NEW ISSUE

***Ratings:* Series W: Moody's Aaa**
S&P AAA
Series Y: Moody's Aaa/VMIG1
S&P AAA/A-1+
(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing law, interest on the Bonds (which includes any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the Authority and the Institution with the Internal Revenue Code of 1986, as amended. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. See "TAX EXEMPTION" herein.

$237,985,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Revenue Bonds, Harvard University Issue

$120,080,000 Series W **$117,905,000 Series Y**

Dated: Series W - May 1, 2000
Series Y - Date of Delivery

Due: Series W - July 1, 2035
Series Y - July 1, 2035

The Series W Bonds and the Series Y Bonds (collectively, the "Bonds,") will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co. as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of $5,000 or any multiple thereof for the Series W Bonds and in the denomination of $5,000 or any multiple thereof for the Series Y Bonds. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "THE BONDS — Book-Entry-Only System" herein.

Principal of and interest on the Bonds will be paid by State Street Bank and Trust Company, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest on the Series W Bonds will be payable on January 1, 2001 and semiannually thereafter on each July 1 and January 1 to the Bondowners of record as of the close of business on the fifteenth day of the month preceding such interest payment date. **The Bonds are subject to optional redemption prior to maturity, as set forth in this Official Statement.**

The Series Y Bonds as initially issued will bear interest in the Weekly Mode. The initial interest rate in the Weekly Mode will be communicated by the Underwriter of the Series Y Bonds to the prospective purchasers of the Series Y Bonds. The rate of interest on the Series Y Bonds may be changed from time to time to the Daily, Flexible, Multiannual or Weekly Modes upon notice as described herein and, under certain circumstances, the Series Y Bonds may be converted to bear interest at a Fixed Rate until maturity. Series Y Bondowners will be required to tender their Series Y Bonds for purchase upon conversion of the Series Y Bonds from one interest rate Mode to a different interest rate Mode, upon any change in the term of the Rate Period when the Series Y Bonds are in the Multiannual Mode and at the end of each Rate Period when the Series Y Bonds are in the Flexible Mode. In certain interest rate Modes, Bondowners have the right to tender their Series Y Bonds for purchase at the time and subject to the conditions described herein. Series Y Bonds tendered for purchase will be purchased at the principal amount thereof, plus accrued interest, if any.

The Series W Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues, as defined herein, of the Authority under the Series W Agreement, including payments to State Street Bank and Trust Company, Boston, Massachusetts, as trustee (the "Trustee"), for the account of the Authority by the President and Fellows of Harvard College (the "Institution") in accordance with the provisions of the Loan and Trust Agreement dated as of February 8, 2000, by and among the Authority, the Institution and the Trustee (the "Series W Agreement"). Such payments pursuant to the Series W Agreement are a general obligation of the Institution. The Series Y Bonds shall be special obligations of the Authority payable solely from the Revenues, as defined herein, of the Authority under the Series Y Agreement, including payments to the Trustee, for the account of the Authority by the Institution in accordance with the provisions of the Loan and Trust Agreement dated as of February 8, 2000, by and among the Authority, the Institution and the Trustee (the "Series Y Agreement"). Such payments pursuant to the Series Y Agreement are a general obligation of the Institution.

THE SERIES W BONDS AND SERIES Y BONDS, RESPECTIVELY, SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY SUCH POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE SERIES W AGREEMENT AND SERIES Y AGREEMENT, RESPECTIVELY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ACT DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS TO PAY DEBT SERVICE IN THE EVENT OF DEFAULT BY THE INSTITUTION. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

$120,080,000 6% Series W Bonds due July 1, 2035 - Yield 6.08%

(Accrued interest from May 1, 2000 to be added)

$117,905,000 Series Y Bonds due July 1, 2035 - Price 100%

The Series W Bonds and Series Y Bonds are offered when, as and if issued and received by the respective Underwriters or Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institution by its counsel, Ropes & Gray, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about June 1, 2000.

Series W

MORGAN STANLEY DEAN WITTER

Goldman Sachs & Co. **Lehman Brothers**

Fleet Securities, Inc.

Series Y

MORGAN STANLEY DEAN WITTER

May 11, 2000

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

No dealer, broker, salesperson or other person has been authorized by the Authority, the Institution or the Underwriters to give information or to make representations with respect to the Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Institution, The Depository Trust Company and other sources which are believed to be reliable. Subject to the foregoing, no representation or warranty is made, however, as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or may be relied on as, a promise or representation by the Authority or the Underwriters. The information relating to the Institution, and its affairs and condition has been provided by such entity, and neither the Authority nor the Underwriters make any representation with respect to or warrant the accuracy of such information. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be used, in whole or in part, for any other purpose. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

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OFFICIAL STATEMENT

Relating to

$237,985,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Harvard University Issue,

$120,080,000 Series W
$117,905,000 Series Y

INTRODUCTION

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority") Revenue Bonds, Harvard University Issue, Series W (the "Series W Bonds"), authorized by the Loan and Trust Agreement dated as of February 8, 2000 (the "Series W Agreement") by and among the Authority, the President and Fellows of Harvard College (the "Institution") and State Street Bank and Trust Company, as trustee (the "Trustee") and the Authority's Revenue Bonds, Harvard University Issue, Series Y (the "Series Y Bonds" and, collectively with the Series W Bonds, the "Bonds") authorized by the Loan and Trust Agreement dated as of February 8, 2000 (the "Series Y Agreement" and together with the Series W Agreement, the "Agreements") by and among the Authority, the Institution and the Trustee. The Bonds are secured in accordance with the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act") and the Series W Agreement or the Series Y Agreement, as applicable. The information contained in this Official Statement is provided for use in connection with the sale of the Bonds. The definitions of certain terms used and not otherwise defined herein with respect to the Series W Bonds are contained in Appendix C - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES W LOAN AND TRUST AGREEMENT." The definitions of certain terms used and not otherwise defined herein with respect to the Series Y Bonds are contained in Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT."

Plan of Financing

The proceeds from the sale of the Series W Bonds (including accrued interest on the Series W Bonds to the date of delivery) will be used: (i) to deposit into the Debt Service Fund interest accruing on the Series W Bonds from May 1, 2000 to the date of delivery of the Series W Bonds; (ii) to pay certain costs of issuing the Series W Bonds; (iii) to reimburse the Institution for internal advances for certain portions of the Project made in anticipation of the issuance of the Series W Bonds; and (iv) to deposit into the Construction Fund the balance of such proceeds, which, together with earnings on certain funds, will be used to finance the construction, equipping and completion of the Project and, under certain circumstances, to pay interest on the Series W Bonds on or prior to the completion date of the Project.

The proceeds from the sale of the Series Y Bonds will be used: (i) to pay certain costs of issuing the Series Y Bonds; (ii) to reimburse the Institution for internal advances for certain portions of the Project made in anticipation of the issuance of the Series Y Bonds; and (iii) to deposit into the Construction Fund the balance of such proceeds, which, together with earnings on certain funds, will be used to finance the construction, equipping and completion of the Project and, under certain circumstances, to pay interest on the Series Y Bonds on or prior to the completion date of the Project.

See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES W BONDS

The Authority, the Institution and the Trustee shall execute the Series W Agreement, which provides that to the extent permitted by law the obligation of the Institution to make payments thereunder is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. The Series W Agreement also provides, among other things, that the Institution shall make payments to the Trustee equal to principal or sinking fund installments, as the case may be, and interest on the Series W Bonds and certain other payments required by the Series W Agreement. The obligation of the Institution to make payments under the Series W Agreement is unsecured. The Series W Agreement shall remain in full force and effect until such time as all of the Series W Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

The Series W Bonds are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Series W Agreement, the moneys received with respect to the Series W Bonds by the Trustee for the account of the Authority pursuant to the Series W Agreement.

Under the Series W Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Series W Agreement (i) all Revenues to be received from the Institution or derived from any security provided thereunder, and (ii) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues under the Series W Agreement is valid and binding from the time when such pledge is made and such Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the Authority irrespective of whether such parties have notice thereof.

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the Series W Agreement to enforce the provisions thereof.

Acceleration

The Trustee may declare all of the Series W Bonds immediately due and payable prior to maturity at par, plus accrued interest, upon the occurrence of an Event of Default under the Series W Agreement. See Appendix C - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES W LOAN AND TRUST AGREEMENT" under the heading "Remedies for Events of Default."

THE SERIES W BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DERIVED BY THE AUTHORITY UNDER THE SERIES W AGREEMENT. THE AUTHORITY DOES NOT HAVE TAXING POWER.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES Y BONDS

The Authority, the Institution and the Trustee shall execute the Series Y Agreement, which provides that to the extent permitted by law the obligation of the Institution to make payments thereunder is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. The Series Y Agreement also provides, among other things, that the Institution shall make payments to the Trustee equal to principal or sinking fund installments, as the case may be, and interest on the Series Y Bonds and certain other payments required by the Series Y Agreement. The obligation of the Institution to make payments under the Series Y Agreement is unsecured. The Series Y Agreement shall remain in full force and effect until such time as all of the Series Y Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

The Series Y Bonds are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Series Y Agreement, the moneys received with respect to the Series Y Bonds by the Trustee for the account of the Authority pursuant to the Series Y Agreement.

Under the Series Y Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Series Y Agreement (i) all Revenues to be received from the Institution or derived from any security provided thereunder, and (ii) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues under the Series Y Agreement is valid and binding from the time when such pledge is made and such Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the Authority irrespective of whether such parties have notice thereof.

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the Series Y Agreement to enforce the provisions thereof.

Acceleration

The Trustee may declare all of the Series Y Bonds immediately due and payable prior to maturity at par, plus accrued interest, upon the occurrence of an Event of Default under the Series Y Agreement. See Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT" under the heading "Remedies for Events of Default."

THE SERIES Y BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DERIVED BY THE AUTHORITY UNDER THE SERIES Y AGREEMENT. THE AUTHORITY DOES NOT HAVE TAXING POWER.

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts (the "Commonwealth"), organized and existing under and by virtue of the Act. The purpose of the Authority, as stated in the Act, is essentially to provide assistance for public and private nonprofit institutions for higher education, and private nonprofit schools for the handicapped, nonprofit hospitals and their nonprofit affiliates, nonprofit nursing homes, and nonprofit cultural institutions in the construction, financing, and refinancing of projects to be undertaken in relation to programs for such institutions.

Authority Membership and Organization

The Act provides that the Authority shall consist of nine members who shall be appointed by the Governor and shall be residents of the Commonwealth. At least two members shall be associated with institutions for higher education, at least two shall be associated with hospitals, at least one shall be knowledgeable in the field of state and municipal finance (by virtue of business or other association) and at least one shall be knowledgeable in the field of building construction. All Authority members serve without compensation, but are entitled to reimbursement for necessary expenses incurred in the performance of their duties as members of the Authority. The Authority shall elect annually one of its members to serve as Chairman and one to serve as Vice Chairman.

The members of the Authority are as follows:

ROBERT R. FANNING, JR., Chairman; term as member expires July 1, 2002.

Mr. Fanning, a resident of Boxford, is President and Chief Executive Officer of Northeast Health Systems, Inc./Beverly Hospital in Beverly, Massachusetts. He is a Fellow in the American College of Healthcare Executives and is a past Chairman of that organization. Mr. Fanning is also a past chairman of the Massachusetts Hospital Association Board of Trustees. He is an outside Director of Health Care Property Investors, Inc., an equity-oriented real estate investment trust specializing in health care related facilities. Mr. Fanning is also a Director of the Warren Five Cents Savings Bank. He also serves as a Trustee of Bridgton Academy in North Bridgton, Maine.

JOHN R. SMITH, Vice Chairman; term as member expires July 1, 2000.

Mr. Smith, a resident of Sudbury, is President of New England Fiduciary Company; a firm specializing in financial strategies and long-term planning for colleges and universities primarily in the areas of student financial aid and physical facilities. He is also Chairman of the Massachusetts Educational Financing Authority; and an independent Director of Northstar Funds. He had formerly been Vice President and Treasurer of Boston College; Director of the Massachusetts Higher Education Assistance Corporation (now American Student Assistance Corporation). Before coming to Boston College, Mr. Smith was employed by Bendix Corporation and Raytheon Company in executive financial analysis and management positions. He is a Certified Public Accountant.

DAVID T. HANNAN, Secretary; term as member expired July 1, 1999. Mr. Hannan will continue to serve until he is reappointed or his successor takes office.

Mr. Hannan, a resident of Hingham, is President and Chief Executive Officer of South Shore Hospital and its not-for-profit, tax-exempt parent organization, South Shore Health & Educational Corporation of South

Weymouth, Massachusetts. He is a member of the American College of Healthcare Executives and the American Hospital Association. Mr. Hannan also serves as a member of the Board and Executive Committee of the Massachusetts Hospital Association, member of the Board of Directors of Shields Healthcare, and as a Director of VHA-HealthFront.

ROBERT E. FLYNN, M.D.; term as member expires July 1, 2000.

Dr. Flynn, a resident of Dedham, is Chairman of the Board of Caritas Christi, former Secretary of Health Care Services for the Archdiocese of Boston, Immediate Past Chairperson of the Massachusetts Hospital Association, and former Director of the Department of Medicine at Saint Elizabeth's Medical Center. In 1991, Dr. Flynn was named a Distinguished Professor by Tufts University School of Medicine. He is a Trustee of St. Elizabeth's Medical Center, Good Samaritan Hospice and St. Mary's Women and Infant's Center. His current memberships in Medical Societies include the Boston Society of Psychiatry and Neurology, the Massachusetts Medical Society, and the American Medical Association, and he is a Fellow of the American Academy of Psychiatry and Neurology.

