unit” means any state or any political subdivision of a state.

“Gross Revenues” means, for any period, (i) all Project Revenues, (ii) all investment income of the Borrower or on amounts held by the Trustee (other than in the Rebate Fund) under the terms of the Indenture, (iii) all contributions to the Borrower that are available to pay all principal and interest on all Indebtedness of the Borrower and all Operating Expenses, and (iv) all other non-operating income of the Borrower, excluding unrealized gains on

investments, income from the forgiveness of Indebtedness, proceeds of any borrowing, proceeds from the sale of any asset not occurring in the ordinary course of business, and any item of an extraordinary or nonrecurring nature.

“Guarantor” means the Board of Social Ministry, a Minnesota nonprofit corporation, as Guarantor under the Guaranty.

“Guaranty” means the Guaranty executed and delivered by the Guarantor to the Trustee, dated as of December 1, 2003, guaranteeing the payment of principal and purchase price of, premium, if any, and interest on the Series 2003 Bonds.

“Guaranty Fee” means the Guaranty Fee payable by the Borrower to the Guarantor pursuant to the Reimbursement Agreement, in an annual amount equal to 1% of the outstanding principal amount of the Series 2003 Bonds.

“Holder,” “Bondholder” or “owner” whenever employed with respect to a Bond means the person in whose name such Bond shall be registered.

“Improvements” means any additions, enlargements, improvements, extensions, alterations, or renovations of or to the Project Facilities as they then exist, and any fixtures, structures or other facilities acquired or constructed by the Borrower and located on the Land.

“Indebtedness” means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all indebtedness for the payment of the purchase price of property or assets purchased, (iii) all guaranties, endorsements, assumptions and other contingent obligations with respect to, or to purchase or to otherwise acquire, indebtedness of others, (iv) all indebtedness secured by any mortgage, pledge or lien existing on property owned, subject to such mortgage, pledge or lien, whether or not indebtedness secured thereby shall have been assumed, and (v) installment purchase contracts, loans secured by purchase money security interests, lease-purchase agreements or capital leases (including leases of real property), entered into by the Borrower in connection with the acquisition of property not previously owned by the Borrower and computed in accordance with generally accepted accounting principles; provided, however, that “Indebtedness” does not include: (a) debt up to the amount of the aggregate cash equivalents and marketable securities (valued at market) held in the funds of the Borrower which have been pledged and designated by the Borrower (consistent with the restriction attendant to such funds), to satisfy a specified debt of the Borrower, (b) trade accounts payable and accrued expenses incurred in the normal course of business, or (c) Permitted Purchase Money Security Interests. For purposes of this definition, no single evidence of indebtedness shall be counted more than once even though more than one of the clauses (i) - (v) above may apply.

“Indenture” means the Trust Indenture, dated as of December 1, 2003, between the City and the initial Trustee, and including any amendments or supplements thereto.

“Independent,” when used with reference to an attorney, engineer, architect, certified public accountant, consultant or other professional person, means a person who (i) is in fact independent, (ii) does not have any material financial interest in the Borrower or the transaction to which such person’s Certificate or opinion relates (other than payment to be received for professional services rendered), and (iii) is not an officer, director or employee of the City or the Borrower.

“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.

“Insurance Consultant” means a representative of a nationally or regionally recognized insurance company or other consultant selected by the Borrower and experienced in matters pertaining to insurance coverage for multifamily residential housing projects, including the selection and maintenance of insurance coverage in such

matters as public liability insurance, hazard insurance, workers compensation, flood insurance, and business interruption or loss of rents insurance.

“Interest Payment Date” means for all Series 2003 Bonds, June 1 and December 1 of each year, commencing June 1, 2004, and for any Additional Bonds, the dates established for the regularly scheduled payment of interest thereon in any Supplemental Indenture for the Additional Bonds.

“Interest Period” means for any Series, the period of time from and including an Interest Payment Date (or the Date of Issuance, in the case of a Series prior to the first Interest Payment Date), through and including the day immediately preceding the next Interest Payment Date.

“Interim Indebtedness” means any Indebtedness incurred, assumed or guaranteed by the Borrower on an interim basis to provide temporary financing as permitted by the Loan Agreement.

“Insurance and Award Fund” means the fund so named in the Indenture.

“Land” means the land and interests in land constituting the site of the Project as described in Exhibit A to the Mortgage.

“Letter of Representations” means the Blanket Letter of Representations between the Depository and the City and any amendments or supplements thereto.

“Loan” means the loan from the City to the Borrower of the gross proceeds of issuance of the Bonds, made pursuant to the Loan Agreement.

“Loan Agreement” or “Agreement” means the Loan Agreement, dated as of December 1, 2003, between the City and the Borrower, as amended or supplemented from time to time.

“Loan Documents” means the Loan Agreement, the Mortgage, the Guaranty, the Regulatory Agreement, the Continuing Disclosure Agreement, and the Assignment of Mortgage.

“Loan Payment Date” means the date on which a Loan Repayment is due under the Loan Agreement.

“Loan Repayments” means the payments made or to be made by the Borrower pursuant to the Loan Agreement.

“Long-Term Indebtedness” means any Indebtedness of the Borrower other than Short-Term Indebtedness or Interim Indebtedness.

“Majority of Holders” means Holders (or Beneficial Owners) of majority in aggregate principal amount of outstanding Bonds.

“Management Consultant” means an Independent person, experienced in the study of operations of senior housing facilities and having a favorable reputation therefor throughout the United States or the State of Minnesota for skill and expertise in such work and, unless otherwise specified in the Loan Agreement or the Indenture, as selected and engaged by the Borrower.

“Management Contract” means the Management Agreement between the Borrower and the Manager, and any other successor contract providing for management services of the Project Facilities, as the same may be amended from time to time in accordance with the terms of the Indenture and the Loan Agreement.

“Management Fee” means the compensation paid to the Manager for management of the Project Facilities, exclusive of reimbursement for costs paid by the Manager which otherwise constitute Operating Expenses.

“Manager” means any person performing management services for the Project Facilities under a Management Contract; the initial Manager is BSM Services, Inc., a Minnesota corporation.

“Mandatory Tender Date” means December 1, 2008, the date the Series 2003A Bonds are subject to mandatory tender.

“Maximum Debt Service Requirement” means for any period, the largest Debt Service Requirement that is or will be due in that period or in any future period with the same duration as that period.

“Mortgage” means the Combination Mortgage Security Agreement, Fixture Financing Statement and Assignment of Rents and Leases, dated as of December 1, 2003, from the Borrower to the City and as assigned to the Trustee as security for the Bonds.

“Mortgage Assignment” means the Assignment of Mortgage from the City to the Trustee, assigning the City’s rights in the Mortgage to the Trustee.

“Mortgagee” initially means the City; provided that the rights and obligations of the Mortgagee under the Mortgage will be assigned to the Trustee pursuant to the Assignment.

“Mortgaged Property” means the Mortgaged Property described in the granting clauses to the Mortgage.

“Mortgagor” means the Borrower.

“Net Proceeds” means, when used with respect to proceeds of insurance or a condemnation award, moneys received or receivable by the Borrower as owner or the Trustee as secured party of the Project Facilities, less the cost of recovery (including attorneys’ fees) of such moneys from the insuring company or the condemning authority.

“Net Revenues Available for Debt Service” means at any time, the excess of Gross Revenues over Operating Expenses.

“Non-Cash Expenses” shall mean for any period, depreciation, amortization, bad debt expense and all other items properly reportable under generally accepted accounting principles for the period as an expense but for which no corresponding outlay of cash or property is required in any period.

“Operating Expenses” means for any period, as determined on a cash rather than on an accrual basis (except as otherwise may be provided), (i) all non-capitalized expenses incurred in the operation or maintenance of the Project Facilities by or on behalf of the Borrower, including, but not limited to, administrative costs, all Management Fees, utility charges and routine maintenance or repair costs, (ii) amounts due and payable to the Trustee or the City as fees or reimbursement of expenses under the terms of the Indenture, the Loan Agreement or the Mortgage, and (iii) principal paid and accrued interest on Short-Term Indebtedness, excluding (a) interest due and payable or accrued on outstanding Bonds, (b) Non-Cash Expenses, (c) any loss or expense resulting from or related to any extraordinary and nonrecurring items, (d) any losses or expenses related to the sale of assets, the proceeds of which sale are not included in Project Revenues.

“Opinion of Counsel” means a written opinion of counsel (who need not be Independent counsel unless so specified) appointed by the Borrower or the City and acceptable to the Trustee or appointed by the Trustee. If and to the extent required by the provisions of Section 1.02 of the Indenture, each Opinion of Counsel shall include the statements provided for in said Section 1.02.

“Optional Redemption Fund” means the fund so named in the Indenture.

“Original Purchaser” means, with respect to the Series 2003 Bonds, Oppenheimer & Co. Incorporated, and with respect to any Additional Bonds, the Original Purchaser identified in a Supplemental Indenture for the Additional Bonds.

“Ordinary Trustee Fees and Expenses” means all fees and expenses chargeable by the Trustee for its services rendered under the Indenture; exclusive of fees and expenses incurred as a result of a Default or Event of Default.

"Outstanding" when used as of any particular time with reference to Bonds of any Series (and whether or not the term is capitalized) means (subject to the provisions of the Indenture pertaining to any Bonds held by the City and the Borrower) all Bonds of the Series theretofore authenticated and delivered by the Trustee under the Indenture or any Supplemental Indenture except: (i) Bonds or the Series theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds of the Series for the payment or redemption of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds), provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III of the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (iii) Bonds of the Series 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.

"Participants" means persons who are designated as participants of the Depository in connection with the operation of a Book-Entry System.

"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 Buildings, (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 Borrower, (iv) the Mortgage, (v) any mortgage lien subordinate to the lien of the Mortgage to be granted after the Date of Issuance by the Borrower in connection with incurring any indebtedness in respect of borrowed funds provided, however, that the terms of any such indebtedness shall require that no remedies may be exercised with respect thereto unless and until all amounts due in respect of Senior Indebtedness have been fully paid or provided for, (vi) Permitted Purchase Money Security Interests, (vii) security interests in accounts receivable securing Short-Term Indebtedness permitted under the Loan Agreement, and (viii) those additional encumbrances identified in Exhibit B to the Mortgage.

"Permitted Investments" means any of the following, to the extent permitted by law:

(a) Government Obligations;

(b) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are in one of the two highest rating categories by a Rating Agency;

(c) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any nationally or state-chartered bank (including the Trustee) or trust company or any loan association, domiciled in the United States, if either:

(i) the long-term obligations of such bank or trust company are rated in one of the two highest rating categories by a Rating Agency; or

(ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation, or similar corporation chartered by the United States of America, (1) by lodging with a bank or trust company, as collateral security, obligations described in paragraph (a) above or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for the deposit of trust funds;

(d) investment agreements continuously secured by the obligations listed in paragraphs (a), (b) or (c) above, with any nationally or state-chartered bank domiciled in the United States, trust company domiciled in the United States or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations are delivered to the Trustee or supported by a safekeeping receipt issued by a depository to the Trustee, provided that such investment agreements must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the amount deposited thereunder, (ii) a prior perfected security interest in the obligations which are securing such agreement has been granted to the Trustee, (iii) such agreement has been granted to the Trustee, and (iv) such obligations are free and clear of any adverse third-party claims;

(e) investment agreements with any nationally or state-chartered bank, financial institution, insurance company or trust company, domiciled in the United States, which has long-term debt obligations rated in one of the two highest rating categories by a Rating Agency; and

(f) money market mutual funds invested solely in obligations listed in paragraphs (a), (b) or (c) above;

provided that "Investments" shall not include a financial instrument, commonly known as a "derivative," whose performance is derived, at least in part, from the performance of any underlying asset, including, without limitation, futures, options on securities, options on futures, forward contracts, swap agreements, structure notes and participations in pools of mortgages or other assets.

"Permitted Purchase Money Security Interests" means any security interest, retention of title, financing lease, or installment purchase or similar contract whereby a seller of personal property retains a right of repossession, provided that the aggregate purchase price of all outstanding Permitted Purchase Money Security Interests may not exceed \$50,000.

"Predecessor Bonds" of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond, and for purposes of this definition, any Bond authenticated and delivered under the Indenture in lieu of a lost, destroyed or stolen Bond shall be deemed to evidence the same debt as the lost, destroyed or stolen Bond.

"Principal Payment Dates" means for any Series the regularly scheduled dates on which principal of the Series is due by maturity or sinking fund redemption; for the Series 2003 Bonds, the Principal Payment Dates are December 1 of each year, commencing on December 1, 2005.

"Principal Period" means for any Series, the period of time from and including a Principal Payment Date (or the Date of Issuance, in the case of a Series prior to the first Principal Payment Date) through and including the day immediately preceding the next Principal Payment Date.

"Program" means a program within the meaning of the Act authorizing the issuance of the Series 2003 Bonds.

"Prohibited Costs" means Costs of Issuance and any costs related to an airplane, skybox or other private luxury box, a facility primarily used for gambling, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises.

"Project" means the acquisition and financing of a senior multifamily housing facility located on the Land containing 66 units for independent senior housing and assisted living by senior residents and related and subordinated facilities thereto.

"Project Buildings" means all improvements or buildings financed in whole or in part with proceeds of the Bonds or other amounts disbursed under the Loan Agreement and now or hereafter located on the Land, as the same

may be improved or expanded from time to time, and including all related building service equipment and other fixtures incorporated therein or attached thereto.

“Project Equipment” means all Equipment located in the Project Buildings or otherwise on the Land or elsewhere, to the extent financed in whole or part with proceeds of Bonds or amounts disbursed under the Indenture.

“Project Facilities” means the Land and all buildings, improvements and equipment to be acquired, constructed or installed as part of the Project or which is otherwise located on the Land.