MARVIN A. GORDON; term as member expires July 1, 2003.

Mr. Gordon, a resident of Milton, is Chairman of the Board, Chief Executive Officer and Treasurer of Whitehall Company, Ltd. in Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors of Techniek Development Co. of San Diego, California. He also served as Chairman of the Board of US Trust Norfolk (Milton Bank and Trust) from 1974 to 1976 and as Vice President and Member of the Executive Committee from 1971 to 1974. Mr. Gordon has been actively engaged in non-profit, charitable and civic activities. His affiliations include Treasurer and Chairman of the Finance Committee of Milton Hospital Corporation, President, Milton Fuller Housing Corporation, and Corporator of Curry College. Mr. Gordon has been elected to and appointed to a number of public boards and belongs to several civic associations. Mr. Gordon holds a degree from Harvard College and Harvard Business School.

EDWARD P. MARRAM, Ph.D.; term as member expires July 1, 2002.

Dr. Marram, a resident of Wayland, is Founder, CEO and Chairman of the Board of GEO-CENTERS, INC., a high-technology professional services firm, and is currently the Entrepreneur-in-Residence at Babson College. From 1967 to 1975, Dr. Marram was a Manager at EG&G, Inc., from 1965 to 1967, he was a Senior Scientist at AVCO Corporation, and from 1961 to 1965 he was a scientist with ADL, Inc. Dr. Marram's experience includes research and testing work for the Atomic Energy Commission and the Department of Energy's Nuclear Test Program. His honors and board memberships include Board of Directors, SBANE (Smaller Business Association of New England); Board of Directors, Professional Services Council; College Advisory Council, College of Natural Sciences and Mathematics, University of Massachusetts, Amherst; Chemistry Advisory Group, Tufts University; Steering Committee, Technology Transfer Society, New England Chapter; Massachusetts State Board of Women in Business; Small Business Technology Group of Massachusetts and the New England American Technion Society. Dr. Marram was nominated as a Price-Babson College Fellow and was awarded the Edwin M. Appel Prize for his academic accomplishments. Dr. Marram holds a B.S. in Chemistry and a M.S. degree in Physics from the University of Massachusetts, a Ph.D. in Physical Chemistry from Tufts, and attended the OPM Program at Harvard Business School.

JOSEPH G. SNEIDER; term as member expires July 1, 2005.

Joseph G. Sneider, a resident of Newton, is Chairman and Chief Financial Officer of C&S Candy Co., Inc. located in Brockton and Justice of the Peace of the Commonwealth of Massachusetts. Mr. Sneider is a Member of the Massachusetts Public Health Council. Mr. Sneider served as a trustee of Boston University Medical Center, (University Hospital), Boston. Mr. Sneider served as Senior Vice President of Olympic International Bank & Trust of Boston. He also served on a number of public boards and commissions, and he belongs to several civic associations.

RINA K. SPENCE; term as member expires July 1, 2001.

Ms. Spence, a resident of Cambridge, is founder of Spence Centers for Women's Health, a network of comprehensive outpatient health facilities. Prior to Spence Centers for Women's Health, Ms. Spence served as the president and chief executive of Emerson Hospital for ten years. She was also the founding executive director of the Commonwealth Health Care Corporation, a prepaid managed care plan for health care delivery to Medicaid recipients. Ms. Spence has been actively engaged in the civic life of Boston and its corporate affairs for more than 25 years. Her affiliations include the United Way of MassBay, and The Partnership. Ms. Spence is a trustee of Eastern Enterprises and a Director of Berkshire Mutual Life and PNC Bank, New England. Ms. Spence holds a degree from Boston University and Harvard University's John F. Kennedy School of Government.

C. VINCENT VAPPI; term as member expired July 1, 1997. Mr. Vappi will continue to serve until he is reappointed or his successor takes office.

Mr. Vappi, a resident of Cambridge, is the former Chairman and Chief Executive Officer of Vappi & Company, Inc. of Cambridge, Massachusetts, general building contractors. Mr. Vappi is a member of the Corporation of Simmons College, and a Director of the John Hancock Mutual Life Insurance Company, and Tech/Ops Sevcon, Inc.

Staff and Advisors

ROBERT J. CIOLEK, a resident of Charlestown, was appointed Executive Director of the Authority on January 9, 1996, and is responsible for the management of the Authority's affairs. Mr. Ciolek served as the Chief Operating Officer of the City of Boston from January 1994 through January 1996. From 1989 to 1994, he was the Executive Director at the Boston Water and Sewer Commission. Prior to heading the Commission, Mr. Ciolek was the Budget Director for the City of Boston. Mr. Ciolek holds a B.A. degree from Rutgers University and a Juris Doctor from Boston University School of Law.

Palmer & Dodge LLP, attorneys of Boston, Massachusetts, are serving as General Counsel and Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of each Series of the Bonds as provided by the respective Agreements in substantially the respective forms attached hereto as Appendix E and Appendix F.

Public Financial Management, Inc. is serving as financial consultant to the Authority. The financial consultant advises the Authority in connection with the issuance of its obligations and certain other financial matters.

The Act provides that the Authority may employ such other counsel, engineers, architects, accountants, construction and financial experts, or others as the Authority deems necessary.

Powers of the Authority

Under the Act, the Authority is authorized and empowered, among other things, directly or by and through a participating institution for higher education, a participating school for the handicapped, a participating hospital or hospital affiliate, a participating nursing home or a participating cultural institution as its agent, to acquire real and personal property and to take title thereto in its own name or in the name of one or more participants as its agent; to construct, reconstruct, remodel, maintain, manage, enlarge, alter, add to, repair, operate, lease, as lessee or lessor, and regulate any project; to enter into contracts for any or all of such purposes, or for the management and operation of a project; to issue bonds, bond anticipation notes and other obligations, and to fund or refund the same; to fix and revise from time to time and charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to enter into contracts in respect thereof; to establish rules and regulations for the use of a project or any portion thereof; to receive and accept from any public agency loans or grants for or in the aid of the construction of a project or any portion thereof; to mortgage any project and the site thereof for the benefit of the holders of revenue bonds issued to finance such projects; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Act. Additionally, the Authority may undertake a joint project or projects for two or more participants.

The Authority has heretofore authorized and issued certain series of its revenue bonds for public and private colleges and universities, and private hospitals and their affiliates, community providers, cultural institutions, schools for the handicapped and nursing homes in the Commonwealth. Each series of revenue bonds has been a special obligation of the Authority.

The Authority expects to enter into separate agreements with eligible institutions in the Commonwealth for the purpose of financing projects for such institutions. Each series of bonds issued by the Authority constitutes a separate obligation of the borrowing institution for such series, and the general funds of the Authority are not pledged to any bonds or notes.

THE BONDS

Description of the Series W Bonds

The Series W Bonds will be dated May 1, 2000 and will bear interest from such date, payable on January 1, 2001 and on each July 1 and January 1 thereafter at the rate set forth on the cover page hereof and will mature July 1, 2035.

Subject to the provisions discussed under "Book-Entry-Only System" below, the Series W Bonds are issuable as fully registered bonds without coupons in the minimum denomination of $5,000 or any multiple thereof. Principal or redemption premium, if any, of the Series W Bonds will be payable at the principal corporate trust office of the Paying Agent, and interest on the Series W Bonds will be paid by check or draft mailed to the registered owner as of the fifteenth day of the month preceding the date on which the interest is to be paid (the "Record Date"), or by wire transfer as provided in the Series W Agreement.

Description of the Series Y Bonds

The Series Y Bonds will be issued in the aggregate principal amount set forth on the cover page hereof and initially will bear interest in the Weekly Mode. The Series Y Bonds will be dated the date of delivery thereof and will bear interest from such date. While in the Weekly Mode, interest on the Series Y Bonds will be calculated as set forth under "Weekly Mode," with the first interest payment on July 3, 2000. The Series Y Bonds will mature on July 1, 2035, and are subject to redemption and optional and mandatory tender for purchase prior to maturity as set forth below and in Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT." The principal, purchase price or redemption price of the Series Y Bonds is payable at the principal office of the Paying Agent in Boston, Massachusetts.

Prior to conversion to a Fixed Rate, the Series Y Bonds may bear interest at Flexible Rates or at a Variable Rate effective for periods ("Flexible Rate Periods" in the case of Flexible Rates and "Variable Rate Periods" in the case of Variable Rates) selected from time to time by the Institution. The rate of interest to be borne by the Series Y Bonds during any particular Flexible Rate Period or Variable Rate Period will be determined by the Remarketing Agent as described below under "-Determination of Interest Rate on the Series Y Bonds Prior to Fixed Rate Conversion Date." The Series Y Bonds may bear interest at a Variable Rate computed on a daily, weekly or multiannual basis or at Flexible Rate. For information about the Daily

Mode, Multiannual Mode or Flexible Rates, see Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT." The Series Y Bonds may bear interest as follows:

Variable Rate Modes

Daily Mode. While the Series Y Bonds bear interest in the Daily Mode, the interest rate will be determined daily by the Remarketing Agent at 9:30 a.m. to be effective for that day. The interest rate on any day which is not a Business Day shall be the rate in effect on the prior Business Day.

Weekly Mode. While the Series Y Bonds bear interest in the Weekly Mode, the interest rate will be determined each Wednesday by the Remarketing Agent to be effective for a seven-day period commencing on Thursday of each week and ending on Wednesday of the following week (the period may be shorter than seven days and the commencement and ending dates may vary for a Rate Period immediately prior or subsequent to a conversion from or to the Weekly Mode).

Multiannual Mode. While the Series Y Bonds bear interest in the Multiannual Mode, the interest rate will be determined by the Remarketing Agent on the Business Day next preceding the Effective Date to remain in effect for a term of six months or any whole multiple of six months ending on the Interest Payment Date ending such Rate Period (the first Rate Period and the first Interest Payment Date may vary as provided in the Agreement).

Flexible Rate Modes

Flexible Rate Mode. While the Series Y Bonds bear interest at Flexible Rates, the interest rate for each particular Series Y Bond will be determined by the Remarketing Agent not later than 1:00 p.m. on the Effective Date and will remain in effect through the day preceding the end of the Rate Period (which will not be longer than 270 days) selected for that Series Y Bond as described under "Determination of Interest Rate on the Series Y Bonds Prior to Fixed Rate Conversion Date." While the Series Y Bonds are in the Flexible Rate Mode, each Series Y Bond may bear interest at a rate and for a period different from any other Series Y Bond.

Interest Rate Changes; Payment. Changes in interest rate Modes will be effective and notice of changes in interest rate Modes will be given as described below under "Conversion Provisions."

Interest on the Series Y Bonds will be calculated on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed, while the Series Y Bonds bear interest in the Daily, Weekly or Flexible Mode. Interest will be calculated on the basis of a 360-day year of twelve 30-day months while the Series Y Bonds bear interest in the Multiannual Mode or at a Fixed Rate. Principal and interest on a Series Y Bond in the Flexible Rate Mode will be paid by wire or bank transfer in immediately available funds within the continental United States, to the owner of record on the Record Date upon presentation and surrender of Series Y Bonds at the principal office of the Tender Agent. While the Series Y Bonds are in the Daily Mode or the Weekly Mode, principal and interest will be paid to the owner of record on the Record Date by check or draft or, if requested in writing by the registered owner of not less than $1,000,000 principal amount of Series Y Bonds, by wire or bank transfer within the continental United States, in immediately available funds. While the Series Y Bonds are in the Multiannual Mode or after conversion to the Fixed Rate, principal, premium, if any, and interest will be paid by check in clearinghouse funds mailed on the Interest Payment Date to the owner of record on the Record Date.

Interest on the Series Y Bonds will be paid on the dates indicated below under "Summary of Certain Provisions of the Series Y Bonds."

The Series Y Bonds will be issued in minimum denominations of $5,000 or any multiple thereof.

Exchange, Transfer and Replacement of Series Y Bonds. Unless Series Y Bonds are registered in a book-entry-only system (see "Book-Entry-Only System" herein), they may be exchanged or transferred by the registered owners thereof or by their attorney duly authorized in writing at the principal corporate trust office of the Paying Agent. No charge shall be imposed upon registered owners in connection with the transfer or exchange, except for any tax or governmental charge related thereto.

Replacement Series Y Bonds shall be issued pursuant to applicable law as a result of the destruction, loss, or mutilation of Series Y Bonds. The costs of replacement shall be paid or reimbursed by the applicant, who shall indemnify the Authority, the Trustee, the Paying Agent, the Remarketing Agent and the Institution against all liability and expense in connection therewith.

Remarketing Agent. Morgan Stanley & Co. Incorporated has been appointed to serve as the initial Remarketing Agent (the "Remarketing Agent") for the Series Y Bonds. The Remarketing Agent may be removed and a successor Remarketing Agent, which may be the Institution, may be appointed in accordance with the Series Y Agreement.

Determination of Interest Rate on the Series Y Bonds Prior to Fixed Rate Conversion Date. On the date of initial authentication and delivery of the Series Y Bonds, the Series Y Bonds will bear interest at the rate in the Weekly Mode determined by the Remarketing Agent before the Series Y Bonds are initially issued. The initial interest rate in the Weekly Mode will be communicated by the Series Y Underwriter to the prospective purchasers of the Series Y Bonds. Thereafter, the Series Y Bonds will continue in the Weekly Mode until the Institution, as described below under "Conversion Provisions," elects that the Series Y Bonds will bear interest at a Variable Rate other than in the Weekly Mode, at Flexible Rates determined by the Remarketing Agent or at a Fixed Rate.

During each Variable Rate Period, the rate of interest on the Series Y Bonds shall be that rate which, in the determination of the Remarketing Agent, is the lowest rate which would permit the sale of such Series Y Bonds on such date at par plus accrued interest, if any, on and as of the Effective Date.

While in the Flexible Rate Mode, the rate of interest on Series Y Bonds shall be that rate which, in the determination of the Remarketing Agent, is the lowest rate which is necessary to remarket such Series Y Bonds at a price of par.

The determination by the Remarketing Agent of the Flexible Rates or the Variable Rates to be borne by the Series Y Bonds shall be conclusive and binding on the registered owners of the Series Y Bonds, the Authority, the Institution, the Trustee and the Paying Agent. If the Remarketing Agent fails for any reason to determine the Variable Rate for any Rate Period, the rate shall be the Variable Rate in effect immediately preceding such Rate Period. If the Remarketing Agent fails for any reason to determine the Flexible Rate Period and the Flexible Rate while in the Flexible Mode, the Series Y Bonds shall be deemed to be in a Flexible Rate Period of one day and the Flexible Rate shall be equal to the BMA Index less 20 basis points.

Optional Tender for Purchase. While the Series Y Bonds bear interest at Variable Rates, the registered owners of the Series Y Bonds may tender their Series Y Bonds to the Paying Agent for purchase at a price equal to the principal amount thereof plus accrued interest as summarized in the table under "Summary of Certain Provisions of the Series Y Bonds" below and as described in Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT-Optional Tender."

Payment of the purchase price of Series Y Bonds to be purchased upon optional tender as described herein will be made by the Paying Agent by check or draft in immediately available funds or, if the Series Y

Bonds are in the Daily Mode or the Weekly Mode and if requested by the registered owner of not less than $1,000,000 principal amount of Series Y Bonds in the Daily Mode or the Weekly Mode, by wire or bank transfer in immediately available funds within the continental United States.

Mandatory Tender for Purchase. The Series Y Bonds are subject to mandatory tender for purchase at the Purchase Price on the date of conversion or proposed conversion from one Mode to another or any change in the term of the Rate Period when the Series Y Bonds are in the Multiannual Mode. In the Flexible Mode, the Series Y Bonds are also subject to mandatory tender for purchase at the end of each Rate Period. The Series Y Bondowners, by acceptance of the Series Y Bonds, agree to sell the Series Y Bonds to any purchaser determined in accordance with the provisions of the Series Y Agreement in the event of such mandatory tender for purchase and, on the Purchase Date, to surrender such bonds to the Paying Agent upon payment of the Purchase Price.

Payment of the Purchase Price of Series Y Bonds to be purchased upon mandatory tender as described herein will be made by wire or bank transfer in immediately available funds within the continental United States if the Series Y Bonds are in the Flexible Mode or, if requested by the registered owner of not less than $1,000,000 principal amount of Series Y Bonds, while the Series Y Bonds bear interest in the Daily Mode or the Weekly Mode; otherwise, payment will be made by check or draft in immediately available funds.

Failure to Deliver Tendered Series Y Bonds. If there are sufficient funds on the Purchase Date to pay the Purchase Price, no further interest, from and after the Purchase Date, shall be payable to the registered owner of Series Y Bonds who has elected or is required to tender Series Y Bonds for purchase.

Conversion Provisions. At the option of the Institution and upon certain conditions, as set forth in the Series Y Agreement, the Series Y Bonds may be (i) converted or reconverted from time to time to or from the Daily Mode, Weekly Mode or Multiannual Mode, (ii) converted from time to time to or from the Flexible Mode, and (iii) converted to the Fixed Rate Mode. While the Series Y Bonds are in the Flexible Mode, conversion to any other Mode may take place only on a date which is a Business Day and which is at least one day after the last day of the Rate Period with the longest remaining term then in effect for any Series Y Bond being converted on the day notice of the proposed conversion is given. While the Series Y Bonds are in the Multiannual Mode, any such conversion or reconversion may take place on not less than 30 days' notice to the Series Y Bondowners from the Paying Agent only on a day which would have been an Effective Date for the Mode from which the Series Y Bonds are being converted or the first Business Day thereafter. While the Series Y Bonds are in the Daily Mode or the Weekly Mode, any such conversion or reconversion may only take place on an Interest Payment Date on not less than 10 days' notice to the Series Y Bondowners by the Paying Agent. Upon such conversion or reconversion, such Series Y Bonds are subject to mandatory tender for purchase.

The interest rate on the Series Y Bonds may be converted to a Fixed Rate, at the sole option of the Institution, provided that no default exists under the Series Y Agreement as certified to the Trustee by an Authorized Officer of the Institution. See Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT - Conversion to a Fixed Rate."

The Series Y Agreement sets forth certain conditions which must be met prior to conversion from one Variable Rate Mode to another Variable Rate Mode, to or from the Variable Rate Mode or the Flexible Mode or to the Fixed Rate Mode. If the conditions for conversion set forth in the Series Y Agreement are not met, such conversion shall not occur, the Series Y Bonds will remain in the Mode then in effect and, unless the Series Y Bonds are in the Daily Mode or the Weekly Mode, such Series Y Bonds shall nevertheless be subject to mandatory tender for purchase on the proposed conversion date. If the Series Y Bonds are in the Daily Mode or the Weekly Mode and if such conversion shall not occur, the Paying Agent shall immediately notify each Series Y Bondowner, by mail, (i) that the conversion has failed, and (ii) of the new interest rate in the Daily Mode or the Weekly Mode, as applicable. In no event shall the failure of Series Y Bonds to be converted to the new Mode for any reason be deemed to be a default or an Event of Default under the Series Y Agreement, so long as the purchase price of all Series Y Bonds required to be purchased is made available as provided in the Series Y Agreement.

Partial Conversion. The Series Y Bonds may be converted in whole or in part to or from the Flexible Mode, any of the Variable Rate Modes or to the Fixed Rate Mode upon compliance with the conditions set forth in the Series Y Agreement. In the event the Series Y Bonds are in more than one Mode the provisions of the Series Y Bonds and the Series Y Agreement as described herein shall refer to Series Y Bonds in each of such Modes. See Appendix D - "DEFINTIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT-Partial Conversions."

Remarketing and Purchase. In the event that notice is received of any optional tender, or if the Series Y Bonds become subject to mandatory tender, the Remarketing Agent shall use its best efforts to sell the tendered Series Y Bonds in accordance with the Series Y Agreement.

The Purchase Price of Series Y Bonds tendered for purchase shall be paid by the Paying Agent from moneys derived from the remarketing of such Series Y Bonds and, if such remarketing proceeds are insufficient, from immediately available funds made available by the Institution. The obligation of the Institution to purchase any Series Y Bonds tendered for purchase to the extent such Series Y Bonds have not been remarketed is a general obligation of the Institution.

Summary of Certain Provisions of the Series Y Bonds. While the Series Y Bonds bear interest at Flexible Rates or a Variable Rate, the following table summarizes the dates on which interest will be paid, the date each interest rate will be determined, the date each interest rate will become effective and the period of time each interest rate will be in effect, the requirements for notice to registered owners of interest rate adjustments, the dates on which registered owners may tender their Series Y Bonds for purchase to the Paying Agent and the notice requirements therefor, the requirements for physical delivery of tendered Series Y Bonds and payment provisions therefor, the notice requirements in order to change from one interest rate Mode to a different interest rate Mode or from a Rate Period in the Multiannual Mode of one duration to a Rate Period of a different duration and the date on which Series Y Bonds are subject to mandatory tender for purchase in the event of a change between interest rate Modes or between Rate Periods in the Multiannual Mode of different duration or between Rate Periods in the Flexible Mode. All times shown are New York City time. The offered Series Y Bonds are to be initially issued in the Weekly Mode. The following table does not describe the provisions of the Series Y Bonds when they bear interest at a Fixed Rate, and does not purport to be comprehensive. See Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT" for a further summary of the provisions of the Series Y Agreement.

	Daily Mode	Weekly Mode	Multiannual Mode	Flexible Mode
Interest Payment Date	First Business Day of the calendar month.	First Business day of the calendar month.	The first days of any January or July of each year commencing with a January 1 or July 1 which is at least 2 but less than 10 months after conversion to the Multiannual Mode.	First Business Day following any Rate Period.
Interest Rate Determination Date	9:30 a.m. on the Business Day the interest rate is effective.	The Business Day immediately preceding the day the interest rate is effective.	The Business Day immediately preceding the day the interest rate is effective.	The first day of the Rate Period.
Effective Date of New Interest Rate	The day on which the new interest rate is determined.	First day of Rate Period, and every Thursday thereafter.	First day of each Rate Period.	First day of the Rate Period.
Variable/Flexible Rate Period	One day.	Through Wednesday of the following week; length of Rate Period, day of commencement and last day of Rate Period may vary in the event of conversion to or from the Weekly Mode.	Six months or multiples thereof; first Rate Period may be shorter or longer than six months.	One to 270 days.
Notification of Interest Rate	Paying Agent receives notice form Remarketing Agent.	Paying Agent receives notice from Remarketing Agent.	Paying Agent to mail Series Y Bondowner notice of interest rate on date interest rate is determined.	Paying Agent receives notice from Remarketing Agent.
Optional Tender Dates; Series Y Bondowner Notice of Optional Tender	Any Business Day; telephonic and facsimile notice by Series Y Bondowner to Paying Agent by 11:00 a.m.	Any Business Day; written notice by Series Y Bondowner to Paying Agent on a Business Day not less than 7 calendar days prior to optional tender date.	First day of next Rate Period; written notice by Series Y Bondowner to Paying Agent on a Business Day not less than 7 calendar days prior to optional tender date.	Optional tender not permitted.
Physical Delivery of and Payment for Series Y Bonds Subject to Optional and Mandatory Tender	To Tender Agent by 3:00 p.m. on designated tender date; payment by 5:00 p.m. same day.	To Tender Agent by 3:00 p.m. on designated tender date; payment by 5:00 p.m. same day.	To Tender Agent by 3:00 p.m. on designated tender date; payment by 5:00 p.m. same day.	To Tender Agent on designated mandatory tender date for each Series Y Bond; payment same day.
Written Notice of Mode Change or Rate Period Change in Multiannual Mode	Paying Agent to mail notice to owners at least 10 days prior to Effective Date of Mode Change.	Paying Agent to mail notice to owners at least 10 days prior to Effective Date of Mode change.	Paying Agent to mail notice to owners at least 30 days prior to Effective Date of Mode change or Rate Period change in the Multiannual Mode.	None.
Mandatory Tender Date Upon Mode Change, Rate Period Change in Multiannual Mode or Rate Period Change in Flexible Mode	Effective Date of Mode change, which must be an Interest Payment Date.	Effective Date of Mode change, which must be an Interest Payment Date.	Effective date of Mode change or Rate Period change in the Multiannual Mode.	Effective Date of Mode change; for each Series Y Bond in the Flexible Mode, first day of following Rate Period for that Series Y Bond.

Book-Entry-Only System

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

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

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

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

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

Redemption notices shall be sent to Cede & Co. 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. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

A Beneficial Owner shall give notice to elect to have its Series Y Bonds purchased or tendered through its Participant to the Tender Agent, and shall effect delivery of such Series Y Bonds by causing the Direct Participants to transfer the Participant's interests in the Series Y Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series Y Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Series Y Bonds are transferred to Direct Participants on DTC's records.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT NONE OF THE AUTHORITY, THE INSTITUTION OR THE UNDERWRITERS TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

Responsibility of Authority, Trustee, Tender Agent, Institution and Paying Agent

NONE OF THE AUTHORITY, THE PAYING AGENT, THE INSTITUTION OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. In addition, the Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the Book-Entry-Only System is discontinued, Bond certificates will be delivered as described in the Agreement and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations, upon surrender thereof at the principal corporate trust office of the Paying Agent. The transfer of any Bond may be registered on the books maintained by the Paying Agent for such purpose only upon assignment in form satisfactory to the Paying Agent. For every exchange or registration of transfer of the Bonds, the Authority and the Paying Agent may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Bonds. The Paying Agent will not be required to transfer or exchange any Bond during the notice period preceding any redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

Redemption of the Bonds

Optional Redemption of the Series W Bonds. The Series W Bonds are subject to optional redemption prior to maturity, on and after July 1, 2010 at the option of the Authority with the written consent of the Institution or by the written direction of the Institution to the Authority and the Trustee, as a whole or in part at any time, at the following prices expressed in percentages of their principal amount, plus accrued interest to the redemption date:

Period During Which Redeemed	Redemption Price
July 1, 2010 to June 30, 2011	101%
July 1, 2011 and thereafter	100

Optional Redemption of Series Y Bonds. Prior to the Fixed Rate Conversion Date, and except while the Series Y Bonds are in the Fixed Rate or Multiannual Mode, the Series Y Bonds are subject to redemption at the election of the Institution, in whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption.

After the Fixed Rate Conversion Date or in the Multiannual Mode, the Series Y Bonds shall be subject to redemption at the election of the Institution, in whole or in part at any time after the No-Call Period, as directed by the Institution, plus accrued interest to the redemption date; provided, however, that the Series Y Bonds shall not be redeemable during the No-Call Period, if any, as defined in and established in accordance with the Series Y Agreement.