“Project Revenues” means, for a period, as determined in accordance with generally accepted accounting principles, all operating revenues received by or on behalf of the Borrower for the ownership, lease or other operation of the Project Facilities, from any source, including all rent, charges or fees derived from the use or occupancy thereof, and proceeds of business or rent interruption insurance, excluding security deposits from tenants, proceeds of insurance (other than from business or rent interruption insurance), interest income, gain from the sale of any investment, and any item of an extraordinary or nonrecurring nature.

“Rating Agency” means either of Moody’s Investors Service or Standard & Poor’s Ratings Group, a division of McGraw-Hill.

“Redeem,” “redeem” or “redemption” means and includes “prepay” or “prepayment” as the case may be.

“Regular Record Date” for the interest payable on any Interest Payment Date for all Series of Bonds means the 15th day of the calendar month immediately preceding such date, and for interest payable on any Interest Payment Date for Additional Bonds shall be date established therefor in the Supplemental Indenture for the Additional Bonds.

“Regulatory Agreement” means the Regulatory Agreement among the Borrower, the City and the Trustee, dated as of December 1, 2003, pursuant to which the Borrower has covenanted to comply with the requirements of Section 142(d) of the Code, regarding set-aside of units in the Project for occupancy by persons and families of low and moderate income.

“Reimbursement Agreement” means the Reimbursement Agreement between the Borrower and the Guarantor, dated as of December 1, 2003, pursuant to which the Borrower is obligated to pay the Guaranty Fee to Guarantor and to reimburse Guarantor, with interest, for all amounts paid by Guarantor pursuant to the Guaranty.

“Remarketing Agent” means Oppenheimer & Co. Incorporated or a successor Remarketing Agent appointed and serving in such capacity pursuant to the Remarketing Agreement.

“Remarketing Agreement” means the Remarketing Agreement between the Borrower and the Remarketing Agent, dated as of December 1, 2003, providing for the remarketing of the Series 2003 Bonds in connection with the mandatory tender of the Series 2003 Bonds on the Mandatory Tender Date.

“Responsible Officer” of any Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, the secretary, every assistant secretary, every corporate trust officer, and every officer and assistant officer of such trustee, other than those specifically above mentioned, to whom any corporate trust matter is referred because of such officer’s knowledge of, and familiarity with, a particular subject.

“Senior Indebtedness” means the Series 2003 Bonds and any Additional Long-Term Indebtedness which is permitted to be incurred by the Borrower under the Loan Agreement (other than a loan, the payments of which pay any one or more Series of Bonds) and is secured equally and ratably on parity with the Bonds pursuant to an agreement satisfactory to the Trustee.

“Series” means any series for one or more Bonds as designated by the Indenture or a Supplemental Indenture.

“Series 2003 Bonds” means the Series 2003A Bonds and the Series 2003B Bonds.

“Series 2003A Bonds” means the \$6,120,000 in aggregate principal amount of the City of Worthington, Minnesota Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003A.

“Series 2003B Bonds” means the \$135,000 in aggregate principal amount of the City of Worthington, Minnesota Taxable Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003B.

“Short-Term Indebtedness” means any unsecured Indebtedness incurred, assumed or guaranteed by the Borrower maturing not more than twelve months after it is incurred, but shall not include Interim Indebtedness, trade accounts payable, accrued payroll or payroll taxes.

“Sole Member” means Maplewood Senior Housing, Inc., a Minnesota nonprofit corporation and 501(c)(3) Organization.

“Special Record Date” for the payment of any Defaulted Interest (as defined in Section 2.05 of the Indenture) on fully registered Bonds means a date fixed by the Trustee pursuant to such Section 2.05.

“State” means the State of Minnesota.

“Supplemental Indenture” means any amendment, modification or supplement to the Indenture designated as a Supplemental Indenture and entered into in compliance with Article XI of the Indenture.

“Tax-Exempt Bonds” means any Series of Bonds for which on the Date of Issuance and opinion of Bond Counsel was delivered to the effect that the interest thereon is not included in gross income for federal income tax purposes.

“Trust Estate” means the Trust Estate defined in the Granting Clauses to the Indenture.

“Trustee” means U.S. Bank National Association, or any successor or assign permitted to serve as the trustee under the Indenture.

“Variable Rate Indebtedness” shall have the meaning set forth in the Loan Agreement.

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SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary is qualified in its entirety by reference to the Indenture. A copy of the Indenture is available during the offering period from the Underwriter and, after the date of issuance of the Bonds, from the Trustee. Capitalized terms employed in this summary are defined in this APPENDIX A under the caption "DEFINITIONS OF CERTAIN TERMS."

Pledge and Security

Pursuant to the Granting Clauses, the City assigns to the Trustee (i) all of the rights and interests of the City in the Loan Agreement and the Mortgage, except for the rights of the City relating to expenses, indemnity, payment of attorneys' fees and advances of the City under the Loan Agreement; (ii) a first lien on and pledge of all right, title and interest in the moneys and investments in any fund or account to be created and maintained by the Trustee under the Indenture (other than the Rebate Fund); (iii) the Guaranty, and any and all other property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, assigned or transferred, or in which a security interest is granted by the City or the Borrower or by anyone in behalf of them or with their written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same according to the terms, including but not limited to all property subject to the Mortgage and all amounts received under the Guaranty.

Additional Bonds

In addition to the Series 2003 Bonds, the City may issue, in its discretion, upon request of the Borrower, and the Trustee shall authenticate and deliver, Additional Bonds that shall be secured equally and ratably with all outstanding Series 2003 Bonds (and all other outstanding Bonds or unpaid Senior Indebtedness), to (i) provide financing for improvements or additions to the Project Facilities, or (ii) subject to applicable law, refund any Bonds or other Senior Indebtedness then outstanding and, in case of an advance refunding, the interest thereon to maturity or a specified redemption date. Any such Additional Bonds shall be authorized by resolution of the City and described in a Supplemental Indenture executed by the City and the Trustee and, when so issued, authorized and described, shall be secured by the Indenture and the Trust Estate on a parity with the applicable Series of Bonds then outstanding under the Indenture; provided, that no such Additional Bonds shall be issued under the Indenture or secured by the Trust Estate on a parity with any Series of outstanding Bonds unless the Trustee shall receive the items listed in Section 2.09 of the Indenture, including an Opinion of Bond Counsel as to conditions for the issuance of the Additional Bonds and the tax status of such Additional Bonds.

Acquisition Account; Costs of Issuance Account

On the Date of Issuance of the Series 2003 Bonds, amounts shall be deposited in the Acquisition Account and the Costs of Issuance Account as set forth in Section 4.01 of the Indenture, and shall be applied as follows:

(a) *Acquisition Account.* Amounts in the Acquisition Account shall be withdrawn and paid by the Trustee for Acquisition Costs or to reimburse the Borrower for payment of Acquisition Costs. Any amounts remaining in the Acquisition Account shall be transferred to the Debt Service Account. All investment income on amounts in the Acquisition Account shall be deposited upon receipt in the Debt Service Account.

(b) *Costs of Issuance Account.* Upon receipt by the Trustee of a written request of the Borrower, amounts in the Costs of Issuance Account shall be withdrawn and paid to the persons designated by the Borrower for payment of Costs of Issuance. Any amounts remaining in the Costs of Issuance Account shall be transferred to the Debt Service Account. All investment income from amounts in the Costs of Issuance Account shall be upon receipt deposited by the Trustee in the Debt Service Account.

Notwithstanding the foregoing, upon the occurrence of any Event of Default, whether or not any Bonds are accelerated, the Trustee shall withdraw amounts from any account in the Acquisition Account or the Costs of Issuance Account to the extent necessary to pay principal, interest or redemption price on any Bond which is due and payable and for which other amounts held by the Trustee are not sufficient therefor.

Bond Purchase Fund

The Indenture creates a Bond Purchase Fund which shall be used to pay the purchase price of the Series 2003A Bonds to be purchased pursuant to the mandatory tender of the Bonds and the Mandatory Tender Date. There shall be paid into the Bond Purchase Fund, as and when received:

- (i) the proceeds of the remarketing of the Series 2003A Bonds by the Remarketing Agent;
- (ii) all other moneys received by the Trustee under and pursuant to any of the provisions of the Indenture or the Loan Agreement or otherwise which are required or accompanied by directions that such moneys are to be credited to the Bond Purchase Fund; and
- (iii) all amounts received by the Trustee under and pursuant to the Guaranty which are required or accompanied by directions that such amounts are to be credited to the Bond Purchase Fund.

Except as otherwise provided in the Indenture, moneys in the Bond Purchase Fund shall be used solely for the payment of the purchase price of Series 2003A Bonds to be purchased on the Mandatory Tender Date pursuant to the Indenture. On the Mandatory Tender Date, the Trustee shall disburse from the Bond Purchase Fund sufficient moneys to pay the purchase price of all Series 2003A Bonds to be purchased on such date.

All moneys paid over to the Trustee for the account of the Bond Purchase Fund under any provision of the Indenture shall be held in trust by the Trustee for the benefit of the Holders of the Series 2003A Bonds.

Any moneys held by the Trustee in the Bond Purchase Fund shall be retained by the Trustee for the benefit of Holders of Series 2003A Bonds not yet presented for payment of the purchase price thereof until paid to such Holders. Such moneys shall not be paid to the Borrower or to any Person other than the Holders of Series 2003A Bonds entitled thereto, and such Holders shall look only to such moneys for the payment of the purchase price of such Series 2003A Bonds; provided, however, that excess amounts if any in the Bond Purchase Fund after payment or provision for payment of the purchase price of all Series 2003A Bonds and after application of any remaining amounts to satisfy the obligations, if any, of the Borrower to the Guarantor under the Guaranty, shall be paid to the Borrower.

Debt Service Account

Loan Repayments paid to the Trustee by the Borrower shall be deposited in the Debt Service Account, together with any other amounts permitted to be deposited therein on behalf of the Borrower and delivered to the Trustee for such deposit. If amounts in the Debt Service Account are not sufficient to pay in full the monthly principal and interest requirements on the Bonds, the amount of such deficiency shall be transferred, to the extent of available funds, from the Optional Redemption Fund; and any remaining deficiency shall be paid from amounts derived from the Guaranty.

The moneys and investments in the Debt Service Account are irrevocably pledged and shall be used by the Trustee, from time to time, to the extent required: First, for the payment of interest whenever due and payable and for the payment of principal of Bonds when due at maturity or upon sinking fund redemption; and second, upon direction by the Borrower, to purchase outstanding Bonds at purchase prices not exceeding par plus accrued interest, but only to the extent amounts therein are sufficient to pay all principal of and interest on the Bonds scheduled to become due in the then current Bond Year either at maturity or upon sinking fund redemption, as reduced by the amount of credit which will be given as against such payments for such purchase of Bonds.

Optional Redemption Fund

The Trustee shall deposit into the Optional Redemption Fund all amounts deposited for the payment of amounts due upon a redemption of outstanding Bonds (other than because of mandatory sinking fund redemption), and as may be required by any provision of the Loan Agreement or the Indenture.

Amounts on deposit to the credit of the Optional Redemption Fund shall be used, first, to make up deficiencies in the Debt Service Account (to the extent described in Section 5.02(a) of the Indenture) and, second, for the payment of principal of or, premium, if any, and interest on Bonds as a result of the redemption of outstanding Bonds at the request or direction of the Borrower pursuant to Article III or, at the request of the Borrower, for the purchase of outstanding Bonds on the market at prices not exceeding the redemption price on the next available date for redemption.

Rebate Fund

Amounts shall be deposited in the Rebate Fund as described in the Loan Agreement. If on the 30th day following any Computation Date for any issue of Tax-Exempt Bonds, the Trustee has not received from the Borrower written evidence from a Rebate Analyst as to the amount, if any, of rebatable arbitrage required to be paid to the United States in connection with such Computation Date and such Tax-Exempt Bonds (the "Rebate Report"), the Trustee, at the expense of the Borrower shall engage a Rebate Analyst to prepare a Rebate Report, notifying the Borrower of such engagement and promptly providing to the Borrower a copy of the Rebate Report after its delivery to the Trustee, and making demand on the Borrower to pay any amount of rebate required to be paid to the United States as set forth in the Rebate Report.

If the Borrower shall fail to remit to the Trustee the amount of rebate owing to the United States in accordance with the Rebate Report within five days after Borrower's receipt of such report, thereafter, notwithstanding any other provisions of the Indenture, the Trustee shall transfer the amount required to be paid to the United States the Rebate Fund from the following funds: first, from amounts derived from the Guaranty, and second, from the Debt Service Account. To the extent of amounts in the Rebate Fund, the Trustee shall make available to the Borrower the amount of rebatable arbitrage due upon the Trustee's receipt of an executed form 8038T, or copy thereof satisfactory to the Trustee (or such other form as shall be appropriate for reporting the rebate due) duly completed with respect to the applicable issue of Tax-Exempt Bonds and representations by the Borrower that it will apply such amounts to the payment of rebate due.

Insurance and Award Fund

There shall be deposited into the Insurance and Award Fund all Net Proceeds of condemnation awards or insurance relating to condemnation, damage or destruction of the Project Facilities if in excess of \$250,000. Amounts in the Insurance and Award Fund shall be disbursed by the Trustee to pay the cost of replacement, repair, reconstruction or restoration of the Project Facilities or transferred to the Debt Service Account and used to redeem Bonds pursuant to Section 3.01(b) of the Indenture. Any amounts remaining in the Insurance and Award Fund after payment of all costs of replacement, repair, reconstruction, or restoration relating to the condemnation, damage or destruction to which such amounts relate, shall be transferred to the Optional Redemption Fund.