Selection of the Series W Bonds. If less than all the Series W Bonds are to be redeemed, the portion of the Series W Bonds to be redeemed shall be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee; provided, however, that so long as DTC or its nominee is the Bondowner, the particular portions of the Series W Bonds to be redeemed shall be selected by DTC in such manner as DTC may determine. If a Series W Bond is of a denomination in excess of five thousand dollars ($5,000), portions of the principal amount in the amount of five thousand dollars ($5,000) or any multiple thereof may be redeemed.

Selection of the Series Y Bonds. If fewer than all the Series Y Bonds are to be redeemed, the particular Series Y Bonds to be called for redemption shall be selected by the Trustee as provided in the Series Y Agreement. Series Y Bonds in the Flexible Mode to be redeemed shall be redeemed at the end of the Rate Periods applicable thereto on or before the scheduled date for optional redemption. Series Y Bonds in the Flexible Mode or the Variable Rate Mode shall be selected by the Trustee by lot or in any customary manner determined by the Trustee. However, Series Y Bonds in the Flexible Mode or the Variable Rate Mode which have not yet been remarketed and which have been purchased by the Institution shall be selected first for redemption before any other Series Y Bonds.

Notice of Redemption of Series W Bonds and Other Notices. So long as DTC or its nominee is the Bondowner, the Authority, the Trustee, the Tender Agent and the Paying Agent will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements which may be in effect from time to time.

The Trustee shall give notice of redemption to the Series W Bondowners not less than thirty (30) days nor more than forty-five (45) days prior to the date fixed for redemption of the Series W Bonds. Failure to mail notice to a particular Series W Bondowner, or any defect in the notice to such Series W Bondowner, shall not affect the redemption of any other Bond. So long as DTC or its nominee is the Series W Bondowner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Notice of Redemption of Series Y Bonds and Other Notices. Notices of redemption of Series Y Bonds shall be mailed to the registered owners of any Series Y Bonds which are to be redeemed, at the addresses shown on the registration books kept by the Paying Agent, not less than 10 days and, after the Fixed Rate Conversion Date or during the Multiannual Mode, not less than 30 days prior to the redemption date. Notice of redemption shall identify the Series Y Bonds to be redeemed, identify the CUSIP number of such Series Y Bonds, state the date fixed for redemption and state that such Series Y Bonds will be redeemed at the corporate trust office of the Paying Agent. The notice of redemption shall further state that on such date there shall become due and payable upon each Series Y Bond (or portion thereof) to be redeemed, the redemption price thereof, together with interest accrued to the redemption date. Moneys therefor having been deposited with the Paying Agent, interest on any Series Y Bond called for redemption shall cease to accrue from and after the date fixed for redemption. Failure to mail notice to a particular Series Y Bondowner, or any defect in the notice to such Series Y Bondowner, shall not affect the redemption of any other Series Y Bonds.

Effect of Redemption. On the redemption date, the redemption price of each Bond to be redeemed will become due and payable; and from and after such date, notice having been properly given and amounts having been made available and set aside from such redemption in accordance with the provisions of the respective Agreements, notwithstanding that any Bonds called for redemption have not been surrendered, no further interest will accrue on any Bonds called for redemption.

THE PROJECT

The proceeds of the Series W Bonds deposited in the Construction Fund under the Series W Agreement and the proceeds of the Series Y Bonds deposited in the Construction Fund under the Series Y Agreement will be applied to fund or reimburse prior expenditures of the Institution for capital projects at the Institution's several schools and campuses. Among others, these projects involve new construction, renovation, furnishing or equipping of a life sciences building, the proposed Knafel Center, Widener and Lamont libraries, the Science Center, faculty offices, physical sciences facilities, laboratories, Memorial Hall, classrooms, dormitories, auditoriums, student commons, dining facilities, administrative offices and athletic facilities in Cambridge, Boston and Bedford for the use of the Faculty of Arts and Sciences, the Law School, the Graduate School of Education, the Graduate School of Design, the Kennedy School of Government and the Harvard University Art Museums; research laboratory facilities in Boston, other laboratory space, Countway Library, and academic, administrative, and animal facilities in Boston for the use of the Medical School, the Dental School and the School of Public Health; classrooms, parking and housing in Boston for the use of the Business School; construction to house collections and renovation at the

Arnold Arboretum in Boston; and information systems projects, internal utility projects and building system upgrades at various locations.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series W Bonds (excluding accrued interest) are expected to be applied as follows:

Sources of Funds

Principal Amount of the Series W Bonds	$120,080,000
Less Original Issue Discount	(1,395,330)
Total Sources of Funds	$118,684,670

Uses of Funds

Deposit to Construction Fund for Costs of Project	$118,108,242
Costs of Issuance (including Underwriters' discount)	576,428
Total Uses of Funds	$118,684,670

The proceeds from the sale of the Series Y Bonds are expected to be applied as follows:

Sources of Funds

Principal Amount of the Bonds	$117,905,000

Uses of Funds

Deposit to Construction Fund for Costs of Project	$117,696,312
Costs of Issuance (including Underwriter's discount)	208,688
Total Uses of Funds	$117,905,000

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The Institution has undertaken all responsibilities for any continuing disclosure to Bondowners as described below, and the Authority shall have no liability to the Bondowners or any other person with respect to such disclosures.

The Institution has covenanted for the benefit of Bondowners to provide certain financial information and operating data relating to the Institution for the prior fiscal year by not later than March 1 of each year beginning March 1, 2001 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if deemed by the Institution to be material. The Annual Report will be filed on behalf of the Institution with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository if such repository is established. The notices of material events will be filed on behalf of the Institution with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX G - "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission.

The Institution is subject to continuing disclosure requirements under existing continuing disclosure agreements. The Institution has previously complied with such filing requirements.

TAX EXEMPTION

In the opinion of Palmer & Dodge LLP, Bond Counsel to the Authority, under existing law, interest on the Bonds (including any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds will be taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code (the "IRC") establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and the payment of rebates, or penalties in lieu of rebates, to the United States. Failure to comply with these requirements may cause interest on the Bonds to become included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the Authority have covenanted to take all lawful action necessary under the IRC to ensure that interest on the Bonds will remain excluded from gross income for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income.

Prospective purchasers of the Bonds should be aware that the IRC denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the IRC. In addition, interest on the Bonds earned by certain corporations could be taken into account in determining the foreign branch profits tax imposed by Section 884 of the IRC, and may be included in passive investment income subject to federal income taxation under Section 1375 of the IRC applicable to certain S corporations. The IRC also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income, and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the IRC.

In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

For federal and Massachusetts income tax purposes, interest includes any original issue discount on a Bond allocable to the owner thereof. At maturity original issue discount is equal to the excess of the stated principal amount of a Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with Section 1272 of the IRC. Purchasers of Bonds to be sold at an original issue discount should consult their own tax advisors with respect to the computation of interest accruing on such Bonds.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

On the date of delivery of the Series W Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix E

On the date of delivery of the Series Y Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix F.

LEGALITY OF THE BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all Massachusetts insurance companies, trust companies, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. The Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Service ("S&P") have assigned ratings of "Aaa" and "AAA," respectively, to the Series W Bonds and short-term ratings of "VMIG1" and "A-1+," respectively, and long-term ratings of "Aaa" and "AAA," respectively, to the Series Y Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 99 Church Street, New York, New York, 10007, and S&P, 55 Water Street, New York, New York, 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

The above ratings are not recommendations to buy, sell or own the Bonds, and such ratings may be subject to revision or withdrawal at any time by the ratings agencies. Any downward revision or withdrawal of any or both ratings may have an adverse effect on the market price of the Bonds.

COMMONWEALTH NOT LIABLE ON THE BONDS

The Bonds shall not be deemed to constitute a debt or liability of the Commonwealth or any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or any such political subdivision, but shall be payable solely from the Revenues derived by the Authority under the Agreement. Neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay debt service on the Bonds in the event of default by the Institution. The Authority does not have taxing power.

UNDERWRITING

The Series W Bonds are being purchased for reoffering by the Underwriters listed on the cover hereof for whom Morgan Stanley & Co. Incorporated is acting as representative. The Underwriters have agreed to purchase the Series W Bonds at an aggregate discount of $455,326.92 from the public offering price set forth on the cover page hereof. The Underwriters have agreed to accept delivery and pay for all of the Series W Bonds if any are delivered. The obligations of the Underwriters are subject to certain terms and conditions set forth in the purchase contract. The Institution has agreed to indemnify the Underwriters and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws. The Underwriters may allow concessions from the public offering price to certain dealers, banks and others. After the initial public offering at the offering price or prices set forth on the cover of this Official Statement, the public offering price or prices may be varied from time to time by the Underwriters.

The Series Y Bonds are being purchased by Morgan Stanley & Co. Incorporated. In connection with its purchase of the Series Y Bonds, the Underwriter have agreed to purchase the Series Y Bonds at an aggregate discount of $84,869.83 from the public offering price set forth on the cover page hereof. The Underwriter may offer and sell the Series Y Bonds to certain dealers (including dealers depositing Series Y Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The contract for the purchase of the Series Y Bonds by the Underwriter is subject to certain conditions and provides that the Underwriter will purchase all the offered Series Y Bonds if any are purchased and requires the Institution to deliver to the Underwriter and the Authority on the date the offered Series Y Bonds are sold its letter of representation constituting the agreement of the Institution, in accordance with its terms, to indemnify the Underwriter and the Authority and certain other parties against losses, claims, damages or liabilities arising out of any incorrect statements or information, including any omission of material facts, contained in the Official Statement pertaining to the Institution and other specified matters. The public offering price of the Series Y Bonds on the cover page hereof may be changed after the initial offering of the Series Y Bonds by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the Authority are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion of Bond Counsel for the Series W Bonds is attached hereto as Appendix E and a copy of the proposed form of the opinion of Bond Counsel for the Series Y Bonds is attached hereto as Appendix F. Certain legal matters will be passed on for the Institution by its counsel, Ropes & Gray, Boston, Massachusetts. Certain legal matters will be passed on for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. See Appendix A - "LETTER FROM HARVARD UNIVERSITY" with respect to any material litigation affecting the Institution.

MISCELLANEOUS

The references to the Act, the Series W Agreement and the Series Y Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the Act and the respective Agreements for full and complete statements of such provisions. The agreements of the Authority with the holders of the Series W Bonds and Series Y Bonds are fully set forth in the respective Agreements, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Trustee.

Information relating to DTC and the book-entry system described herein under the heading "Book-Entry-Only System" has been furnished by DTC and is believed to be reliable, but none of the Authority, the Institution or the Underwriters make any representations or warranties whatsoever with respect to such information.

The Authority and the Underwriters have relied on the information contained in Appendix A - "LETTER FROM HARVARD UNIVERSITY" and the Financial Report to the Board of Overseers of Harvard College.

The financial statements as of June 30, 1999 and 1998 and for each of the years then ended included in this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

While the information contained therein is believed to be reliable, the Authority and the Underwriters make no representations or warranties whatsoever with respect to the information contained therein.

Appendix C - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES W LOAN AND TRUST AGREEMENT", Appendix D - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT," Appendix E - "PROPOSED FORM OF BOND COUNSEL OPINION WITH REPECT TO THE SERIES W BONDS," Appendix F - "PROPOSED FORM OF BOND COUNSEL OPINION WITH RESPECT TO THE SERIES Y BONDS" and Appendix G - "FORM OF CONTINUING DISCLOSURE AGREEMENT" have been prepared by Palmer & Dodge LLP, Bond Counsel to the Authority.

All appendices are incorporated as an integral part of this Official Statement.

The Institution has reviewed the portions of this Official Statement describing the Institution, Estimated Sources and Uses of Funds and the Project, and has furnished Appendix A and Appendix B to this Official Statement, and has approved all such information for use with this Official Statement. At the closing, the Institution will certify that such portions of this Official Statement, except for any projections and opinions contained in such portions, do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

The execution and delivery of this Official Statement by its Executive Director has been duly authorized by the Authority.

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

By: /s/Robert J. Ciolek
Executive Director

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HARVARD UNIVERSITY

ELIZABETH C. HUIDEKOPER
VICE PRESIDENT FOR FINANCE

MASSACHUSETTS HALL
CAMBRIDGE, MASSACHUSETTS 02138

APPENDIX A

May 11, 2000

Massachusetts Health and Educational
Facilities Authority
99 Summer Street – Suite 1000
Boston, Massachusetts 02110-1240

Dear Members of the Authority:

We are pleased to submit the following information with respect to the President and Fellows of Harvard College ("Harvard" or the "University").

The University

Harvard is one of the nation's oldest and most prestigious institutions of higher education. Harvard is an educational corporation incorporated in 1650 by act of the Colony of Massachusetts Bay confirmed, as amended, in the Constitution of 1780 of The Commonwealth of Massachusetts. It is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Its principal site is in Cambridge, Massachusetts. The University consists of Harvard College, ten graduate schools and several research institutions and museums. Radcliffe College merged into the University on October 1, 1999.

Since 1650, the University has been governed by the Corporation and the Board of Overseers. The Corporation consists of the President, the Treasurer and five Fellows who elect their successors with the consent of the Board of Overseers (the "Board"). The Corporation supervises the management of the financial affairs of the University without need of consent by the Board to specific transactions.