Investment of Funds

To the extent authorized by the Act or other applicable law, moneys on deposit to the credit of any fund or account established under the Indenture shall, upon request by the Authorized Borrower Representative, be invested by the Trustee in Permitted Investments, which may be purchased from the Trustee or from any of its Affiliates. To the extent the Trustee receives no investment instructions from the Authorized Borrower Representative, amounts in the funds and accounts created under the Indenture shall be invested in the Trustee's "AAA" rated treasury money market fund. Investments so made shall be deemed at all times to be a part of the respective account or fund, but may from time to time be sold or otherwise converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to such Account or Fund. Any interest accruing on and any profit realized from such investment shall be credited to the respective account or fund except as otherwise provided in the Indenture. Any investments purchased with amounts on deposit in any account or fund under the Indenture may be exchanged for cash or investments of equal value credited to any other account or fund. The Trustee shall redeem or sell, at the best price obtainable, any investments so made, whenever it shall be necessary to do so in order to provide moneys to meet any payment from the respective account or fund. Neither the Trustee nor the City shall be liable for any loss resulting from any such investment, nor from failure to preserve rights against endorsers or other prior parties to instruments evidencing any such investment. Monies credited to any account or fund maintained under the Indenture which are uninvested pending disbursement or receipt of proper investment directions or as directed under the Indenture, may be deposited to and held in a non-interest bearing demand deposit account established with the

Commercial Banking Department of the Trustee or with any bank affiliated with the Trustee, without the pledge of securities to or other collateralization of such deposits accounts.

Covenants of the City

Principal of and premium, if any, and interest on the Bonds shall be paid when due, but solely to the extent of amounts from Loan Repayments, revenues derived from the Loan Agreement or other amounts derived from the Trust Estate, including amounts received under the Mortgage, the Guaranty, and Net Proceeds; provided that neither such payment obligations nor any of the agreements or obligations of the City relating thereto shall be construed to constitute a general or moral obligation or an indebtedness of the City or constitute or give rise to a pecuniary liability or be a charge against the general credit or taxing powers of the City.

Events of Default

Each of the following events is hereby defined as, and is declared to be and to constitute, an "Event of Default":

- (a) Any nonpayment when due of the principal of or any premium or interest on any outstanding Bonds (whether due at maturity or upon redemption, declaration or otherwise); or
- (b) Any nonpayment when due of the principal of or any premium or interest on any Senior Indebtedness other than Bonds (whether due at maturity or upon redemption, declaration or otherwise); or
- (c) Any failure in the due and timely performance of any of the other covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture, or in any indenture supplemental hereto to be performed, and such default shall have continued for a period of sixty days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Borrower by the Trustee, or if such notice is given to the Trustee and the Borrower by Holders of not less than twenty-five percent (25%) in principal amount of outstanding Bonds; or
- (d) The occurrence and continuation of any "Event of Default" as that term is defined in the Loan Agreement or the occurrence of any acceleration of Senior Indebtedness because of a default or nonperformance or noncompliance by the Borrower under any document governing such indebtedness; or
- (e) The occurrence and continuation of a default or an "Event of Default" under the Regulatory Agreement.

Remedies on Default

Upon the occurrence of an Event of Default, the Trustee may, and upon written request of Holders of twenty-five percent (25%) in aggregate principal amount of outstanding Bonds, the Trustee shall, by notice in writing delivered to the Borrower declare the principal of all Bonds hereby secured then outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable; subject, however, to the right of a Majority of Holders, by written notice to the Borrower and to the Trustee, to annul such declaration and destroy its effect at any time if all covenants with respect to which default shall have been made shall be fully performed or made good, and all arrears of interest upon all outstanding Bonds and the reasonable expenses and charges of the Trustee, its agents and attorneys shall be paid, or the amount thereof shall be paid to the Trustee for the benefit those entitled thereto.

In any case of Default or breach of any of the covenants and conditions of the Indenture, or to protect the Trust Estate, the Trustee, anything contained to the contrary notwithstanding and without any request from any holder of Bonds (subject, however, to the provisions of Section 8.06 of the Indenture), may take such action or actions for the enforcement of its rights and the rights of the holders of Bonds and the rights of the City under the Loan Agreement as due diligence, prudence and care would require and to pursue the same with like diligence, prudence and care.

Upon the happening and continuance of an Event of Default, the Trustee may, and shall upon the written request of Holders of not less than twenty-five percent (25%) in aggregate principal amount of all outstanding Senior Bonds, proceed forthwith by suit or suits at law or in equity or by any other appropriate remedy to enforce payment of the Senior Bonds, to enforce application to such payment of the funds, revenues and income appropriated thereto by the Indenture and by the Bonds, to enforce remedies under the Loan Agreement or the Guaranty, to foreclose the Mortgage and/or enforce the provisions of the Mortgage and 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 holders of Bonds. Notwithstanding the foregoing, the Trustee need not proceed upon any such written request of such Bondholders, as aforesaid, unless such Bondholders shall have offered to the Trustee surety and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Holders of Bonds under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Power of Majority of Bondholders

Anything in the Indenture to the contrary notwithstanding, a Majority of Holders shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken under the Indenture, the Loan Agreement, or the Mortgage; provided that such direction shall not be otherwise than in accordance with the provisions of law and that the Trustee shall be indemnified as provided in the Indenture.

Limitation on Suits by Bondholders

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture, or for the execution of any trust or for any other remedy under the Indenture or under the Loan Agreement or the Mortgage, unless either (a) such action shall be approved by Holders of not less than fifty-one percent (51%) in aggregate principal amount of Bonds outstanding, or (b) a Default has occurred of which the Trustee has been notified or of which it is deemed to have notice, the Trustee shall have failed to take action in respect thereof and the Holders of one-fourth (1/4) in aggregate principal amount of Bonds outstanding under the Indenture shall have (i) made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name; and (ii) offered to the Trustee indemnity as provided under the Indenture. Notwithstanding the foregoing, no one or more Holders of the Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of the Indenture, or the Mortgage by their action or to enforce any right thereunder except in the manner provided therein and in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of the Holders of all Bonds outstanding under the Indenture.

Nothing in the Indenture contained shall, however, affect or impair the right of any Bondholder, which is absolute and unconditional, to enforce and bring suit for the payment of the principal of and interest on any Bond at and after the maturity thereof to the respective Holders thereof at the time and place in said Bonds expressed, in accordance with the terms of the Bonds.

Waiver by Bondholders

The Trustee, upon the written request of a Majority of Holders, shall waive any Event of Default under the Indenture and its consequences, except an Event of Default in the payment of the principal of the Bonds at the date of maturity specified therein; provided, however, that an Event of Default caused by the nonpayment of interest on any Series of Bonds shall not be waived unless, prior to such waiver, all arrears of such 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 City, the Trustee and the Holders of the Bonds shall be restored to

their former positions and rights under the Indenture respectively. No such waiver shall extend to any subsequent or other Default or any Event of Default or impair any right consequent thereon.

Concerning the Trustee

The Trustee, prior to the occurrence of an Event of Default and after the curing of all such Events of Default as may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall during the existence of any such Event of Default (which has not been cured) exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. None of the provisions contained in the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Trustee and its officers and directors may acquire and own, or become the pledgee of, Bonds and otherwise deal with the City or the Borrower in the same manner and to the same extent and with like effect as though it were not Trustee.

Except for the initial Trustee, and any successor or assign to such Trustee, there shall at all times be a trustee under the Indenture which shall be an association or a corporation organized and doing business under the laws of the United States or any State thereof, authorized under such laws to exercise corporate trust powers, having a combined capital, surplus and undivided profits of at least Seventy-Five Million Dollars (\$75,000,000) and subject to supervision or examination by Federal or State authority. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture summarized in this paragraph, and another association or corporation is eligible, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee under the Indenture, and a successor may be appointed by a Majority of Holders by an instrument or instruments in writing filed with the Trustee and executed by such Bondholders, notification thereof being given to the City, but until a new Trustee shall be appointed by the Bondholders as authorized under the Indenture, the City shall, subject to the provisions, appoint a Trustee to fill such vacancy. After any such appointment by the City, it shall cause notice of such appointment to be mailed within 30 days of such appointment to the Holders of all outstanding Bonds, but any new Trustee so appointed by the City shall immediately and without further act be superseded by a Trustee appointed in the manner above provided by a Majority of Holders whenever such appointment by said Bondholders shall be made.

If, in a proper case, no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within six months after a vacancy shall have occurred in the office of Trustee, the Holder of any Bond secured by the Indenture or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Discharge of Lien

If the Borrower shall

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

(b) provide for the payment of principal and premium, if any, of the Bonds and interest thereon by depositing with the Trustee at or at any time before maturity amounts sufficient either in cash or in Government Obligations (not callable, except at the option of the holder thereof), the principal and

interest on which when due and payable (or redeemable at the option of the holder thereof) and without consideration of any reinvestment thereof shall be sufficient, to pay the entire amount due or to become due thereon for principal and premium, if any, and interest to maturity of all said Bonds outstanding, or

(c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the outstanding callable Bonds not surrendered or to be surrendered to it for cancellation has been given or waived as provided in Article III of the Indenture, or that arrangements satisfactory to the Trustee have been made insuring that such notice will be given or waived, or (2) a waiver of such notice of redemption signed by the holders of all of such outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such Bonds are to be redeemed, as provided in said Article III, the entire amount of the redemption price, including accrued interest and premium, if any, either in cash or in Government Obligations (not callable, except at the option of the holder thereof) in such aggregate face amount, bearing interest at such rates and maturing or being callable at the option of the holder thereof on such dates as shall be sufficient to provide for the payment of such redemption price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the outstanding Bonds is due and payable, or

(d) surrender to the Trustee for cancellation all Bonds, for which payment is not so provided,

and shall also pay all other sums due and payable under the Indenture and under the Loan Agreement by the Borrower, provided that if Bonds are to be defeased under either paragraph (b) or (c) above, an opinion of Bond Counsel shall be rendered to the Trustee to the effect that the tax-exempt status of interest on the Tax-Exempt Bonds shall not be impaired thereby and a written report from an Independent certified public accounting firm shall be delivered to the Trustee in form and substance satisfactory to the Trustee verifying the sufficiency of the cash and Government Obligations to pay all principal, interest and redemption price described above, then and in that case, all the Trust Estate shall revert to the Borrower and the entire estate, right, title and interest of the Trustee and of the registered owners of the Bonds in respect thereof shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of an opinion of Bond Counsel as to compliance with conditions precedent, and at its cost and expense, execute proper instruments acknowledging satisfaction of the Indenture and surrender to the Borrower all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds and interest thereon), which shall then be held under the Indenture as a part of the Trust Estate.

When there shall have been deposited at any time with the Trustee in trust for the purpose, cash or non-callable Government Obligations the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, for the use and benefit of the Holders thereof, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited and such rights of transfer and exchange of Bonds as are provided in the Indenture, and such Bonds shall be deemed not to be outstanding under the Indenture; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Holders of such Bonds, and from and after such date, redemption date or maturity, interest on such Bonds shall cease to accrue.

Supplemental Indentures

The City, upon resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions in the Indenture, may enter into such indentures supplemental to the Indenture without the consent of any Bondholder for any one or more of the following purposes: (a) to correct the description of any property pledged by the Indenture or intended so to be, or to assign, convey, pledge or transfer and set over unto the Trustee, subject to such liens or other encumbrances as shall be therein specifically described, additional property or properties of the Borrower for the equal and proportional benefit and security of the Holders of all Bonds, at any time issued and outstanding under the Indenture, subject, however, to the provisions hereinabove set forth with respect to extended Bonds; (b) to evidence removal or appointment of any trustee or paying agent under the Indenture; (c) to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indentures

which may be defective or inconsistent with any other provision contained in the Indenture or in any supplemental indenture; (d) to modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar Federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939, excluding, however, the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939; and (e) to permit the issuance of Additional Bonds.

A Majority of Holders shall have the right, from time to time, to consent to and approve the execution of indenture or indentures supplemental to the Indenture; PROVIDED, HOWEVER, that nothing shall permit or be construed as permitting, without the consent of the Holders of all outstanding Bonds, (a) an extension of the maturity of any Bond issued under the Indenture, or (b) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (c) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture and the Mortgage (except as provided in the Indenture), or (d) a preference or priority of any Bond or Bonds over any others, or (e) a reduction in the aggregate principal amount of the Bonds required to consent to supplemental indentures, amendments to the Loan Agreement or amendments to the Mortgage, or (f) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

Whenever there shall be delivered to the Trustee a resolution of Bondholders adopted at a Bondholders' meeting approved by, or an instrument or instruments purporting to be executed by Majority of Holders, which resolution or instrument or instruments shall refer to the proposed supplemental indenture and shall specifically consent to and approve the execution thereof, thereupon, the City and the Trustee may execute such supplemental indenture without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If a Majority of Holders at the time of the execution of such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Holder of any Bond shall have any right to object to the execution of such supplemental indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the City from executing the same or from taking any action pursuant to the provisions thereof.

Anything in the Indenture to the contrary notwithstanding, a supplemental indenture under Article XI of the Indenture which adversely affects the rights of the Borrower under the Loan Agreement, the Mortgage, or the Indenture, or adversely affects the rights of the Guarantor under the Guaranty or the Reimbursement Agreement so long as the Loan Agreement, the Mortgage, or the Guaranty are in effect, shall not become effective unless and until the Borrower, or the Guarantor, as the case may be, shall have consented to the execution and delivery of such supplemental indenture.

Notwithstanding any other provisions of the Indenture, no Supplemental Indenture shall be executed until the Trustee has received an opinion of Bond Counsel to the effect that such execution will not cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

Amendments to the Loan Agreement and Other Documents

The City and the Trustee may, without the consent of or notice to the Bondholders, consent to any amendment, change or modification of the Loan Agreement, the Mortgage or the Guaranty as may be required (i) by the provisions of the Loan Agreement, the Mortgage, the Guaranty or the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, or (iii) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee (unless waived by the Trustee) or the Holders of the Bonds. In determining whether or not an amendment, change, or modification does or does not require the consent of bondholders, the Trustee may conclusively rely on an Opinion of Counsel.

Except for the amendments, changes or modifications as provided in Section 12.01 of the Indenture, neither the City nor the Trustee shall consent to any other amendment, change or modification of the Loan Agreement, the Mortgage or the Guaranty without the written approval or consent of a Majority of Holders; provided, however, that no such amendment, change or modification shall ever affect the unconditional obligation of the Borrower to make

Loan Repayments as they become due and payable. If a Majority of Holders at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution thereof as provided in the Indenture, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or in the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee, the City or the Borrower from executing the same or from taking any action pursuant to the provisions thereof.