TELEPHONE: 617-495-4374 FAX: 617-496-6109 EMAIL: beppie_huidekoper@harvard.edu

President and Fellows of Harvard College 1999-2000

Neil L. Rudenstine
President
Harvard University

D. Ronald Daniel
Director, McKinsey & Company
Treasurer of Harvard College

Hanna H. Gray
President, *Emerita* and Harry Pratt Judson
Distinguished Service Professor of History
The University of Chicago

Judith Richards Hope
Senior Counsel
Paul, Hastings, Janofsky & Walker, LLP

James R. Houghton
Chairman of the Board, *Emeritus*
Corning Incorporated

Richard A. Smith
Chairman of the Board
Harcourt General, Inc.

Robert G. Stone, Jr.
Chairman of the Board, *Emeritus* / Director
Kirby Corporation

The Board consists of the President and the Treasurer *ex-officiis* and 30 persons elected by the alumni of the University for six-year staggered terms. A member of the Board may serve more than one term. The consent of the Board is required for certain acts of the Corporation, including the election of successors to Fellows, certain academic and administrative appointments and the awarding of degrees. The Board also reviews the academic performance of the University through some 59 visiting committees composed of both overseers and others.

Administration

The academic affairs of the University are managed by the President, the Provost, and the deans of the University's faculties. The non-academic affairs of the University are managed by the President, the Treasurer, and five Vice Presidents. The principal administrative officers of the University are as follows:

Neil L. Rudenstine	President
Harvey V. Fineberg	Provost
D. Ronald Daniel	Treasurer
Thomas Reardon	Vice President for Alumni Affairs and Development
Anne Taylor	Vice President and General Counsel
Elizabeth C. Huidekoper	Vice President for Finance
Paul S. Grogan	Vice President for Government, Community and Public Affairs
Sally H. Zeckhauser	Vice President for Administration

Student Applications and Enrollment

The University receives applications substantially in excess of the number of students it can accept into undergraduate and graduate programs. Enrollment levels are correlated with other planning decisions. The following table shows applications received, and the number of freshmen admitted to and enrolled in Harvard College for the fall terms of the indicated academic years.

Academic Year	Freshman Applications Received	Freshmen Admitted	Freshmen Enrolled	Selectivity	Yield
1995-96	17,852	2,150	1,606	12.0%	74.7%
1996-97	18,183	2,074	1,614	11.4	77.8
1997-98	16,543	2,106	1,597	12.7	75.8
1998-99	16,767	2,038	1,602	12.2	78.6
1999-00	18,097	2,004	1,572	11.1	78.4

The following table shows the total number of full-time equivalent undergraduate students and graduate degree candidates enrolled for the fall term of the academic years indicated. Degree candidate figures do not include Continuing Education.

Academic Year	Under-graduate	Graduate	Total
1995-96	6,618	10,713	17,331
1996-97	6,645	10,854	17,499
1997-98	6,622	10,754	17,376
1998-99	6,698	10,672	17,370
1999-00	6,674	10,631	17,305

The University expects that annual enrollments in its undergraduate and graduate programs will remain at approximately the same levels for the next five academic years.

Tuition, Fees and Room & Board

Shown below are undergraduate charges for fiscal years 1996 through 2000.

Fiscal Year	Tuition & Fees	Average Room and Board	Total
1996	$20,865	$6,710	$27,575
1997	21,901	6,995	28,896
1998	22,802	7,278	30,080
1999	23,618	7,514	31,132
2000	24,407	7,757	32,164

Student Financial Aid

The University's undergraduate admissions policy includes the tenet that admissions are need-blind. Nearly 70% of undergraduates receive some form of financial assistance from Harvard. For the 48% of undergraduates who receive grant assistance, the average award package is currently $22,950, or 67% of the total cost to attend Harvard (this figure includes an allowance for personal expenses and books). Harvard participates in the Federal Direct Student Loan Program and remains an eligible lender under the federally guaranteed Federal Family Education Loan Program. Total loans to students and parents as of June 30, 1999, include $90.0 million of loans issued by Harvard under federally guaranteed programs, $50.1 million of loans made under federally funded revolving loan programs, and $45.5 million of loans funded by donors or by unrestricted funds of the faculties. At the close of fiscal years 1995 through 1999, student loans (in millions of dollars, net of reserve for bad debt) from all University sources amounted to:

	1995	1996	1997	1998	1999
Student Loans Outstanding	$246.7	$250.7	$248.2	$225.6	$185.6

Faculty and Staff

Harvard employs more than 2,000 faculty. Each school at the University is responsible for its own staffing policies, which include hiring and wage and salary administration. Faculty tenure decisions and certain other appointments are subject to the approval of the Corporation.

Labor Relations

The University had approximately 12,700 employees on December 31, 1999 (not including post-doctoral degree candidates and "casual" workers). The University considers its relations with its employees to be good. Approximately 4,985 of its employees are represented by ten labor unions and similar organizations for the purpose of collective bargaining. Bargaining units consist of clerical and technical workers, dining service workers, custodians, employees located at the University's Arnold Arboretum, members of four maintenance trades, the University police, museum, parking and security guards and graphic communicators under seven collective bargaining agreements expiring in 2001, 2002 and 2003. An eighth agreement expired in December 1998 and is under negotiation with the council representing the four maintenance trades.

Litigation

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. While the University's ultimate liability, if any, is not determinable at present, no such proceedings are pending or threatened that, in management's opinion, would be likely to have a material adverse effect on the University's ability to pay debt service with respect to the Bonds.

Additional Information

For additional information regarding the University, including its financial statements for the fiscal years ended June 30, 1999 and 1998, an analysis of financial results, a review of endowment results and capital activities and the annual report of Harvard Management Company, see APPENDIX B – "Financial Report to the Board of Overseers of Harvard College for Fiscal Year 1998 – 1999."

*   *   *

This letter and the accompanying Financial Report to the Board of Overseers of Harvard College for the Fiscal Year 1998-1999 appended as APPENDIX B are submitted to the Massachusetts Health and Educational Facilities Authority for inclusion in its Official Statement relating to its Revenue Bonds, Harvard University Issue, Series W.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By: /s/ Elizabeth C. Huidekoper
Vice President for Finance

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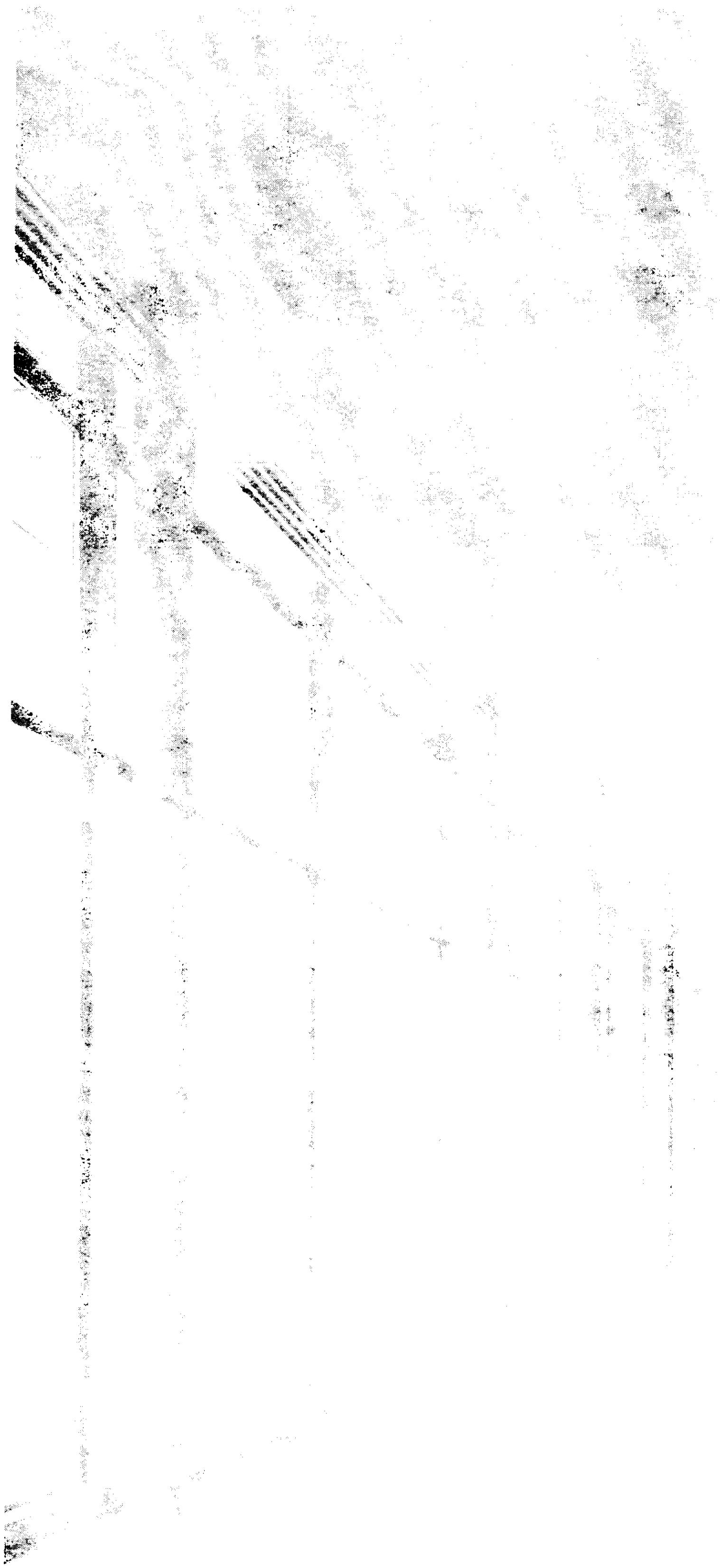
APPENDIX B

FINANCIAL REPORT

HARVARD COLLEGE



The study of the sciences has benefited from such improvements as the Faculty of Arts and Sciences' MAXWELL DWORKIN building, which has enabled the computer sciences and electrical engineering departments to expand to enhance collaboration and meet student demand.

To the Board of Overseers of Harvard College:

One of the most significant changes that we are experiencing at Harvard is in the way we work with and respond to our many different constituencies. More than ever, Harvard is linked to our local communities, to societal issues, to the demand for greater information and understanding, and to the worldwide need for leadership.

These conditions require that we collaborate as never before with our community, with industry, with governments, with alumni, and with other institutions. They also require flexibility, responsiveness, and creativity. Further, these conditions demand exceptional human, technical, and financial resources. Harvard's finances are very strong, we have extraordinary programmatic depth and breadth, and we have a solid infrastructure. Our future, however, continues to depend on our ability to leverage our capacities by working with our various constituencies.

STRONG FINANCIAL RESULTS As we have noted in recent reports, the University has benefited enormously from extremely generous donors and exceptional returns in the capital markets. These factors have enabled Harvard to invest in new and ongoing educational programs, in financial aid, in emerging areas of research, and in physical and technological resources — all while lowering rates of tuition growth and lessening our dependence on federal support.

Over the last year, the Corporation reviewed the progress that Harvard's schools were making to fulfill their academic plans in the context of the University Campaign and the endowment's returns. Last fall, the Corporation announced that it would increase the endowment payout by 28% in fiscal year 2000 and charged the schools to invest strategically in the priority areas that needed resources. As a consequence, in fiscal year 1999, we saw expenses grow by 9.5% over 1998, while income increased by 6.4% over the same period. Our total operating surplus decreased from 1998 to \$3.4 million — including an unrestricted deficit of \$24.4 million and a restricted surplus of \$27.8 million — on total expenses of \$1.8 billion. In effect, what we experienced in 1999, and what we expect to happen again in fiscal year 2000, was widespread investment in areas designated as strategically important by the deans, the President, and the Corporation.

From the close of fiscal 1998 to the end of fiscal 1999, total net assets grew from $16.0 billion to $17.7 billion, due largely to the 12.2% total return on the endowment achieved by the Harvard Management Company. Despite this year's smaller surplus and the unrestricted deficit, we remain in excellent financial shape.

WIDE-RANGING ACHIEVEMENTS The report that follows highlights a number of Harvard's major achievements and investments over the past fiscal year. The following items summarize some of the most noteworthy.

The Faculty of Arts and Sciences increased its support of undergraduate financial aid by 20%. In addition, the Faculty of Arts and Sciences is phasing in a 25% increase in graduate student aid and extending the student years covered by this support. Both of these increases are critical to the University's goal of enabling access to Harvard through financial aid.

The Faculty of Arts and Sciences launched the Center for Genomics Research and The Center for Imaging and Mesoscale Structures, two new cutting-edge research and teaching initiatives. Other new or expanded programs that will help Harvard enlarge intellectual understanding and serve society include the Diabetes Center at the Medical School, the interfaculty Harvard Children's Initiative, and the National Center for Excellence in Women's Health.

With the Library Digital Initiative, the University kicked off a five-year project to acquire, organize, deliver, and archive digital resources. This initiative will be critical to Harvard's ability to support research and exploration both on campus and at remote locations.

During the summer, Harvard completed the first phase of Project ADAPT by implementing new core financial systems across the campus. This investment will, over time, be enhanced and refined to ensure that our administrative systems are efficient and effective and that they support the University's mission.

Over the last year, Harvard completed a number of significant physical renovations and additions. The University Campaign focused on areas where our physical facilities need improvement. As a result, the new Maxwell Dworkin building houses programs in computer science and electrical engineering. The Murr Center racquet facility now provides much-needed resources for tennis and squash. And, all across campus, classrooms have been retooled to accommodate the emerging use of technology in teaching.

These achievements — together with our women's ice hockey team's victory in the national championships — are representative of the vitality that is being felt in every aspect of life at Harvard.

A Future of Opportunities and Challenges As Harvard plans for the future, we must balance the array of new opportunities with ongoing commitments and with our financial, physical, and human resources. As the following endeavors demonstrate, through working with our constituencies we are striving to achieve the right balance.