Amendments May Not Reduce Loan Repayments

Under no circumstances shall any amendment to the Loan Agreement, the Mortgage or the Guaranty, without the consent of the Holders of all Bonds outstanding affected thereby: (i) reduce the aggregate amount of Loan Repayments payable under the Loan Agreement, or allow any installment of Loan Repayments to be paid subsequent to the time needed for the payment of principal of, premium, if any, and interest on the Bonds, (ii) modify any of the provisions of the Loan Agreement to eliminate the requirement that the Trustee consent to every amendment thereto; or (iii) release from the lien of the Mortgage any of the property secured thereby, or permit the creation of any lien ranking prior to or on a parity with the lien of the Indenture on any part of the Trust Estate, except as expressly permitted by the Indenture, the Loan Agreement, the Mortgage or the Guaranty.

Additional Requirements for all Amendments

Notwithstanding any other provisions of the Indenture, (i) no amendment to the Loan Agreement, the Mortgage, or the Guaranty shall be executed until the Trustee has received an opinion of Bond Counsel to the effect that such execution will not cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes, and (ii) promptly after execution, a copy of the executed amendment shall be delivered to each other Holder who shall have requested of the Trustee to receive such copy.

THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be comprehensive or definitive. This summary is qualified in its entirety by reference to the Loan Agreement. A copy of the Loan Agreement is available during the offering period from the Underwriter and, after the date of issuance of the Bonds, from the Trustee. Capitalized terms employed in this summary are defined in this APPENDIX A under the caption "DEFINITIONS OF CERTAIN TERMS."

Loan Payments

The City agrees, upon the terms and conditions in the Loan Agreement, to lend \$6,255,000 to the Borrower, but solely from the gross sale proceeds derived from the issuance of the Series 2003 Bonds (\$6,255,000) inclusive of the discount at which the Original Purchaser purchased the Series 2003 Bonds. The Loan will be fully funded on the Date of Issuance of the Series 2003 Bonds by the deposit of all sale proceeds from the sale of the Series 2003 Bonds (net of any Original Purchaser's discount) with the Trustee.

As security for all outstanding Bonds, the Borrower agrees to deposit with the Trustee on the 25th day of each month (or if such day is not a Business Day, on the next succeeding Business Day), for the credit of the Debt Service Account, an amount equal to the sum of one-sixth of the interest coming due on the next Interest Payment Date and one-twelfth of the principal coming due on the next Principal Payment Date (including mandatory sinking fund payment), on the Bonds, plus any unpaid interest and/or principal previously due and not deposited.

Additional Payments

The Borrower also agrees:

(a) To pay to the Trustee, promptly after being billed, until the principal of and the interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the provisions of the Indenture (i) all Ordinary Trustee Fees and Expenses, and (ii) the reasonable fees and charges of the Trustee for necessary extraordinary services rendered by it and extraordinary expenses incurred by it under the Indenture, as and when the same become due; provided, that the Borrower may, without creating a default hereunder, contest in good faith the necessity for any such extraordinary services and extraordinary expenses and the reasonableness of any such fees, charges or expenses;

(b) To pay to the City any City fees and to hold the City harmless from all liabilities, costs and other expenses (including attorney's fees) of the City suffered, incurred or paid at any time in connection with any actions, transactions or other matters contemplated by or taken pursuant (or relating in any manner whatsoever) to the Bonds, the Indenture, the Mortgage, the Loan Agreement or any of the other documents executed or delivered in connection with the issuance of or otherwise related to the Bonds, including without limitation any official statements, placement memoranda or other offering materials, or as may arise in connection with any of the foregoing;

(c) Subject to the provisions of Section 5.04 of the Loan Agreement, to each public or private person, firm or Borrower furnishing utility service or constructing or extending facilities for the furnishing of such service for the Project, when due and payable during the Term, all reasonable fees, charges and rentals for such service and facilities;

(d) Subject to the provisions of the Management Contract, to pay the Manager the Management Fee;

(e) To pay to the Guarantor the Guaranty Fee and all other amounts due to the Guarantor for reimbursement in respect of the Guaranty or otherwise pursuant to the Reimbursement Agreement; provided, however, that payment by the Borrower of the Guaranty Fee and any and all other amounts due Guarantor under the Reimbursement Agreement shall be subordinate to Loan Repayments for payment of principal and purchase price of, premium, if any, and interest on the Bonds.

No Set-Off; Borrower's Obligations Unconditional

The obligation of the Borrower to make the payments required hereby shall be absolute and unconditional. Subject to the preceding sentence, until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Borrower (i) will perform and observe all of its agreements contained in the Loan Agreement, and (ii) will pay without abatement, diminution or deduction (whether for taxes or otherwise) all amounts required to be paid under the Loan Agreement, regardless of any cause or circumstance whatsoever including, without limiting the generality of the foregoing: any defense, set-off, recoupment or counterclaim which the Borrower may have or assert against the City, the Trustee, any Holder of a Bond, the Guarantor or any other person; any failure of the City to perform any covenant or agreement between the City and the Borrower; any indebtedness or liability at any time owing to the Borrower by the City, the Trustee, any Holder of a Bond, the Guarantor or any other person; any acts or circumstances that may constitute failure of consideration; damage to or condemnation of the Project Facilities; failure or delay in acquisition of the Project; eviction by paramount title; commercial frustration of purpose; bankruptcy or insolvency of the City or the Trustee; any change in the tax or other laws of the United States of America or of the State or any political subdivision of either; foreclosure of the Mortgage; or any failure in the performance and observance any agreement, whether express or implied, or any duty, liability or obligation, arising out of or connected with the Loan Agreement, the Mortgage, or the Indenture.

The Borrower hereby waives, to the extent permitted by law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or otherwise, to terminate or cancel, or to limit its liability under the Loan Agreement or the Mortgage except in accordance with the express terms of the Loan Agreement.

Prepayment of Loan

The Borrower may prepay the Loan under the following conditions:

(a) The Bonds are subject to redemption in whole or in part at the request of the Borrower, and the Borrower may prepay the Loan in whole or in part for the purpose of so redeeming Bonds.

(b) The Bonds will be subject to redemption in whole and not in part, and the Borrower may prepay the Loan in whole for the purpose of so redeeming all outstanding Bonds, but only if:

(i) the Project Facilities shall be damaged or destroyed or all or a portion of the Project Facilities are taken in condemnation proceedings and the Borrower delivers to the Trustee a written estimate by an Independent person qualified to express such opinion (including an Independent licensed architect) that the Project Facilities cannot be restored or replaced within 12 months from the date of damage, destruction or condemnation, pursuant to Sections 5.10 and 5.11 of the Loan Agreement; or

(ii) as a result of any changes in the Constitution of the State or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or of a final decree, judgment or order of any court or administrative body (whether state or federal) the Loan Agreement shall have become void or unenforceable or impossible of performance in any material respect in accordance with the intent and purposes of the parties as expressed therein.

(c) The Borrower may also prepay the Loan by causing a defeasance of all outstanding Bonds in accordance with Article X of the Indenture.

Except as otherwise expressly provided in the Loan Agreement, Bonds shall be called for redemption by the Trustee only upon the direction of the Borrower.

Additional Tax-Related Payments

If a Determination of Taxability occurs, the Borrower shall forthwith repay the Loan and cause the Series 2003 Bonds to be redeemed on the first Business Day for which notice of redemption can be given in accordance with the Indenture following notice to the Borrower of the Determination of Taxability. Any such redemption shall be effected upon the terms and conditions in the Loan Agreement and at a redemption price equal to an amount which, when added to all amounts then held under the Indenture and available for the purpose, will be equal to the principal amount of all then Outstanding Series 2003 Bonds, plus accrued interest thereon to the redemption date, and, in the event that it is determined that the Determination of Taxability is the fault of the Borrower or the Sole Member, a premium equal to three percent (3%) of the principal amount of each Series 2003A Bond redeemed. The Borrower shall also pay an amount equal to the Trustee's and any paying agent's fees under the Indenture, accrued and to accrue until final payment and redemption of the Bonds being redeemed and all other advances, fees, costs and expenses incurred by the Trustee under the Indenture.

Ownership and Operation

The Borrower will use and operate the Project Facilities and all Mortgaged Property only (i) in furtherance of its lawful purposes, (ii) as required by the Act, and (iii) in a manner that will not adversely affect the tax-exempt status of interest on the Series 2003A Bonds or any other Tax-Exempt Bonds.

The Borrower will not use or permit any person to use the Project Facilities or the Mortgaged Property for any use or purpose in violation of the laws of the United States, the State, or any ordinance of the City, and agrees to comply with all the orders, rules, regulations and requirements of the City, the County or the State or other governmental authority having jurisdiction over the Project Facilities. The Borrower shall have the right to contest by appropriate legal proceedings, without cost or expense to the City, the validity of any law, ordinance, order, rule, regulation or requirement of the nature referred to in this paragraph.

The Borrower agrees that so long as the Bonds are Outstanding, the Borrower will keep or cause to be kept the Project Facilities and the Mortgaged Property in good repair and good operating condition (ordinary wear, tear,

and obsolescence and acts of God being excepted) at its own cost, making such repairs and replacements as are necessary to that end.

The Borrower shall provide all equipment, furnishings, supplies and other personal property required or convenient for the proper operation, repair and maintenance of the Project Facilities and Mortgaged Property in an economical and efficient manner, consistent with the then current standards of operation and administration generally acceptable for facilities such as the Project Facilities located in the State.

The Borrower will use the Project Facilities only in a manner that is consistent with the Sole Member's status as a Minnesota nonprofit corporation and a 501(c)(3) Organization and, except as it shall not impair the exclusion from gross income of interest on any Tax-Exempt Bonds, not use or allow the use of the Project Facilities in any unrelated trade or business with respect to the Sole Member (or any other 501(c)(3) Organization) under Section 513(a) of the Code. The Borrower will not use the Project Facilities or any part thereof for sectarian instruction nor use the Project Facilities primarily as a place of religious worship or as a facility used primarily as a part of a program of a school or department of divinity for any religious denomination or the religious training of ministers, priests, rabbis or other similar persons in the field of religion.

The Borrower represents that it has no present intention to sell, lease or otherwise dispose of any interest in the Project Facilities, other than to lease units in the Project Facilities to elderly residents in the ordinary course of business. Furthermore, the Borrower shall not sell or dispose of all or any portion of the Project Facilities or the Mortgaged Property except as permitted in the Loan Agreement.

So long as any Tax-Exempt Bonds are outstanding and no Default or Event of Default has occurred and exists, the Borrower may sell all or any part of the Project Facilities to or enter into a lease of all or any part of the Project Facilities so long as:

- (a) No such sale, lease or agreement shall be inconsistent with the provisions of the Loan Agreement, the Indenture, the Mortgage, or the Act;
- (b) The Borrower shall remain fully obligated under all Loan Documents as if such sale, lease or agreement had not been made; and
- (c) The Borrower shall cause to be delivered to the Trustee an opinion of Bond Counsel to the effect that such transaction shall not cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

Notwithstanding the foregoing, so long as no Default or Event of Default has occurred and exists under the Loan Agreement, upon any sale of all or substantially all of the Project Facilities in accordance with Sections 5.02 and Section 6.04 of the Loan Agreement, the Borrower, may, upon request to the Trustee, be released and forever discharged from its obligations under the Loan Documents.

For purposes of Sections 5.02 and Section 6.04 of the Loan Agreement, any change of the sole member of the Borrower from the Sole Member to another person shall be deemed a sale of all of the Project Facilities to such person.

The Borrower will pay or cause to be paid all utility charges and other charges arising from the operations at the Project Facilities and the Mortgaged Property which, if unpaid, would become a lien on the Project Facilities or the Mortgaged Property and will not permit any lien or encumbrance except Permitted Encumbrances to be established or to remain unsatisfied against the Project Facilities or the Mortgaged Property, including any mechanics' liens; provided, that if no Event of Default has occurred and is continuing, the Borrower may at its own expense diligently prosecute and in good faith contest any mechanics' or other liens filed or established against the Project Facilities or Mortgaged Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Trustee shall notify the Borrower that, in the opinion of Independent Counsel, by nonpayment of any such items the Project Facilities, the Mortgaged Property or any part thereof will be subject to loss or forfeiture, in which event the Borrower shall promptly pay and cause to be satisfied and discharged all such unpaid items; provided that the

Borrower may continue to contest such liens if it posts security deemed adequate by Independent Counsel and complies with all requirements related thereto in the Mortgage.

The Borrower will pay or cause to be paid, as the same respectively become due, any taxes, special assessments, license fees and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the operations at the Project Facilities or Mortgaged Property, or any improvements, equipment or related property installed or brought by the Borrower therein or thereon. If no Event of Default has occurred and is continuing, the Borrower may, at its expense, in good faith contest any such taxes, assessments, license fees and other governmental charges and, in the event of any such contest, may permit the taxes, assessments, license fees or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee shall notify the Borrower that, in the opinion of Independent Counsel, by nonpayment of any such items, the Project Facilities or Mortgaged Property or any part thereof, or the revenue therefrom, will be subject to loss or forfeiture, in which event such taxes, assessments, license fees or charges shall be paid promptly.

The Borrower shall have the privilege from time to time at its cost and expense, of remodeling and of making additions, modifications, alterations, improvements and changes (hereinafter collectively referred to as "alterations") in or to the Project Facilities and Mortgaged Property as it, in its discretion, may deem to be desirable for its uses and purposes, subject, however, to the following:

- (a) All alterations to the Project Buildings shall be located within the boundary lines of the Land and shall become a part of the Mortgaged Property;
- (b) Alterations to the Project Buildings shall not substantially impair the structural strength or utility of any Project Buildings or significantly alter the character or purpose or detract from the value or operating efficiency of the Project Facilities or Mortgaged Property, and the Borrower shall have delivered to the Trustee a Certificate of the Authorized Borrower Representative to such effect;
- (c) The alterations shall not significantly impair the revenue producing capacity of the Project Facilities and the Mortgaged Property, and the Borrower shall have delivered to the Trustee a Certificate of the Authorized Borrower Representative to such effect; and
- (d) The alterations shall not affect the tax-exempt status of interest on the Series 2003A Bonds or any other Tax-Exempt Bonds.

The Trustee may, in its discretion, require the Borrower to furnish an opinion of an Independent Engineer, at the expense of the Borrower, to the effect of paragraph (b) if the alterations shall exceed \$50,000 in the aggregate.

Removal of Equipment and Release of Property and Equipment

If no Default exists, the Borrower shall have the right to remove Equipment from the Mortgaged Property and have the Equipment released from the lien of the Mortgage if, in addition to satisfying other requirements of the Loan Agreement, (i) the Borrower replaces such Equipment with substitute Equipment, or (ii) the Equipment becomes obsolete and is no longer useful in the operation of the Project Facilities. In the event any such removal of equipment causes damage to buildings, the Borrower shall restore or repair such damage at its expense. The Trustee shall execute and deliver as provided in the Indenture such releases or other documents (if any) as the Borrower may properly request in connection with any action taken by the Borrower in conformity with the provisions summarized above with respect to the removal of equipment. The removal from the Project Facilities of any portion of equipment pursuant to the provisions summarized above with respect to the removal of equipment shall not entitle the Borrower to any abatement or diminution of Loan Repayments subsequently due.

The Borrower shall have the right, at any time and from time to time, to a release of Land from the Mortgage, but only as follows:

- (a) Land not containing any permanent structure necessary for the total operating unity and efficiency of the Project Facilities may be released for the purpose of selling the same to a third person or to

facilitate the construction or financing of additions to the Project Buildings or additional structures not related to the Project on the Land, and the Trustee shall, from time to time, release from the Mortgage such real property so sold, pledged or disposed of, but only upon receipt by the Trustee of certain documents and opinions described in the Loan Agreement.

(b) The Borrower may at any time or times grant to itself or others easements, licenses, rights of way and other rights or privileges in the nature of easements with respect to the Land, free from the lien of the Mortgage, or the Borrower may release existing easements, licenses, rights of way and other rights or privileges with or without consideration, and the Trustee will execute and deliver any instrument necessary or appropriate to confirm and grant or release any such easement, license, right of way or privilege; provided, however, that prior to any such grant or release, there shall have been supplied to the Trustee a Certificate of the Authorized Borrower Representative to the effect (i) that such grant or release is not detrimental to the proper operation of the Project Facilities, and (ii) that such grant or release will not impair the operating unity or the efficiency of the Project Facilities on such Land or materially and adversely affect the character thereof.

Insurance

The Borrower shall maintain, or cause to be maintained, at its cost and expense, insurance as follows:

(a) Insurance against loss and/or damage to the Mortgaged Property under a policy or policies covering such risks as are ordinarily insured against by similar businesses, including (without limiting the generality of the foregoing) fire and extended coverage in an amount not less than 100% of the full insurable replacement value of the Project Facilities, but any such policy may have a deductible amount of not more than \$100,000. No policy of insurance shall be so written that the proceeds thereof will produce less than the minimum coverage required by the preceding sentence, by reason of co-insurance provisions or otherwise, without the prior consent thereto in writing by the Trustee (based on a report of an Independent Consultant). The term "full insurable replacement value" shall mean the actual replacement cost of the Project Facilities (excluding foundation and excavation costs and costs of underground flues, pipes, drains and other uninsurable items) and equipment, and shall be determined or redetermined on the fifth anniversary of the Loan Agreement and every fifth anniversary thereafter, by an Insurance Consultant. All policies evidencing insurance required by this subparagraph (a) with respect to the Project Facilities shall be carried in the names of the Borrower and the Trustee as their respective interests may appear and shall contain standard mortgage clauses which provide for Net Proceeds of insurance resulting from claims per casualty thereunder to the Project Facilities which are less than \$250,000 for loss or damage covered thereby to be made payable directly to the Borrower, and Net Proceeds from such claims which are equal to or in excess of \$250,000 to be made payable directly to the Trustee. The Net Proceeds of such insurance required by this paragraph (a) with respect to the Project Facilities shall be applied as provided in Sections 5.10 and 5.11 of the Loan Agreement.

(b) Comprehensive general public liability insurance, including personal injury liability, and, if the Borrower owns or leases any automobiles, automobile insurance, including owned, non-owned and hired automobiles, against liability for injuries to persons and/or property, in the minimum amount for each occurrence and for each year of \$1,000,000, for public liability not arising from ownership or operation of automobiles (or other motor vehicles), and in the minimum amount of \$500,000 for each occurrence and for each year for liability arising out of ownership or operation of automobiles (or other motor vehicles) and shall be endorsed to show the Trustee and the City as an additional insured.

(c) Business interruption insurance covering actual losses in gross operating earnings of the Borrower resulting directly from necessary interruption of business caused by damage to or destruction of real or personal property constituting part of the Project Facilities (for a period of at least twelve months commencing 30 days after such damage or destruction), less charges and expenses which do not necessarily continue during the interruption of business, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair or replace such properties as have been damaged or destroyed, with limits equal to at least 100% of the maximum principal and interest scheduled to be due on all Senior Indebtedness and all Bonds for any current or subsequent Fiscal Year.

(d) At any time when any construction or improvement valued at more than \$100,000 is being undertaken, insurance for the Project or such construction or improvement, under an All-Risk, Completed Value, Non-Reporting Form policy with coverage for 100% of the completed value, with delayed completion coverage, collapse coverage, and special cause of loss coverage. In addition, any general contractor shall maintain with respect to the work insurance for liability and worker's compensation no less in coverage than is required by the Loan Agreement with respect to the Borrower.

(e) Such other insurance, including workers' compensation insurance respecting all employees of the Borrower, in such amount as is customarily carried by like organizations engaged in like activities of comparable size and liability exposure; provided that the Borrower may be self-insured with respect to all or any part of its liability for workers' compensation.

(f) In addition to the foregoing, all insurance coverage carried by or on behalf of the Borrower with respect to the Project Facilities and its operations shall be evaluated at least once every five years by the Insurance Consultant, who shall prepare and deliver to the Trustee a report as to the Insurance Consultant's recommendations for any changes in the then current insurance coverage required so that such insurance coverage is no less than the coverage which is customary for like organizations and businesses, including in such evaluation the particular risks insured, the amount of insured loss coverage, and exclusions from coverage. Thereafter, the Borrower shall promptly procure the any recommended additional insurance coverage.

Damage or Destruction

The Borrower agrees to notify the Trustee immediately in the case of damage to, or destruction of, the Project Facilities or any portion thereof, resulting from fire or other casualty, estimated to exceed \$100,000 in amount, which notice shall be followed as promptly as practicable by a description of the damage or destruction, the estimated costs to repair the same, and the sources of funds expected to be utilized in the repair or replacement of the Project Facilities. In the event that the Net Proceeds for such damage shall not exceed \$250,000 and no Default has occurred and is continuing, the Net Proceeds shall be paid to the Borrower, who shall forthwith repair, reconstruct and restore the Project Facilities to substantially the same condition and value as existed prior to the event causing such damage and, to the extent necessary to accomplish such repair, reconstruction and restoration, the Borrower will apply the Net Proceeds to the payment or reimbursement of the costs thereof.

If a Default has occurred and is continuing, all Net Proceeds shall be deposited with the Trustee for application in accordance with the Indenture. In the event the Project Facilities or any portion thereof is destroyed by fire or other casualty and Net Proceeds exceed \$250,000, all Net Proceeds shall be deposited with the Trustee for credit to the Insurance and Award Account, unless the Borrower shall notify the Trustee of the Borrower's election to redeem all then redeemable outstanding Bonds as hereinafter provided, in which case all Net Proceeds shall be deposited in the Optional Redemption Fund for redemption of Bonds available to be redeemed because of such destruction or casualty. Notwithstanding the foregoing, Net Proceeds from business interruption insurance shall be deposited in the Revenue Fund as a portion of Monthly Net Project Revenues.

If Net Proceeds from the damage or destruction is estimated to exceed \$250,000, then the Borrower shall within 60 days after such damage or destruction elect one of the following two options by written notice of such election to the Trustee: (a) the Borrower may elect to repair, reconstruct and restore the damaged Project Facilities; provided that the Borrower certifies in writing to the Trustee that such repair, reconstruction or restoration is reasonably expected to be completed within twelve (12) months after the damage or destruction; or (b) in the event that the Borrower shall deliver to the Trustee a written estimate by an Independent person qualified to express such opinion (including an Independent licensed architect) that that the Project Facilities cannot be rebuilt, restored or replaced within 12 months from the date of the destruction of damage, all outstanding Series 2003A Bonds (and all other outstanding Bonds redeemable because of such any event) shall be redeemed in whole on the next Interest Payment Date for the Series 2003A Bonds occurring at least 45 days after the date of the notice given as to exercise of this Option (b), and the Net Proceeds shall be deposited in the Optional Redemption Fund and shall be applied for that purpose. In such event, the applicable outstanding Bonds shall be redeemed at par plus accrued interest, and redemption shall be effected pursuant to the provisions of, in the manner, and with the effect provided in the Indenture. If the Net Proceeds of insurance, together with all amounts then held by the Trustee under the Indenture

available to redeem or retire the applicable Bonds, shall be insufficient to so redeem the applicable outstanding Bonds (including and expenses of redemption), the Borrower shall pay such deficiency to the Trustee as a Loan Repayment; and the Net Proceeds of insurance, together with such Loan Repayment and amounts held by the Trustee under the Indenture, shall be applied to such redemption of the Bonds.

Condemnation

If any portion of the Project Facilities or any material portion thereof becomes subject to any eminent domain or condemnation proceeding, the Borrower shall give prompt notice thereof to the Trustee. In the event that the Net Proceeds for such event shall not exceed \$250,000 and no Default has occurred and is continuing, the Net Proceeds shall be paid to the Borrower, who shall forthwith repair, reconstruct and restore the Project Facilities to substantially the same condition and value as existed prior to the event causing such damage and, to the extent necessary to accomplish such repair, reconstruction and restoration, the Borrower will apply the Net Proceeds to the payment or reimbursement of the costs thereof.

If a Default has occurred and is continuing, all Net Proceeds shall be deposited with the Trustee for application in accordance with the Indenture. If Net Proceeds from the condemnation exceed \$250,000, all Net Proceeds shall be deposited with the Trustee for credit to the Insurance and Award Account, unless the Borrower shall notify the Trustee of the Borrower's election to redeem all then redeemable outstanding Bonds as provided in the Loan Agreement, in which case all Net Proceeds shall be deposited in the Optional Redemption Fund for redemption of Bonds available to be redeemed because of such event.

If Net Proceeds will exceed \$250,000, then the Borrower shall within 60 days after such condemnation elect one of the following two options by written notice of such election to the Trustee: (a) the Borrower may elect to use the Net Proceeds of the award made in connection with such condemnation or taking for additions, repairs and improvements to the Project Facilities to restore or replace the Project Facilities to substantially the same condition and value as existed prior to the event; provided that the Borrower certifies in writing to the Trustee that such additions, repairs and improvements are reasonably expected to be completed within twelve (12) months after the condemnation or taking, or (b) in the event that the Borrower shall deliver to the Trustee a written estimate by an Independent person qualified to express such opinion (including an Independent licensed architect) that that the Project Facilities cannot be rebuilt, restored or replaced within 12 months from the date of the condemnation or taking by eminent domain, all outstanding Series 2003A Bonds (and all other outstanding Bonds redeemable because of such event) shall be redeemed in whole on the next Interest Payment Date for the Series 2003A Bonds occurring at least 45 days after the date of the notice given as to exercise of this Option (b), and the Net Proceeds shall be deposited in the Optional Redemption Fund and shall be applied for that purpose. In such event, the applicable outstanding Bonds shall be redeemed at par plus accrued interest, and redemption shall be effected pursuant to the provisions of, in the manner, and with the effect provided in the Indenture.

If the Net Proceeds of condemnation, together with the amount then held by the Trustee under the Indenture available to redeem the Bonds shall be insufficient to redeem the Bonds (including principal, accrued interest, and expenses of redemption), the Borrower shall pay such deficiency to the Trustee as a Loan Repayment, and the Net Proceeds of condemnation, together with such Loan Repayment and amounts held by the Trustee under the Indenture shall be applied to such redemption of the Bonds at the earliest possible date.

Special Covenants

Existence. The Borrower agrees that, so long as the Bonds are Outstanding, it will maintain its existence as a limited liability company under the laws of the State, with the Sole Member as its sole member; will not dissolve or otherwise dispose of all or substantially all of its assets; and will not consolidate with or merge into another person or permit one or more other persons to consolidate with or merge into it; provided, that the Borrower may, without violating the agreement contained under this heading, consolidate with or merge into another institution, or permit one or more other of such institutions to consolidate with or merge into it, or sell or otherwise transfer to another such institution all or substantially all of its assets as an entirety and thereafter dissolve (collectively, a "Transaction") upon satisfaction of the conditions described in the Loan Agreement.