Harvard and its affiliated hospitals are working on ways in which we can sustain the quality of clinical teaching in an environment of declining resources. We are also developing new and collaborative approaches to critical areas of health-related research. This collaboration is essential to maintaining the quality of teaching and research in the medical area.

Recently, Harvard and Radcliffe College agreed to merge and create the new Radcliffe Institute for Advanced Study. Working with Radcliffe and Harvard alumni as well as with each of the Harvard faculties, we expect to see the Institute develop into one of the nation's foremost centers for advanced learning.

We confront substantial questions in determining how to invest in and leverage technology for teaching, research, the dissemination of knowledge, and administration. This is an area of dramatic change and possibility where new products and new forms of competition emerge almost daily. We must work with those both inside and outside of Harvard to choose wisely and move quickly.

The University's capacity to contribute to global understanding and development is in demand across all disciplines. Various centers have been established or enhanced to address this demand. The Weatherhead Center for International Affairs is dedicated to envision and explore international affairs in the next century. Harvard's Asia Center and David Rockefeller Center for Latin American Studies are allowing the University to take a leadership role, not only in studying developments in these regions but in helping to shape them as well. The Kennedy School of Government (KSG) and the Harvard Institute for International Development have established a Center for International Development (CID) within the Kennedy School. The CID is Harvard's primary location for cross-disciplinary research on sustainable international development. KSG and the CID have also developed a new degree program in international development. Harvard must solicit support and participation from leaders of other countries as well as from alumni and friends to prioritize, design, and fund these and other international activities.

Harvard's relationships with the cities of Cambridge and Boston, the local and national private sector, the federal government, and our alumni and friends will be key to our future vitality. Harvard must continue to work together creatively with all of our constituencies to meet our mutual goals.

Elizabeth C. Huidekoper
VICE PRESIDENT FOR FINANCE

D. Ronald Daniel
TREASURER

November 24, 1999

Analysis of financial results

In fiscal year 1999, Harvard made important investments in the future, tapping into the surpluses of the past two fiscal years to fund and strengthen key initiatives that range from student financial aid to improvement of the physical plant.

Overview

At June 30, 1999, the University ended the fiscal year with a total operating surplus of $3.4 million and an unrestricted operating deficit of $24.4 million on total revenue of $1,787.5 million. The unrestricted deficit stemmed from two major causes: strategic spending in areas designated as priorities by the deans, the President, and the Corporation and an increase in depreciation expense, explained in the note below.

At year end, Harvard reported total assets of $19.8 billion and liabilities of $2.1 billion. Net assets of $17.7 billion included $14.5 billion of endowment. Contained in this endowment total are $279.7 million of endowment pledge balances and $315.2 million of interests in perpetual trusts held by others.

Note on financial reporting

The University calculates depreciation using the straight-line method over the average remaining useful lives of the assets. In fiscal 1999, to comply with federal regulations requiring consistency of lives between financial statement depreciation and the depreciation used for federal indirect cost recovery purposes, Harvard changed the depreciable lives used to calculate replacement and historical cost depreciation.

As a result of the change in the historical cost lives, many buildings that had remaining useful lives became fully depreciated. The University recognized this additional amount of historical cost depreciation in fiscal year 1999, recording total historical cost depreciation of $181.3 million. In addition, this change was primarily responsible for the 23.5% increase in replacement cost depreciation.

In order to account for facilities on a historical cost basis, the difference between replacement cost depreciation and historical cost depreciation has been included in the "other provisions and credits" section of the *Statement of Changes in Net Assets with General Operating Account detail*. In prior years, this difference has been an addition to net assets. However, in fiscal year 1999, historical cost depreciation was greater than replacement cost depreciation. Therefore, the difference was a charge of $69.3 million to net assets.

The accompanying financial statements present balance sheet information for the current and prior fiscal years. The following discussion refers to prior years in cases where numbers are comparable, and the tables that show historical data identify numbers that are not comparable to those of earlier years.

Financial Results

Income and expenses for fiscal year 1999 are analyzed in this section of the report, which is followed by a listing of the year's highlights in the areas of academics, research, administration, and community activity. A special section then discusses the success of the University Campaign. The next two sections review endowment results and capital activities. In the final narrative section, Harvard Management Company describes its investment policies and its 1999 performance.

Income In fiscal year 1999, operating income totaled $1,787.5 million and derived from four major sources: student income (26.1%), income from endowment and other types of investments (27.8%), sponsored research support (22.5%), and current use gifts (6.3%). The remainder came from a variety of items, collectively categorized as "other operating income," many of which relate to specific departmental activities.

Student income For the seventh consecutive year, the percentage increase in tuition, room, board, and fees dropped below the figure for the prior year, evidence that Harvard is progressing in its ongoing efforts to curb increases in these areas in recognition of societal concern about the affordability of higher education. The 1999 increase was 3.5%, down from 4.1% in 1998.

Fiscal 1999 student income, presented net of financial aid applied against it, totaled $466.0 million. This 3.8% rise over fiscal 1998 comprised modest increases in revenue from undergraduate tuition (4.2%), graduate tuition (4.0%), and board and lodging expenses (3.2%), and significant increases in revenue from continuing education programs, which rose 12.0%. Much of this growth is attributable to expanded executive education programs at the Kennedy School of Government and the Business School and to new international initiatives undertaken by the Graduate School of Education.

Summary of Financial Results

Dollar amounts in millions

	1995	1996	1997	1998	1999
Total income [1]	$ 1,466.9	$ 1,518.7	$ 1,565.0	$ 1,679.3	**$ 1,787.5**
Total expenses [1]	1,470.2	1,521.0	1,531.8	1,629.5	**1,784.1**
Total giving	323.4	309.4	427.6	466.1	**451.7**
Student notes receivable	246.7	250.7	248.2	225.6	**185.6**
Facilities at replacement cost	3,980.2	4,018.2	4,137.8	4,031.8	**4,197.7**
Bonds and notes payable	1,162.7	1,248.9	1,179.3	1,142.4	**1,162.5**
General operating account, net assets [1]	1,403.4	1,663.2 [2]	2,020.8 [2]	2,382.7	**2,720.4**
Endowment funds, net assets [1]	7,390.9	9,117.9 [2]	11,161.8	13,278.9	**14,535.7**
Total return on general investments	16.8%	26.0%	25.8%	20.5%	**12.2%**
Degree student enrollment	18,480	18,250	18,572	18,513	**18,569**

[1] *Beginning in fiscal year 1996, numbers reflect changes required by SFAS Nos. 116 & 117 and are not comparable to prior years.*

[2] *These numbers are restated to conform with fiscal year 1998 presentation.*

Endowment In fiscal 1998, due to new gifts to endowment and a Corporation decision to increase the endowment distribution, endowment income distributed for operations rose by 18.7% to $394.4 million. In fiscal 1999, the amount of endowment income distributed increased 6.5% to $420.1 million. The endowment and related spending policies are discussed in detail in the section of this report beginning on page 17.

Sponsored research support While the federal government has long been a principal source of support for the basic research that universities conduct to advance knowledge and sustain the well-being of the nation, over the last decade growing federal regulatory pressure has led to an overall reduction in research expense reimbursement, particularly overhead cost reimbursement from federal sponsors. Harvard has experienced mixed results in this arena: the University area's indirect cost rate has remained fairly stable, the Medical School's rate has decreased, and the School of Public Health's rate has increased.

In this more competitive environment for research dollars, the growth rate of Harvard's sponsored research, training, and special projects income has been fairly flat in recent years. In fiscal 1999, however, sponsored research grew by 7.3% to a total of $401.6 million, compared with 3.4% growth in fiscal 1998.

Three of Harvard's four major research areas accounted for approximately 90% of federally sponsored research in fiscal 1999: the Medical School, with 36.6%; the School of Public Health, with 28.4%; and the Faculty of Arts and Sciences, with 25.1%. Continuing an established funding pattern, agencies of the Department of Health and Human Services, principally the National Institutes of Health, accounted for 69.6% of Harvard's federally sponsored research in 1999. The National Science Foundation provided 7.8% of total federally sponsored revenue, and the Agency for International Development contributed 6.1%. The University's remaining federal grant and contract support came from entities including the Departments of Defense, Energy, and Education and the National Aeronautics and Space Administration. The University also has many non-federal sources of sponsored support.

The indirect costs of research, such as facility operations, depreciation, debt service, library use, and administration, are aggregated and allocated as overhead to the direct costs of sponsored research projects. Income to reimburse indirect costs rose in fiscal 1999 from $89.3 million to $98.9 million. Indirect cost rate agreements are in force through fiscal year 2002 for the University area, the School of Public Health, and the Medical School.

Higher education is in the midst of an unprecedented and profound transformation. The exceptional pace of discovery in research; of growth in information and knowledge; and of change in nearly all aspects of human affairs, has created a stimulating yet demanding set of new challenges that all institutions of higher education must address. If universities are to remain at the forefront of discovering new insights and ideas, and of creating new knowledge — while helping to solve society's problems — then they must be themselves in a state of constant renewal and discovery. The University Campaign has enabled Harvard to continue that essential process in a dynamic and wonderfully productive way.

President Neil L. Rudenstine

Gifts for current use As the University's successful capital campaign entered its final phase, current use gift income reached $112.5 million in fiscal 1999, a 4.5% increase over the $107.7 million received in 1998. Current use gifts from alumni and friends enable Harvard to build on other sources of income to launch initiatives ranging from new academic programs to new and renovated facilities. Evidence of broad support, these gifts also provide funding that helps ensure the vitality of such ongoing programs as student financial aid, research, collecting at libraries and museums, athletics, and annual operations. The special section *Report on the Capital Campaign* discusses total funds raised by the University.

Other income Much of the category labeled other income derives from auxiliary enterprises that are compatible with Harvard's mission. In fiscal 1999, other income totaled $311.2 million, up from $285.7 million in the prior year. Revenue from Harvard's printing and publishing organizations continues to be the largest component of other income. Other major contributors to this category are rental and parking fees, royalties, health and clinic fees, and expenses recovered from outside organizations.

Expenses In fiscal year 1999, total operating expenses for the University were $1,784.1 million, including a facilities replacement provision of $112.0 million. The use of replacement cost depreciation reflects an approach that Harvard implemented to highlight the financial challenge of continuously renewing its physical plant. Since 1991, the estimated replacement value has been reported on the balance sheet, and the amount necessary to depreciate facilities on a replacement cost basis has been reported as an operating expense.

Financial aid One of the most important developments at Harvard during the year was strengthening the University's commitment to financial aid through a funding increase of 20% for undergraduates. Financial aid also increased for students in the Graduate School of Arts and Sciences. To be implemented in phased increments beginning this year, the increase will ultimately add 25% to the budget for graduate student aid. Financial aid is vital to Harvard's objective of educating the next generation of leaders by admitting the world's most promising students, regardless of their financial circumstances. With need-blind admissions, the College provides financial aid to make Harvard affordable to everyone who is accepted. Financial aid is awarded on the basis of the demonstrated needs of individual students and their families.

This admission and financial aid policy benefits both students and Harvard. This year, nearly 80% of students admitted to the College chose to enroll, the highest yield among the nation's selective higher education institutions. The majority of current undergraduate students — nearly 70% — receives some form of financial aid. For 48%, aid includes institutionally funded grants. These high rates of financial aid are matched by steady growth in the size and quality of the applicant pool.

The average undergraduate award package — made up of grants, loans, and employment — is now 67% of the total cost of attendance. Grant support is particularly valuable because it helps graduates leave Harvard without a burdensome level of debt. The increase in financial aid has enabled many students to lower their earnings from student employment or decrease their loan obligations. Even without the effect of the newly announced increase, nearly 40% of the members of the College class of 1999 graduated without any outstanding educational loans, while only 10% had debt of $20,000 or more. Financial aid is also a significant factor in the University's ability to attract the most able students to its graduate and professional schools, where the rate of those receiving support ranges from 57% to 88%.

It is fitting that much of this student aid comes from Harvard alumni, who know the value of the education they received at the University and want to enable others to benefit from the same high level of academic training and professional opportunity. Current use gifts and endowment income, together with federal support, have made it possible to fund a substantial portion of financial aid without reliance on unrestricted operating income.

Scholarships and student awards, including amounts applied directly against student income, totaled $140.8 million in fiscal 1999. This 12.3% increase over fiscal 1998 compares with a 4.9% rise from 1997 to 1998. In addition, Harvard loaned $17.7 million to students and spent $43.7 million on student employment during fiscal 1999. The University also acted as agent on behalf of specific student recipients for $20.6 million in aid from outside sponsors.

The University's capital resources and donor-established loan funds jointly support Harvard's student loan programs. At the close of fiscal 1999, the University held $185.6 million in outstanding loans to current and former students. That total is exclusive of loans made directly to students through the Federal Direct Student Lending Program and other non-Harvard sources. Harvard's use of the Direct Lending Program for loans formerly financed with University funds has caused student notes receivable to decline by $40.0 million over the past fiscal year, a trend that will continue as Harvard-financed loans are paid down.

COMPENSATION Just as Harvard attracts the most promising students, the University is committed to recruiting and retaining an outstanding faculty and staff. The compensation package is one way to compete successfully with peer institutions and nonacademic employers for the services of talented individuals. Accordingly, Harvard offers an attractive menu of benefits that includes pension plans, health benefits for active and retired employees, dental plans, and life insurance. Ancillary benefits programs range from tuition assistance to child and elder care resource services, discounted mortgage programs, tax-deferred annuity programs, and free admission to Harvard's museums and libraries.