Financial Reporting. The Borrower shall provide to the Trustee, the Original Purchaser and any Holder who so requests:

- (a) By no later than 120 days after the close of each Fiscal Year during the Term of the Loan Agreement, beginning with the first full Fiscal Year following the Date of Issuance, a copy of annual financial statements of the Borrower and the Sole Member for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles, consistently applied, accompanied by an audit report of an Independent certified public accountant, covering the operations of the Borrower for such Fiscal Year and containing a balance sheet as at the end of such Fiscal Year, showing in comparative form the financial data for the preceding Fiscal Year, and accompanied by a separate written statement of such accountant preparing such report that the accountant has obtained no knowledge of any default by the Borrower in the fulfillment of any of the terms, covenants, provisions or conditions of the Loan Agreement, or if the accountant shall have obtained knowledge of any such default, a description of such default; but such accountant shall not hereby be held liable directly or indirectly to anyone for such accountant's failure to obtain knowledge of any default.
- (b) By no later than 120 days after the last day of each Fiscal Year during the Term of the Loan Agreement, beginning with the first full Fiscal Year following the Date of Issuance, a Certificate of the Authorized Borrower Representative stating whether or not, after such review as is appropriate, the Borrower has complied with all terms and covenants during such year, and if the Borrower has not, specifying the same.
- (c) By no later than 45 days after the last day of each quarter of the Fiscal Year, beginning with the first full quarter following the Date of Issuance, financial statements prepared by or on behalf of the Borrower (which need not be audited), setting forth in accordance with generally accepted accounting principles consistently applied, the revenues and expenses of the Borrower and the Sole Member for the quarter, in comparison with the same period for the prior fiscal year, together with a balance sheet, a statement of cash flow, and evidence and a certification of the Borrower's satisfaction of the requirements of Section 6.13 of the Loan Agreement, which shall in each case be certified by any authorized officer of the Borrower with knowledge of its financial affairs to be true and accurate to the best of such officer's knowledge.
- (d) By no later than 45 days after the last day of each quarter of the Fiscal Year, beginning with the first full quarter following the Date of Issuance, a statement as to the occupancy of the Project Facilities for each of the last preceding twelve consecutive months, setting forth for each month the number of units leased, percentage of units leased, number of units occupied by new tenants, number of persons on a waiting list, and number of units for which a lease terminated.

Rate Covenant. The Borrower agrees as follows:

- (a) The Borrower shall operate the Project Facilities, subject to applicable requirements or restrictions imposed by law, such that Net Revenues Available for Debt Service in each calendar quarter, commencing with the calendar quarter ending June 30, 2004, will be at least 110% of Maximum Debt Service Requirements during such calendar quarter. The foregoing is subject to the qualification that if requirements necessary for the Sole Member to maintain its status as a 501(c)(3) Organization, or applicable state or federal laws or regulations, or the rules and regulations of agencies having jurisdiction (the "Operating Requirements"), shall not permit the Borrower to produce the foregoing level of Net Revenues Available for Debt Service, then the Borrower shall, in conformity with the then prevailing requirements, laws, rules or regulations, maintain the maximum permissible level.
- (b) If based on the financial statements required to be prepared under Section 6.02 of the Loan Agreement, for any two consecutive calendar quarters ending on or after March 31, 2004, Net Revenues Available for Debt Service are less than 110% of Debt Service Requirements for such periods, then the Trustee shall immediately notify all Bond Holders of such fact, and the Borrower will promptly employ an Independent Management Consultant to: (i) review and analyze the financial reports required to be made by the Borrower, (ii) inspect the Project Facilities, their operation and administration, (iii) submit to the Borrower and the Trustee, a written report and (iv) make such recommendations as to the operation and administration of the Project Facilities as such Management Consultant deems appropriate. The Borrower agrees to the fullest extent lawful, to adopt and carry out such recommendations, subject always to the Operating

Requirements, and if such lawful recommendations are not adopted and carried out, the Borrower shall replace the Manager.

(c) So long as the Borrower is otherwise in full compliance with its other obligations under the Loan Agreement, it shall not constitute an Event of Default that Net Revenues Available for Debt Service for any calendar quarter are less than the coverage requirements described above, unless for any consecutive twelve calendar month period ending on or after March 31, 2004, Net Revenues Available for Debt Service are less than Debt Service Requirements.

(d) On the last day of each Fiscal Year, the current ratio (as defined in the Loan Agreement) reflected in the Borrower's financial statements shall be at least 1.15 to 1.

Limitations on Debt. The Borrower covenants that after the Date of Issuance of the Series 2003 Bonds it will not, directly or indirectly, incur any Indebtedness (secured or unsecured) except as provided below.

Short Term Indebtedness. The Borrower may incur such Short-Term Indebtedness as in the Borrower's judgment may be deemed expedient to provide for working capital, provided that Short-Term Indebtedness when incurred shall not cause the total Short-Term Indebtedness in the aggregate then outstanding to exceed 5% of the Gross Revenues of the Borrower for the preceding Fiscal Year for which annual audited financial statements have been prepared. Short-Term Indebtedness may be secured by collateral comprising accounts receivable, but in no other manner. The Borrower shall give prompt written notice to the Trustee of the incurrence of more than \$150,000 in the aggregate of Short-Term Indebtedness.

Interim Indebtedness. The Borrower may incur Interim Indebtedness by borrowing money on an interim basis to provide temporary financing of Improvements for which the City shall have previously agreed to provide permanent financing by the issuance of Additional Bonds therefor or for which other lenders shall have previously agreed to provide permanent financing, but only after the right of the City to issue Additional Bonds has been established pursuant to the Indenture or the right of the Borrower to enter into the permanent financing has been established in accordance with Section 6.17 of the Loan Agreement. No property or assets of the Borrower may secure Interim Indebtedness.

Additional Long-Term Indebtedness. After the Date of Issuance of the Series 2003 Bonds, and, unless waived by a Majority of Holders, so long as no Event of Default has occurred and is continuing, the Borrower may incur Additional Long-Term Indebtedness only for the purpose of: (i) refunding Outstanding Bonds, (ii) refinancing outstanding Indebtedness, or (iii) financing or refinancing the design, acquisition, construction, development and equipping of Improvements. The Borrower may incur Additional Long-Term Indebtedness in amounts which are sufficient, in addition to paying the cost of accomplishing the purpose for which the Additional Long-Term Indebtedness was incurred, to pay the costs of the Borrower in incurring such Additional Long-Term Indebtedness, to fund a reserve fund for the payment of such Additional Long-Term Indebtedness (or related Bonds) and to fund interest payable on such Additional Long-Term Indebtedness for a period of time not to exceed six months beyond the completion of construction of any Improvements, but only upon complying with the following requirements:

(a) Before incurring or otherwise becoming liable in respect of any Additional Long-Term Indebtedness, the Borrower shall furnish the Trustee:

(i) a Certificate of an Authorized Borrower Representative which shall: (A) state the general purpose for which such Additional Long-Term Indebtedness is to be incurred; (B) describe the Improvements to be financed or refinanced thereby or the Outstanding Bonds to be refunded thereby or the outstanding Additional Long Term Indebtedness to be refinanced thereby, as the case may be; (C) state the principal amount of Additional Long-Term Indebtedness to be incurred, the maturity date or dates thereof and the interest rate or rates with respect thereto; and (D) state that the proposed Additional Long-Term Indebtedness, together with any other funds available to and committed or reserved by the Borrower for use in connection with such financing, refinancing or refunding, which other funds shall be identified as to amount and source, is not less than the amount required to acquire and construct the Improvements and to place the same in service, to refund the outstanding Indebtedness to be refunded or to refinance the outstanding Indebtedness, as the case

may be, and to pay all fees, expenses and financing costs, including required reserves and funded interest, in connection therewith;

(ii) an Opinion of Counsel to the Borrower to the effect that all conditions precedent specified in the Loan Agreement for incurring such Additional Long-Term Indebtedness have been satisfied;

(iii) a written opinion of Bond Counsel to the effect that the incurrence of the Additional Long-Term Indebtedness will not cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes; and

(iv) a written report of an independent certified public accountant (which accountant and report are acceptable to the Trustee) stating that the Debt Service Coverage Ratio for the two Fiscal Years immediately preceding the incurring of such Additional Long-Term Indebtedness for which financial statements reported upon by independent certified public accountants are available, assuming that the Additional Long-Term Indebtedness then proposed to be incurred was treated as outstanding for such Fiscal Years, was not less than 1.25:1; or (b) a written Consultant's report (which report is acceptable to the Trustee) to the effect that the projected Debt Service Coverage Ratio for each of the next three (3) succeeding Fiscal Years is not less than 1.25:1; provided that such report shall include forecast statement of financial position (income statement), statements of revenues and expenses and statements of changes in financial position for such Fiscal Year and a statement of the relevant assumptions upon which such forecasted statements are based, which financial statements must indicate that sufficient revenues and cash flow could be generated to pay the operating expenses of the Project and the debt service on the Borrower's other existing Indebtedness during such Fiscal Year.

(v) if the Additional Long-Term Indebtedness proposed to be incurred is, or is to be, guaranteed by the Guarantor, by the terms of the Guaranty, or an amendment thereto, or an additional instrument, any or all of which shall be satisfactory in form and substance to the Trustee, then the provisions of clause (iv) above shall be applied by substituting "1.10" for "1.25" in both places it appears.

(b) The Borrower shall not incur any Additional Long-Term Indebtedness to refund Outstanding Bonds or other Indebtedness unless, in addition to the filing of the items described in paragraph (a) above:

(i) there shall be filed with the Trustee a report of an Independent accountant to the effect that the proceeds of the Indebtedness, together with any other funds deposited with the Trustee for such purpose, will be not less than an amount sufficient to pay the principal of and the redemption premium, if any, on the Outstanding Bonds to be refunded and the interest which will become due and payable thereon on or prior to the redemption date or stated maturity thereof, or that the principal of and interest on Government Obligations purchased from such proceeds or from other funds provided by the Borrower and deposited in trust with the Trustee, which Government Obligations do not permit redemption thereof at the option of the issuer, when due and payable (or redeemable at the option of the holder) will without reinvestment provide, together with any other moneys which shall have been deposited irrevocably with the Trustee for such purpose, sufficient moneys to pay such principal, redemption premium, if any, and interest; and

(ii) there shall be filed with the Trustee an opinion of Bond Counsel to the effect that the incurring of such Additional Long-Term Indebtedness and the refunding of Bonds or other Indebtedness with the proceeds thereof will not cause interest on any Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

(c) Any additional Long-Term Indebtedness may be secured by the Mortgage on parity with the Bonds; provided, however, that the Borrower shall not secure nor attempt to secure such Additional Long-

Term Indebtedness with an interest in the property secured under the Mortgage except in accordance with the terms of an agreement satisfactory to the Trustee.

(d) Any default under any agreement for repayment of Additional Long-Term Indebtedness shall be a default under the Loan Agreement and there shall be included in any agreement for repayment of such Additional Long-Term Indebtedness a provision that any default under the Loan Agreement shall be a default under such agreement. In addition, any agreement for repayment of such Additional Long-Term Indebtedness shall include a provision that, prior to exercising any remedies upon a default by the Borrower under such agreement, the holder or holders of such Additional Long-Term Indebtedness (or a trustee representing such holders) shall cooperate with the Trustee to the end that the interests of such holder or holders and the Bondholders shall be equally protected.

Subordinate Debt. The Borrower may incur such Indebtedness as in the Borrower's judgment may be deemed expedient for the payment of working capital; provided however, that the terms thereof shall expressly provide that such Indebtedness and any lien securing the Indebtedness and all rights of payment and enforcement shall be subordinated to the payment of outstanding Bonds, as evidenced by an agreement between the holder of such Indebtedness and the Trustee (consented to by the Borrower).

Events of Default

The following are "Events of Default" under the Loan Agreement:

- (a) If the Borrower fails to pay the amount of any Loan Repayment and if, as a result thereof, the principal of, premium, if any, or interest on any Bond is not paid; or
- (b) If the Borrower shall fail to punctually perform any of the other covenants, conditions, agreements and provisions contained in the Loan Agreement on the part of the Borrower to be performed, and (except in the case of a payment due under Section 4.07(c) of the Loan Agreement) such Default shall have continued for a period of 30 days after written notice, specifying such Default and requiring the same to be remedied, shall have been given to the Borrower by the City or the Trustee; or
- (c) If any representation or warranty of the Borrower made in the Loan Agreement or in any report, certificate or financial statement provided by the Borrower in connection with the Loan Agreement shall prove to be false or misleading in any material respect; or
- (d) If any Event of Default shall exist under the other Loan Documents; or
- (e) If the Borrower files a petition in voluntary bankruptcy, for the composition of its affairs or for its reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of its property; or
- (f) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Borrower an insolvent, or adjudging the Borrower bankrupt, or appointing a trustee or receiver of the Borrower or of the whole or any substantial part of the property of the Borrower under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof;
- (g) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Borrower or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control;
- (h) If a court of competent jurisdiction shall enter an order, judgment or decree (which is not subject to further appeal or rehearing) declaring that the Borrower owes any amount in excess of \$50,000, and

such amount is not paid within 30 days after such order, judgment or decree shall become final and not subject to further appeal or rehearing.

The provisions of paragraph (b) above are subject to the following limitations: (1) If by reason of Force Majeure the Borrower is unable in whole or in part to carry out its agreements contained in the Loan Agreement, the Borrower shall not be deemed in default during the continuance of such disability (except for a payment default under Section 4.07(c) of the Loan Agreement); and (2) If the Default can be remedied but not within a period of thirty (30) days after notice and if the Borrower has taken all action reasonably possible to remedy such Default within such thirty day period, the Default shall not become an Event of Default for a period of up to ninety (90) days after the notice so long as the Borrower shall diligently proceed to remedy such Default and in accordance with any directions or limitations of time made by the Trustee (except for a payment default under Section 4.07(c) of the Loan Agreement). The Borrower agrees, however, to use its best efforts to remedy with all reasonable dispatch any cause or causes preventing the Borrower from carrying out its agreements.

Remedies on Default

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

- (a) The Trustee may (and shall if all outstanding Bonds have been declared due and owing as a result of a default under the Indenture) declare all or any amounts of Loan Repayments thereafter to become due and payable under Section 4.02 of the Loan Agreement for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become immediately due and payable in an amount sufficient to pay all principal of and unpaid accrued interest to the date on which all outstanding Bonds are finally paid; and
- (b) The Trustee may foreclose the Mortgage, file proofs of claim or take whatever other action in law or in equity which appears necessary or desirable to enforce the Loan Agreement, the Mortgage, the Guaranty, the Regulatory Agreement or the Indenture in accordance with the provisions thereof.

Any amounts collected by the Trustee pursuant to action taken under the foregoing paragraphs shall be applied as provided in Section 7.05 of the Indenture.

Whenever any Default shall occur, the Trustee (or the City directly and without the necessity of consent of or joinder by the Trustee, with respect to the City's rights under Sections 4.03(b), 6.01, 6.10 and 8.10 of the Loan Agreement) may take whatever action at law or in equity which may appear necessary or desirable to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement and the Mortgage or the Guarantor under the Guaranty.

Limitation on Liability of the City

It is understood and agreed by the Borrower: (1) that no covenant, provision or agreement contained in the Loan Agreement, the Bonds, the Mortgage, the Regulatory Agreement, the Assignment, the Indenture or in any other agreement, certificate or document executed or delivered in connection with the issuance of the Bonds, and that no obligation therein imposed upon the City (or any other party) or respecting the breach thereof (collectively, the "Indemnified Matters"), shall give rise to a pecuniary liability of the City or a charge against its general credit or taxing powers; and (2) that the Bonds shall be and constitute only a special and limited revenue obligation of the City, payable solely from the revenues pledged to the payment thereof pursuant to the Indenture and the Loan Agreement, and that the Bonds do not now and shall never constitute an indebtedness, a moral or general obligation or a loan of the credit of the City or a charge, lien or encumbrance, legal or equitable, against the City's property, general credit or taxing powers. The Borrower has agreed, under the Loan Agreement, to indemnify the City and each of its officers, agents and employees (collectively, the "Indemnified Parties") and the Borrower agrees to hold the Indemnified Parties harmless against all expense, loss, claim, judgment, damage and any other liability respecting or arising out of the Indemnified Matters, and the Borrower will reimburse the Indemnified Parties for all legal and other expenses incurred by the Indemnified Parties in relation thereto, and this covenant to indemnify, hold harmless and reimburse the

Indemnified Parties, together with the rights of the City provided in Section 4.03(b), 6.01 and 6.10 of the Loan Agreement, shall survive delivery of and payment for or defeasance of the Bonds and the expiration or termination of the Loan Agreement. Notwithstanding any other provision of the Loan Agreement, the Indemnified Parties shall have the right in their discretion to employ separate counsel, and the reasonable fees of said counsel shall be included with the costs indemnified by the Borrower, and no prior approval of such separate representation and no consent by the Borrower to settlement or other disposition of such matter shall be required.

THE REGULATORY AGREEMENT

The following is a brief summary of certain provisions of the Regulatory Agreement with respect to the Project. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Regulatory Agreement, copies of which are on file with the Issuer and the Trustee. Certain capitalized terms employed in this summary are defined in this APPENDIX D under the caption "DEFINITIONS OF CERTAIN TERMS." Capitalized terms used herein, but not defined elsewhere in this Appendix D, shall have the meanings ascribed thereto in the Code or in the Regulatory Agreement.

Rental Restrictions

The Regulatory Agreement requires that the Borrower maintain not fewer than 20% of the Independent Living Units in the Project for occupancy by low income tenants whose median incomes are within 50% of the median income for the area where the Project is located, all as further provided in Section 142(d) of the Code ("Applicable Set-Aside Percentage").

Project Restrictions

The Borrower acknowledges and agrees that the Project is to be owned, managed, and operated as a "qualified residential rental project" (within the meaning of sections 142(d) and 145(d) of the Code) for a term equal to the Qualified Project Period. To that end, and for the term of the Regulatory Agreement, the Borrower represents, covenants, warrants, and agrees as follows:

(a) The Project will be acquired for the purpose of providing multifamily residential rental property, and the Borrower will own, manage, and operate the Independent Living Units in the Project as a project to provide multifamily residential rental property comprising a building or structure or several interrelated buildings or structures (consisting of one or more discrete edifices and other man-made construction with an independent foundation, outer walls, and roof, containing five or more units), together with any functionally related and subordinate facilities, and no other facilities, in accordance with section 142(d) of the Code and Section 1.103-8(b) of the Regulations and the Act, and in accordance with such requirements as may be imposed thereby on the Project from time to time.

(b) Except for those dwelling units designated as "Assisted Living Units," which do not have cooking facilities, all of the dwelling units in the Project will be similarly constructed dwelling units, and each such dwelling unit in the Project will contain complete, separate and distinct facilities for living, sleeping, eating, cooking and sanitation for a single person or a family, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink (the "Independent Living Units").

(c) None of the Independent Living Units in the Project will at any time be utilized on a transient basis or will ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home or trailer court, mobile home park, or recreational vehicle park or by a cooperative housing corporation (as defined in section 216(b)(1) of the Code). No dwelling unit within the Project will be rented for a period of less than thirty (30) days.

(d) No part of the Project will at any time be owned or used by a cooperative housing corporation or be converted to condominium ownership or use, nor shall the Borrower take any steps in connection with a conversion to such ownership or uses except for ownership or use by a cooperative housing corporation which is

eligible for tax-exempt multifamily residential rental housing bond financing under the Code. The Borrower will not sell individual Independent Living Units within the Project.

(e) Each of the Independent Living Units will be available for rental on a continuous basis to members of the general public on a non-transient basis, and the Borrower will not give preference to any particular class or group in renting the Independent Living Units in the Project, except to the extent that Independent Living Units are required to be leased or rented to Low Income Tenants and except that occupancy will be restricted to elderly persons as permitted by the Act.

(f) No Independent Living Unit in the Project shall be occupied by the Borrower or a member of the Borrower; provided, however, that, if the Project contains five or more Independent Living Units, this shall not be construed to prohibit occupancy of not more than one Independent Living Unit by one or more resident managers or maintenance personnel, any of whom may be the Borrower.

(g) The Borrower shall not discriminate on the basis of race, religion, creed, color, ethnic group identification, sex, source of income (e.g., AFDC, SSI), mental or physical disability, age, national origin, marital or familial status in the rental, lease, use or occupancy of the Project or in connection with the employment or application for employment of persons for the operation and management of the Project, except to the extent that Independent Living Units are required to be leased or rented to Low Income Tenants and except that occupancy will be restricted to elderly persons as permitted by the Act.

(h) If the Borrower becomes aware of any situation, event, or condition which would result in noncompliance of an Independent Living Unit, the Project or the Borrower with Sections 142(d) and 145 of the Code or the Regulations, the Borrower shall promptly give written notice thereof to the Issuer.

(i) Each building in the Project will remain suitable for occupancy taking into account local health, safety, and building codes.

(j) The Borrower will accept as tenants, on the same basis as all other prospective tenants, persons who are holders of vouchers or certificates for federal housing assistance payments for existing housing pursuant to Section 8 of the Housing Act ("Section 8") or a successor federal program, and, in connection therewith, the Borrower will not apply tenant selection criteria to such voucher or certificate holders which are more burdensome than the criteria applied to any other prospective tenants, except to the extent that Independent Living Units are required to be leased or rented to Low Income Tenants and except that occupancy will be restricted to elderly persons as permitted by the Act.

(k) The Borrower will not knowingly take or intentionally permit to be taken any action which would have the effect, directly or indirectly, of subjecting the Borrower or the Project to noncompliance with Sections 142(d) and 145 of the Code and the Regulations.

(l) The Project shall be managed in a manner consistent with prudent property management standards and in compliance with all state and local laws, ordinances, and regulations relating thereto.

Low Income Tenants; Records and Reports

Within a reasonable period of time after the making of the Loan and thereafter throughout the Qualified Project Period, at least the Applicable Set-Aside Percentage of the Independent Living Units shall be occupied by Eligible Tenants before any additional Independent Living Units are occupied by persons who are not Eligible Tenants; and for the Qualified Project Period, no less than the Applicable Set-Aside Percentage of the total number of completed Independent Living Units of the Project shall at all times be rented to and occupied by Eligible Tenants. For the purposes of this paragraph, a vacant Independent Living Unit which was most recently occupied by a Eligible Tenant is treated as rented and occupied by a Eligible Tenant until reoccupied, other than for a temporary period of not more than thirty-one (31) days, at which time the character of such Independent Living Unit shall be redetermined.

No tenant qualifying as a Low Income Tenant shall be denied continued occupancy of its Independent Living Unit in the Project because, after admission, such tenant's Adjusted Income increases to exceed the qualifying limit for Low Income Tenants; provided, however, that should a Low Income Tenant's Adjusted Income, as of the most recent determination thereof, exceed 140% of the then applicable income limit for a Low Income Tenant of the same family size, the next available Independent Living Unit of comparable or smaller size must be rented to (or held vacant and available for immediate occupancy by) a Low Income Tenant; and provided further that, until such next available Independent Living Unit is rented to a tenant who is a Low Income Tenant, the former Low Income Tenant who has ceased to qualify as such shall be deemed to continue to be a Low Income Tenant for purposes of the Applicable Set-Aside Percentage.

The Borrower will obtain, complete and maintain on file Income Certifications from each Low Income Tenant residing in the Project, including (i) an Income Certification dated immediately prior to the initial occupancy of such Low Income Tenant in the Project and (ii) thereafter, with respect to such tenants, annual Income Certifications (obtained and updated each year during occupancy by such tenants), each of which must be filed with the Issuer in accordance with this Agreement. The Borrower will obtain such additional information as may be required in the future by the Issuer and by section 142(d) of the Code, as the same may be amended from time to time, or in such other form and manner as may be required by applicable rules, rulings, policies, procedures, Regulations or other official statements now or hereafter promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service with respect to obligations which are Tax-Exempt under section 142(d) of the Code. A copy of the most recent Income Certification for tenants commencing or continuing occupation of a Independent Living Unit (and not previously filed with the Issuer) shall be attached to the Quarterly Tenant Report which, beginning upon the commencement of the Qualified Project Period, is to be filed with the Issuer and the Trustee no later than the fifteenth day of the month as of which such Quarterly Tenant Report is prepared (or such other period and date as specified by the Issuer) until the end of the Qualified Project Period. The Borrower shall verify that the income information provided by an applicant in an Income Certification is accurate by taking one or more of the following steps as part of the verification process: (1) obtain a pay stub for the most recent pay period, (2) obtain an income tax return for the two most recent tax years, (3) conduct a credit/income history (i.e., through TRW) or similar search or (4) contact the applicant's current employer, and any additional inquiries or documentation that the Issuer shall deem relevant or other forms of independent verification satisfactory to the Issuer.

The Borrower will maintain complete and accurate records pertaining to the occupancy of the Independent Living Units by Low Income Tenants and will permit any duly authorized representative of the Issuer, the Trustee, the Department of the Treasury or the Internal Revenue Service to inspect the books and records of the Borrower pertaining to the Project, including those records pertaining to the occupancy of the Independent Living Units. The Issuer shall have the right to perform an on-site inspection of the Project throughout the Qualified Project Period, in addition to the requirement that the Borrower submit to the Issuer information on tenant income, supporting documentation and rent for each Low Income Independent Living Unit as described in the Regulatory Agreement.

The Borrower will prepare and submit to the Issuer and the Trustee, not later than January 15 of each year until the end of the Qualified Project Period, a Certificate of Continuing Program Compliance, executed by the Borrower, stating the percentage of the Independent Living Units of the Project which were occupied or deemed occupied by Low Income Tenants during such period, executed by the Borrower, together with copies of annual Income Certifications (and supporting documentation) collected by the Borrower and not previously submitted and (iii) in each case, a certification to the effect that (i) either (A) no unremedied default has occurred under this Agreement, or (B) a default has occurred, in which event the certificate shall describe the nature of the default in detail and set forth the measures being taken by the Borrower to remedy such default; and (ii) that, to the knowledge of the Borrower, no Event of Taxability has occurred, or if an Event of Taxability has occurred, setting forth all material facts relating thereto. The Borrower will immediately notify the Issuer if at any time the Independent Living Units in the Project are not occupied or available for occupancy as provided above.

On or before each January 15 during the Qualified Project Period, the Borrower will submit to the Issuer a draft of the completed Internal Revenue Code Form 8703 or such other annual certification required by the Code to be submitted to the Secretary of the Treasury as to whether the Project continues to meet the requirements of Section 142(d) of the Code. On or before each January 15 during the Qualified Project Period, the Borrower will

submit such completed form to the Secretary of the Treasury, regardless of whether or not the Issuer has responded to such draft.

Each lease or rental agreement pertaining to a Independent Living Unit shall contain a provision to the effect that the Borrower has relied on the Income Certification and supporting information supplied by the Low Income Tenant, or, as the case may be, in determining qualification for occupancy of the Independent Living Unit and that any material misstatement in such Income Certification (whether or not intentional) or failure to provide supporting income verification or failure by such person to annually update the Income Certification will be cause for immediate termination of such lease or rental agreement, and such person shall be subject to (and by execution of the lease or rental agreement, consents to) immediate eviction proceedings in accordance with State law for failure to qualify as a Low Income Tenant. Each such lease or rental agreement shall also provide that the tenant's income is subject to annual certification and to recertification if the number of occupants in the Independent Living Units increases and that if upon any such certification such tenant's Adjusted Income exceeds 140% of the then applicable income limit for a tenant of the same family size, such tenant may cease to qualify as a Low Income Tenant.

THE MORTGAGE

The following is a summary of certain provisions of the Mortgage. This summary is qualified in its entirety by reference to the Mortgage. A copy of the Mortgage is available during the offering period from the Underwriter and, after the date of issuance of the Bonds, from the Trustee. Capitalized terms employed in this summary are defined in this APPENDIX D under the caption "DEFINITIONS OF CERTAIN TERMS."