We decided not to phase the improvements in financial aid in over four years, but to extend the benefit to everyone in the College this year. We did not want the "self-help" requirements of our existing aid packages to affect the education of undergraduates on scholarship by blunting their academic energies, or to perturb their career choices because of the accumulated burden of debt on graduation.
Faculty of Arts and Sciences Dean
Jeremy R. Knowles

In fiscal 1999, the total compensation figure — comprising salaries, wages, and benefits — was $869.9 million. This figure represents 48.8% of total University expenses, compared with 49.5% in 1998. Compensation costs grew 7.8% during the year as a result of annual increases and the hiring of new employees. Areas of particular growth include the Medical School, which launched new research programs, expanded investments in information technology, and began an initiative to increase faculty and staff diversity; the Business School, which expanded global initiatives, invested in faculty research, and continued to grow its executive education programs; the Kennedy School, which experienced programmatic expansion, including the addition of a new master's degree program; and the School of Public Health, which added both faculty and staff to support new and expanded research and teaching activities aimed at improving health globally. During the 1990s, Harvard has made a concerted effort to control benefits costs without diminishing the quality of the benefits package. As a result, these costs have remained relatively stable for the past six fiscal years.

In addition to traditional compensation, each school at the University offers educational loans to eligible employees. Mortgage loan and subsidy programs have been implemented to help new faculty members cope with the high cost of housing in the Boston area. Total loans outstanding to faculty and staff under these programs increased to $70.6 million in fiscal 1999 from $68.7 million in the preceding year.

SUPPLIES AND EQUIPMENT Expenses for supplies and equipment rose 10.9% in fiscal 1999, reaching $205.0 million, compared with $184.9 million in 1998. Harvard is making greater investments across the educational endeavor, including increases over fiscal 1998 of 15.6% for computer supplies, 13.0% for office and laboratory supplies, and 5.2% for subscriptions and books. In particular, these increases reflect continuing investments related to the implementation of Project ADAPT, as well as strong research spending in the Medical School.

As technology investment continues, so does the development of efficient, cost-saving services in procurement, effected by such practices as the use of preferred vendors with whom the University has negotiated favorable rates. Vendor partnerships in scientific and office supplies, office furnishings, and express mail service have together generated almost $3 million in fiscal 1999 savings. In addition, the procurement card for low-dollar purchases, which was introduced throughout the University in 1998, has simplified thousands of transactions and reduced administrative costs.

SPACE AND OCCUPANCY During this fiscal year, Harvard experienced an 8.7% increase in space and occupancy expenses over fiscal 1998. Overall expenses in this category rose from $176.2 million to $191.6 million. The primary components of space and occupancy are debt service, utility costs, and maintenance. Newly developed agreements for the supply of gas and electric power led to a savings of approximately $400,000. Growth in this category includes increases in maintenance and rental expenditures due to Harvard's higher occupancy of new and leased space.

Outstanding scientific research often occurs at the boundaries of traditional disciplines, and an institution like Harvard must continually seek the most exciting and fruitful areas of inquiry. In some areas, we must focus on recruiting new faculty. In others, the prime need is for equipment, technical support, and space.
Faculty of Arts and Sciences Dean
Jeremy R. Knowles

OTHER EXPENSES The category labeled other expenses increased to $374.8 million in fiscal 1999 from $341.5 million in 1998. The principal components of this expense category are purchased services, accounting for $133.4 million; publishing, $48.7 million; research subcontracts to other institutions, $36.6 million; travel, $35.2 million; and telephone, $10.4 million. University-wide preferred vendor relationships in travel and telecommunications continue to yield substantial cost savings. Negotiations with a telecommunications vendor resulted in a contract extension that will save $2.8 million over the next four years. Certain items in the other expense category are unique to individual schools, such as funds spent by the Medical School to reimburse its affiliated hospitals for the use of facilities and personnel.

ACADEMIC AND RESEARCH HIGHLIGHTS

- Harvard substantially boosted its financial aid programs for undergraduate and graduate students in the Faculty of Arts and Sciences. Scholarship aid, which enables students to lower their debt burdens at graduation and have more time to concentrate on their studies, was increased 20% for undergraduates, spurring a record number of applicants under the College's Early Action program. For Arts and Sciences graduate students, approximately $5.7 million in aid will be phased in annually over three years and will subsequently become a permanent part of the financial aid budget.
- For the seventh consecutive year, the College reported a decline in the rate of increase in tuition and fees. The cost of attendance for undergraduates rose only 3.5%, the lowest rate of increase in almost three decades.
- Nearly 80% of students admitted to the College chose to enroll, the highest admissions yield since the early 1970s.
- Harvard University and Radcliffe College agreed to merge and establish the Radcliffe Institute for Advanced Study as an integral part of the University. The institute will be an interdisciplinary center where leading scholars can promote learning and scholarship across a broad array of academic and professional fields.
- The Faculty of Arts and Sciences launched a major initiative in science research and teaching that will probe some of the most challenging and potentially rewarding areas of current scientific inquiry. Key parts of this initiative are the newly established Center for Genomics Research and Center for Imaging and Mesoscale Structures.
- Through the Harvard University Library Digital Initiative, a multiyear program to acquire, organize, deliver, and archive digital resources, Harvard will make research materials more widely available to students and scholars both on and off campus.
- Harvard Medical School and the Juvenile Diabetes Foundation International established the Diabetes Center, dedicated to discovering a cure for Type 1 diabetes.
- The Medical School established a National Center of Excellence in Women's Health to provide community-based health care for women, with a focus on members of minority groups. The Center will also offer outreach, research, and education programs to improve care.
- The interfaculty Harvard Children's Initiative combines and expands the work of several programs that tackle issues of schooling, children's health, and research on children.
- Working with Harvard Medical School, researchers at five Harvard-affiliated hospitals tested an experimental cancer vaccine on patients with lethal skin cancer. The results were sufficiently promising for the researchers to expand its use to include more patients and other types of cancers.
- The University initiated the Multidisciplinary Program in Inequality & Social Policy, a unique training initiative for Harvard Ph.D. candidates in economics, government, sociology, and public policy.
- Researchers at Harvard Medical School and Brigham and Women's Hospital [illegible] triggers Alzheimer's disease.

ADMINISTRATIVE HIGHLIGHTS

- At the end of the fiscal year, six months ahead of its completion date, the University Campaign had raised 99.9% of its overall goal of $2.1 billion. By October 1999, the Campaign total stood at $2.325 billion, establishing a milestone in the history of philanthropy for higher education.
- Harvard defined the direction for the University's space planning in both Cambridge and Boston. This direction relies on the concept of planning by geographical area rather than by school.
- The Harvard Academic Computing Committee completed a survey on the state of distance learning at Harvard and sponsored a faculty workshop on the use of technology in teaching and learning.
- The University completed the first phase implementation of Project ADAPT by introducing a new chart of accounts and new general ledger, accounts payable, reporting tools, and grants management systems. In addition, the Help Desk was expanded and a training group established to support needs created by Project ADAPT.
- The implementation of HIRES, Harvard's online employment database, together with several initiatives to attract information technology (IT) and minority candidates, yielded a 25% increase in the number of minority hires in the central administration and a 41% decrease in open jobs in IT.

COMMUNITY HIGHLIGHTS

- Harvard launched the "Harvard in the Community" web site and accompanying print directory to help local residents access community-oriented programs throughout the University.
- The School of Public Health initiated an innovative five-year program to improve the eating and exercise habits of students in the Boston Public Schools.
- Clinical Legal Education at Harvard marked its 25th anniversary, and the Harvard Legal Aid Bureau celebrated its 85th year.
- The Business School's Harbus Foundation, in its second annual round of grant awards, awarded a total of $69,000 to eight local organizations for programs that promote education, journalism, and literacy.
- Students at the School of Dental Medicine volunteered for the Bright Smiles, Bright Futures Oral Healthcare Outreach Program in Boston.
- Harvard staff donated more than $802,000 to the Community Gifts Through Harvard Campaign. More than 700 charitable organizations benefited from this effort, and over 95% of the funds raised are being deployed in Massachusetts.
- The Harvard Mentoring Project, a national media campaign to recruit mentors for at-risk youth, has gained support from 51 broadcast and cable television networks as well as from leading Hollywood studios. This initiative is sponsored by the Center for Health Communications at the School of Public Health.

Report on the Capital Campaign

Harvard is now in the final phase of its first-ever University Campaign, a broad-based effort in which alumni and friends have worked to advance Harvard's teaching and research missions and have established a new milestone in the history of philanthropy for higher education.

Mission-Critical Support

The first capital campaign in Harvard's modern history to embrace all of the schools, the University Campaign was launched in 1994 with a goal of $2.1 billion. At the close of fiscal year 1999, the Campaign total had reached 99.9% of this goal. By September 30, contributions stood at $2.325 billion, the highest figure ever attained by a university capital campaign. The Campaign will continue through December 31, 1999.

The Campaign is distinguished not so much by the amount of money raised, but by the broad nature of the support it generated for hundreds of specific educational programs reaching into every school of the University. Significantly, it also captured the imagination of thousands of alumni and friends. By the end of September, more than 172,000 donors had rallied in support of the Campaign. In contributing, alumni and friends endorsed the aims established at the inauguration of the Campaign. Their gifts were actually investments in Harvard's continued ability to promote excellence in teaching and research; to enable the University, through expanded financial aid programs, to remain accessible to the best students; and to aid in solving pressing societal problems in all parts of the world.

Gifts for Many Purposes

While approximately 20% of Campaign gifts received to date are unrestricted, most gifts are designated for specific purposes, such as establishing a professorship or endowing a research program. Campaign gifts have added or endowed more than 90 new professorships across the University, enabling the faculties to increase the breadth and depth of their scholarly inquiry, augment the curriculum, and improve student-to-faculty ratios. Many of these faculty positions are being added in international studies and the sciences, dramatically expanding areas of scholarship.

The Campaign has made significant additions to undergraduate financial aid and graduate fellowships. In the Faculty of Arts and Sciences, donors gave more than $200 million in new endowed scholarships, ensuring that the College's need-blind admissions and need-based aid programs will be continued into the future while allowing a 20% increase in the per-student financial aid package. In the graduate and professional schools, fellowships have been raised and debt-forgiveness programs have been augmented.

Unrestricted gifts allow the President or dean discretion on how to direct the funds. These gifts reflect alumni confidence in Harvard's leadership and support the University's ongoing need for flexibility in assigning funds to emerging academic initiatives that would not be otherwise supported.

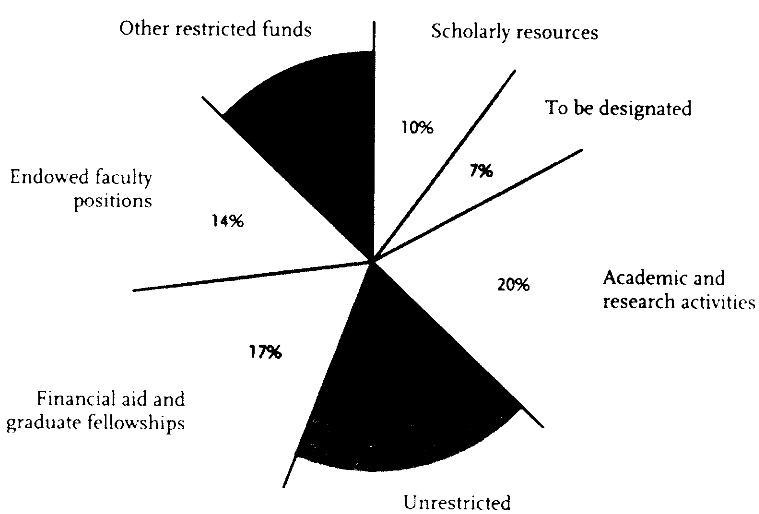
In addition to strengthening financial aid, the Campaign has enabled the University to devote new resources to all aspects of its educational programs. Guided by an ongoing University-wide planning process, these investments have advanced progress in the sciences, the humanities, a wide range of interdisciplinary initiatives, international studies, the educational uses of information technology, and the undergraduate experience.

Examples of these investments take many forms. The Campaign has supported science initiatives as varied as pursuing basic research in the neurosciences, combating AIDS, and constructing new facilities. The humanities disciplines have benefited from the intellectual opportunities afforded by gathering departments at the Barker Center. Across faculties, interdisciplinary initiatives tackle subjects ranging from the human mind to human rights.

The international dimension of the curriculum has been expanded through major new endowment gifts to the Weatherhead Center for International Affairs and the Davis Center for Russian Studies; the creation of new centers and programs relating to regions from Asia to Africa; and the opening of the first of the Business School's international research centers.

The Campaign has also allowed the University to develop the educational potential of recent advances in information technology — advances that are having a profound effect on all education, and especially on research universities. Harvard has now invested heavily in creating both the basic infrastructure and the educational initiatives made possible by new technology.

CAMPAIGN GIFTS BY DESIGNATION



The undergraduate experience has been enhanced with the addition of 25 new faculty positions, reduction of section size by 10%, and strengthening of the core curriculum. There has been renewed focus on facilities and programs that are central to undergraduate life, including the renovation of freshman dormitories, the creation of Loker Commons, and the development of unrestricted funds for women's athletics.