Pledge of Mortgaged Property

The Borrower, in consideration of the issuance of the Bonds and the making of the Loan and other good and lawful consideration, the receipt of which is hereby acknowledged from the City, and to secure, and as security for, the Obligations described in the Mortgage, by these presents does hereby sell, mortgage, convey, grant, assign, transfer, pledge, set over and confirm unto the City, its successor and successors and its or their assigns forever, with power of sale, and grant a lien and security interest in, the Mortgaged Property, consisting of all and singular of the Borrower's right, title, and interest in and to the following described premises and property:

(a) All of its right, title, and interest in the Land, as the Land is described in EXHIBIT A attached to the Mortgage and made a part of the Mortgage as though set forth in full in the Mortgage;

(b) All buildings, structures, improvements and appurtenances now standing or at any time hereafter constructed or placed upon the Land (except those buildings, structures, improvements and appurtenances hereafter constructed or placed upon any portion of the Borrower's leasehold interest in the Land that is sold, transferred, or released in accordance with the provisions of Section 5.08 of the Loan Agreement), or any part thereof, including all right, title and interest of the Borrower in and to all building materials, plants and fixtures of every kind and nature whatsoever on the Land or in any building, structure or improvement now or hereafter standing on the Land, or any part thereof, it being the intention of the parties hereto that so far as may be permitted by law all tangible property now owned or hereafter acquired by the Borrower and affixed or attached to the Land shall be deemed to be, and shall be considered as, fixtures and appurtenances to the Land (the "Project");

(c) The reversion or reversions, remainder or remainders, in and to the Land and each and every part thereof, together with the entire interest of the Borrower in and to all and singular the tenements, hereditaments, easements, rights, privileges and appurtenances to the Land belonging or in any way appertaining thereto;

(d) All right, title, and interest of the Borrower in and to any streets, ways or alleys adjoining the Land or any part thereof, and all the estate, right, title, interest, claim or demand whatsoever of the Borrower, either in law or in equity, in possession or expectancy, of, in and to said real estate;

(e) All proceeds of any taking of or damage to, or any sale in lieu of a taking of, any portion of the Project under or pursuant to the power of condemnation, eminent domain or insurance awards;

(f) All and singular the goods, equipment, machinery and any and all other items subject to the operation of the Minnesota Uniform Commercial Code of whatever sort, real, personal or mixed located on and affixed to the Project (the "Pledged Equipment"); and

(g) All leases or rents of all or any portion of the Project and all similar revenues and income arising from the ownership of the leasehold interest in the Land, of the Buildings, and of the Equipment and all proceeds and products thereof, and including specifically all deposits received or to be received from residents or prospective residents of the Project (collectively, the "Revenues and Income").

Release of Mortgaged Property

Property included in the Mortgaged Property may be released from the lien of the Mortgage as provided in the Loan Agreement and the Indenture.

Events of Default; Remedies.

If one or more Events of Default shall have occurred and be continuing, the City shall be entitled to exercise any or all of the remedies set forth or provided in the Loan Agreement or the Indenture, including, but not limited to, petitioning a court of competent jurisdiction for the appointment of a receiver to take possession of and manage and operate the Project for the benefit of the City and the holders of the Obligations then outstanding and including but not limited to declaring all outstanding indebtedness under the Loan Agreement immediately due and payable without notice, and the City is hereby authorized and empowered at its option, to (1) proceed to protect and enforce its rights by a suit or suits in equity or at law for the specific performance of any covenant or agreement contained in the Mortgage, in the Loan Agreement or in any other instrument which refers to or secures the Loan Agreement, or in aid of the execution of any right, power or remedy granted in the Mortgage or the Loan Agreement, or for the foreclosure of the Mortgage, or for damages, or to collect the indebtedness secured thereby, or for the enforcement of any other appropriate legal, equitable, statutory or contractual remedy, and shall be entitled to the appointment of a receiver to operate and protect the Project and to collect rents due under any lease, and (2) sell the Mortgaged Property, or any portion thereof, at public auction in one or more parcels, at the City's option (the entire Mortgaged Property being for the purpose of Minnesota Statutes Section 580.08, as amended, a single tract, or each parcel of the Land described on EXHIBIT A to the Mortgage being a separate and distinct economic unit and a single tract for said purposes, at the City's option), and convey the same to the purchaser, agreeably to the statute in such case made and provided, the Borrower to remain liable for any deficiency, if permitted by law. Further, the City, in exercising its rights under the Mortgage, shall also have, without limitation, all of the rights and remedies provided by the Minnesota Uniform Commercial Code, including the right to proceed under the Minnesota Uniform Commercial Code provisions governing default as to any fixtures, equipment, or personal property which may be included in the Mortgaged Property and separately from the interest in the real estate included in the Mortgaged Property, or to proceed as to any or all of such property in accordance with its rights and remedies in respect of said real estate. If the City should elect to proceed separately as to any such property, the Borrower agrees to make such property available to the City at a place or places reasonably acceptable to the City, and, if any notification of intended disposition of any of such property is required by law, such notification shall be deemed commercially reasonable and reasonably and properly given if mailed at least ten days before such disposition in the manner provided in the Loan Agreement. Upon the occurrence of any Event of Default, the Borrower shall deliver and surrender to the City all books and records maintained by the Borrower in connection with the management and operation of the Project.

Assignment of Leases and Rents

As additional security for the debt secured by this Mortgage, the Borrower does hereby bargain, sell, assign and set over unto the City (the "Assignment") (i) any and all present or future right, title, and interest in and to all leases, tenancies , whether written or oral, covering or affecting any or all of the Mortgaged Property (all of which, together with any and all extensions, modifications and renewals thereof, are hereinafter collectively referred to as the "Leases" and each of which is referred to as a "Lease") ; and (ii) all profits, rents, and other income, revenue or payments of any kind due or payable or to become payable to or by the Borrower as the result of any use, possession or occupancy or all or any portion of the Mortgaged Property or as the result of the use of or lease of any personal property constituting a part of the Mortgaged Property (all of which are hereinafter collectively referred to as the

"Rents") which, whether before or after foreclosure or during the full statutory period of redemption, if any, shall accrue and be owing for the use or occupation of the Mortgaged Property or any part thereof.

THE GUARANTY

The following is a summary of the Guaranty. This summary is qualified in its entirety by reference to the Guaranty. A copy of the Guaranty is available during the offering period from the Underwriter and, after the date of issuance of the Bonds, from the Trustee. Capitalized terms employed in this summary are defined in this APPENDIX D under the caption "DEFINITIONS OF CERTAIN TERMS."

Under the Guaranty the Guarantor is obligated to pay from its own funds, (i) principal of and interest on the Bonds, (ii) the redemption price, including accrued interest and premium, if any, due on the date of redemption of any Bonds, (iii) the purchase price of the Series 2003A Bonds, plus all accrued interest on the Bonds if such amounts have not been paid, on the Mandatory Tender Date if other amounts are not available for such purchase, and (iv) Loan Repayments due under the Loan Agreement. The Guaranty will terminate on the earlier of (a) the Mandatory Tender Date, but only after all payments required to be made for the purchase price of the Series 2003A Bonds, plus all accrued interest on the Bonds if such amounts have not been paid, on the Mandatory Tender Date have been made, or (b) at such time as there are no Bonds outstanding and all obligations of the Borrower and the Guarantor under the Loan Agreement and the Mortgage have been satisfied. Under the Reimbursement Agreement the Borrower is required to pay Guarantor the Guaranty Fee and reimburse the Guarantor for all amounts (together with interest thereon) paid by Guarantor under the Guaranty. Payment of the Guaranty Fee and reimbursement of all such amounts is subordinate to the payment by Borrower of debt service on the Bonds.

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APPENDIX E

FORM OF BOND COUNSEL OPINION

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\$6,120,000
City of Worthington, Minnesota
Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003A

\$135,000
City of Worthington, Minnesota
Taxable Senior Housing Revenue Bonds
(Meadows of Worthington Project)
Series 2003B

We have acted as bond counsel in connection with the issuance by the City of Worthington, Minnesota (the "Issuer") of its fully registered (initially book-entry) Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003A (the "Series 2003A Bonds"), in the original aggregate principal amount of \$6,120,000 and Taxable Senior Housing Revenue Bonds (Meadows of Worthington Project), Series 2003B (the "Series 2003B Bonds") in the original aggregate principal amount of \$135,000 (the Series 2003A Bonds and the Series 2003B Bonds together, the "Bonds"). The Bonds mature, bear interest, and are subject to redemption as provided in the Indenture hereinafter described. The Bonds are issued for the purpose of funding a loan from the Issuer to Meadows of Worthington, LLC, a Minnesota limited liability company (the "Borrower"), the sole member of which is Maplewood Senior Housing, Inc., a Minnesota nonprofit corporation ("Maplewood"), to finance the acquisition of a 66-unit independent senior independent living and assisted living rental housing facility.

In connection with the issuance of the Bonds, we have examined Minnesota Statutes, Chapter 462C, as amended (the "Act"), forms of the Bonds, and executed counterparts of (i) the Indenture of Trust, dated as of December 1, 2003 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee for the Bonds (the "Trustee"), (ii) the Loan Agreement, dated as of December 1, 2003 (the "Loan Agreement"), between the Issuer and the Borrower, (iii) a Combination Mortgage, Security Agreement, Fixture Financing Statement and Assignment of Leases and Rents, dated as of December 1, 2003 (the "Mortgage"), from the Borrower to the Issuer, (iv) an Assignment of Mortgage, dated as of December 1, 2003 (the "Assignment of Mortgage"), pursuant to which the Issuer has assigned its interest in the Mortgage to the Trustee, (v) a Guaranty Agreement, dated as of December 1, 2003 (the "Guaranty"), between the Board of Social Ministry, a Minnesota nonprofit corporation (the "Guarantor"), and the Trustee, (vi) a Continuing Disclosure Agreement, dated as of December 1, 2003 among the Borrower, the Guarantor and the Trustee, (vii) a Remarketing Agreement, dated as of December 1, 2003, between the Borrower, Oppenheimer & Co. Inc., as original purchaser of the Bonds (the "Original Purchaser") and the Trustee, (viii) a Regulatory Agreement, dated as of December 1, 2003, among the Borrower, the City, and the Trustee, and (ix) such other documents as we deem necessary for the purpose of the following opinion.

As to questions of fact material to our opinion, we have relied upon certified proceedings, documents, and certifications furnished to us by public officials and officials of the Borrower, Maplewood, the Guarantor, the Trustee, the Issuer, and the Original Purchaser of the Bonds, without undertaking to verify such facts by independent investigation. We have relied on certifications, covenants, and representations of the Borrower and Maplewood as to the application of the proceeds of the Bonds, including but not limited to the nature, use, cost and economic life of the Project Facilities (as defined in the Loan Agreement) financed by the Bonds. We have also relied on title insurance commitments as to the title to the Project Facilities, without examining the records of the Borrower or original title records or abstracts of title.

We assume no responsibility and render no opinion as to the correctness or completeness of any information contained in the Official Statement used in connection with the offer or sale of the Bonds, except as set forth in our separate opinion, dated today, addressed to the Original Purchaser.

Based on our examination and upon present federal and Minnesota laws, regulations, rulings, and other decisions, we are of the opinion, as of the date hereof, as follows:

1. The Issuer is a municipal corporation and political subdivision of the State of Minnesota. Pursuant to the Act, the Issuer is authorized to issue the Bonds, to loan the proceeds thereof to the Borrower, to execute and deliver the Loan Agreement, the Indenture, and the Regulatory Agreement, and to assign the Mortgage to the Trustee pursuant to the Assignment of Mortgage.

2. The Loan Agreement, the Indenture, the Regulatory Agreement, and the Assignment of Mortgage are each a valid and binding instrument of the Issuer, enforceable in accordance with their respective terms.

3. The Bonds have been duly authorized, executed, and delivered by the Issuer and are valid and binding special, limited obligations of the Issuer, equally and ratably secured by and entitled to the benefits of the Indenture and are enforceable in accordance with the terms therein. The Bonds are not general obligations of the Issuer and do not constitute a charge against the general credit or taxing power of the Issuer. The principal and purchase price of, premium, if any, and interest on the Bonds are payable solely from certain amounts payable by the Borrower to the Issuer under the Loan Agreement or from other funds or proceeds of collateral pledged or permitted to be pledged to secure the Bonds pursuant to the Indenture and the Mortgage, including any amounts payable from the Guarantor under the Guaranty.

4. By the Indenture the Issuer has validly assigned to the Trustee all of the Issuer's right, title and interest in the Loan Agreement (except for certain rights to indemnity and the payment of certain fees and expenses).

5. The Issuer has designated the Series 2003A Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

6. Assuming compliance by all parties with the covenants in the Loan Agreement and Regulatory Agreement and the Indenture, interest on the Series 2003A Bonds is not includable in gross income for purposes of federal income taxation and, to the same extent, is not includable in taxable net income of individuals, estates, and trusts for purposes of Minnesota income taxation. Interest on the Series 2003A Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals under Section 55 of the Internal Revenue Code of 1986, as amended (the "Code") or Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Series 2003A Bonds is includable in "adjusted current earnings" for purposes of the computation of "alternative minimum

taxable income" of corporations under Section 55 of the Code and is subject to the Minnesota franchise tax imposed upon corporations, including financial institutions, measured by taxable income and the alternative minimum tax base. The Series 2003A Bonds are not arbitrage bonds within the meaning of Section 148 of the Code. The Series 2003A Bonds are "private activity bonds" within the meaning of Section 141(a) of the Code but interest thereon is exempt from taxation as described in this paragraph 6 as a result of their status as "qualified 501(c)(3) bonds" within the meaning of Section 145 of the Code. We express no opinion as to any other federal or state tax consequences caused by the receipt or accrual of interest on the Series 2003A Bonds or arising from ownership of the Series 2003A Bonds.

7. Interest on the Series 2003B Bonds is not excluded from gross income for federal income tax purposes or from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes.

8. In connection with the issuance of the Bonds, the City has adopted a housing program which is sufficient for purposes of the Act and is consistent with the City's housing plan.

It should be understood that the rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture, the Regulatory Agreement, the Loan Agreement, the Mortgage and the Guaranty may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion and assume no responsibility for the sufficiency of the security for or the marketability of the Bonds.

This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law or facts that may hereafter occur.

Dated at Minneapolis, Minnesota, December ___, 2003.

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