Private philanthropy has become a mainstay for universities seeking to remain at the forefront of teaching and research. The contributors to the University Campaign affirmed Harvard as a place where the most promising students and the most talented faculty come together and are provided with the resources to do their best work. It is also clear that donors shared President Rudenstine's vision of what the entire University could accomplish by working together. We are deeply grateful that these generous alumni and friends have made it possible for Harvard to pursue its vital mission into the new century.
Vice President for Alumni Affairs and Development
Thomas M. Reardon

These initiatives testify to the scope and scale of the improvements that Harvard has been able to make thanks to the generosity of alumni and friends. Their impact will help transform the experience of Harvard students and faculty for generations to come.

Review of endowment results

Harvard's endowment provides a strong base of support for the University's mission. Now a collection of more than 8,800 separate funds, most of which were established to sustain specific schools or initiatives, the endowment has grown over the centuries thanks to the generosity of alumni and friends. The current University Campaign has significantly advanced Harvard's ability to enhance learning and create new knowledge.

A STRONG ENDOWMENT

A strong endowment is essential to ongoing growth and innovation in Harvard's schools and to widening access to a Harvard education through augmented financial aid. Active fundraising and wise investment have helped grow the Harvard endowment, and gains from these combined sources are now being deployed to reduce the rate of tuition increases, add to financial aid, fund new faculty positions, improve the physical plant and resources for learning, and finance new academic initiatives.

Harvard is now in the final phase of the University Campaign, which surpassed its $2.1 billion goal months before its close, creating a high-water mark in the history of philanthropy for higher education. Thanks to the Campaign's success, and to an extensive and ongoing University-wide planning process, Harvard has made significant new investments in all aspects of its educational programs and has increased the availability of financial aid, helping to assure the accessibility of a Harvard education to all students who are admitted. Gifts to endowment in fiscal 1999 were $243.3 million, an amount that will generate close to $11 million of annual income to the University.

Harvard's endowment provides significant support to the University's annual budget. It must also grow in line with Harvard's expenses in order to provide adequate support for future generations. Growth comes from two sources: investment returns and gifts from generous donors. Fortunately, both returns and gifts have exceeded expectations over the past five years.
Harvard Management Company President and CEO
Jack R. Meyer

REAL ENDOWMENT GROWTH

	Compound annual rate of growth			
	1974–82	1983–91	1992–99	1974–99
Total general investment return	8.8%	11.7%	17.8%	**13.5%**
Average per unit income distributed as a % of unit value	(5.1)	(4.2)	(4.2)	**(4.5)**
Total return reinvested	3.7	7.5	13.6	**9.0**
Capital additions	3.0	1.7	1.8	**2.3**
Total growth in endowment	6.7	9.2	15.4	**11.3**
Inflation rate	(8.9)	(4.0)	(2.5)	**(5.0)**
REAL ENDOWMENT GROWTH	**(2.2%)**	**5.2%**	**12.9%**	**6.3%**

Performance Overview

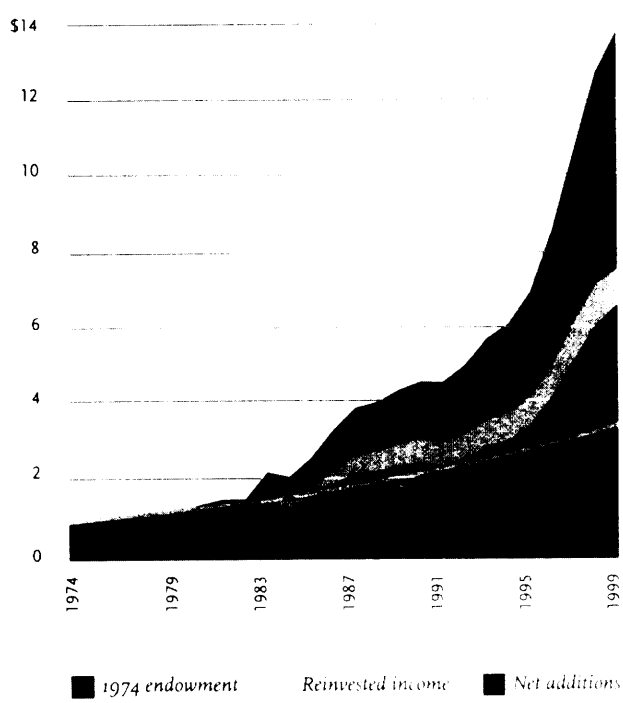
Harvard Management Company (HMC) maintains responsibility for investment of the endowment. The following review of the endowment's performance in fiscal year 1999 is complemented by the *Annual Report of the Harvard Management Company*, beginning on page 23, which analyzes the year's performance in detail and discusses HMC's investment philosophy.

In fiscal 1999, total return on endowment was 12.2%, and the market value of the endowment grew from $13.3 billion to $14.5 billion. The change in market value includes all endowment activity — appreciation on investments, funds distributed to schools and departments for operations, new gifts and pledges, additions to endowment made by departments from unrestricted balances and gift balances, and the deployment of endowment appreciation for specific purposes approved by the Corporation.

The University's endowment spending policy aims to maintain the purchasing power of the endowment while providing a reliable stream of income for operations. Based on this policy, Harvard seeks to distribute between 4.5% and 5% of the endowment's market value annually. Since 1971, the average annual distribution has been 4.5%, although the spending rate fell to less than 4% for the three years prior to 1998 because the endowment appreciated so significantly during that period. The Corporation approved larger than usual increases in the distribution for fiscal 1998, 1999, and 2000 in order to achieve the desired spending rate. In 1999, Harvard distributed $420.1 million of endowment income, or 23.5% of total revenue, for operations.

Endowment Growth*

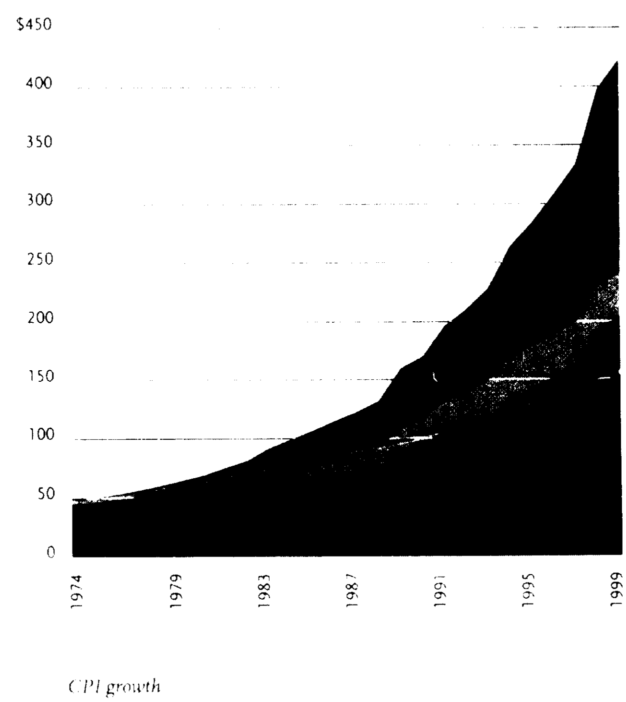
In billions of dollars



* *To allow for comparability with years prior to fiscal year 1995, this chart does not include pledge balances and interests in perpetual trusts.*

Endowment Income Distributed

In millions of dollars



Review of capital activities

Harvard carries out its educational mission in more than 500 buildings on both sides of the Charles River and beyond. The quality of academic programs and campus life depends on the development, renewal, and maintenance of these capital assets. Through prudent planning, and with sensitivity to the adjacent communities of Cambridge and Boston, the University is engaged in continuous improvement of its physical environment.

Approach to capital issues

Harvard's approach to capital issues balances new construction with renovation and renewal in the context of an historic urban environment. The University has established guidelines for the renewal of its physical plant to ensure that faculties and departments recognize and plan for the costs of maintaining their existing facilities. Currently, the University's guidelines recommend that, on a five-year rolling-average basis, renewal spending plus additions to building reserves should equal 2% of replacement value. During the five-year period between fiscal year 1995 and fiscal year 1999, the University's combined spending and savings for renewal averaged 2.5% of replacement value. Changes to the guidelines, which will become effective in fiscal 2000, include renewal targets that are tied to the useful lives of buildings. In place of an institution-wide 2% renewal benchmark, renewal targets will be calculated for each school based on its mix of facilities and the age and type of buildings in its portfolio of property. These new targets, which should also be viewed as benchmarks, will range from 2% to 3%.

One way that Harvard evaluates the effectiveness of these targets is to look at the ratio of net replacement cost — after accumulated depreciation — to the total replacement cost of its facilities. For the past two fiscal years this ratio has been 70%, a percentage that indicates that Harvard's facilities are well maintained. The University will work to achieve similarly high ratios in the future.

The physical plant

The University's physical plant encompasses 17.3 million square feet of space. Not only is sheer size a challenge, but Harvard's schools and departments have diverse space needs and management issues. About one-third of the institution's total space, or 5.7 million square feet, is devoted to housing students. Offices and classrooms occupy 3.4 million square feet; laboratories, 2.8 million square feet; and libraries, 1.4 million square feet. Many of these facilities have special requirements for security, energy efficiency, accessibility, or 24-hour use. The physical plant had a replacement value of $4.2 billion at the end of fiscal 1999.

Harvard's total capital outlay for the fiscal year 1999, reflecting increased investments in the physical plant, was $160.3 million for approximately 295 active capital projects, compared with $93.4 million during 1998. For additions placed in service in fiscal 1999, the schools spent 34% on laboratories, classrooms, and offices; 29% on housing; 32% on libraries and museums; and 5% on athletic and other facilities. Funding applied to capital projects in fiscal 1999 included 47% from unrestricted balances, 23% from endowment, 16% from gifts, and 14% from debt. The ability to debt-finance capital projects has been very important to Harvard since the early 1980s. It has allowed the University to renew and improve its facilities and to pay for those improvements over their useful lives. Harvard's outstanding debt at the close of fiscal year 1999 was $1.16 billion, compared with $1.14 billion at the close of the prior year.

NEW CONSTRUCTION

New construction accounted for 41.8% of the University's capital expenditures during fiscal 1999. For most of the last decade, expenditures for new construction averaged less than one-third of total capital investments. Generous gifts have provided the resources for much of Harvard's new construction activity.

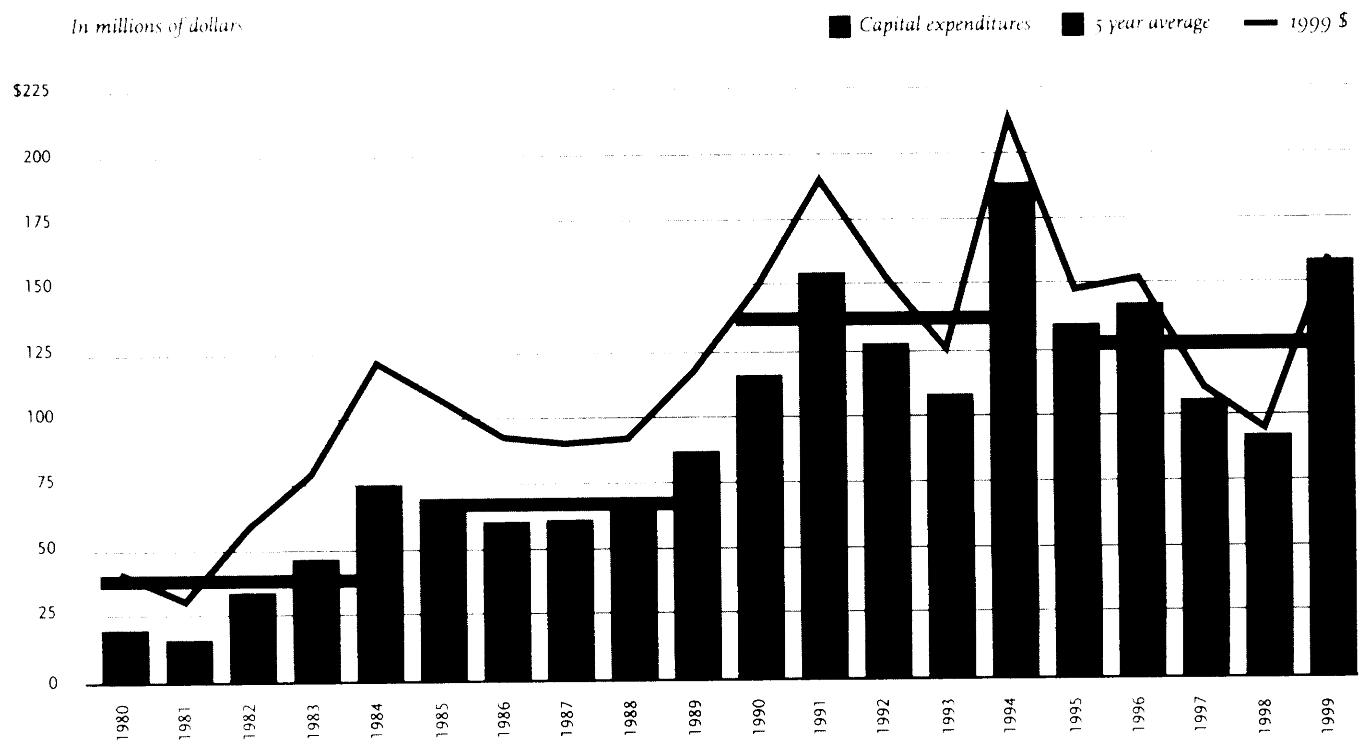
During 1999, work was completed on the Faculty of Arts and Sciences' Maxwell Dworkin building, a state-of-the-art facility for research and teaching in computer science and electrical engineering. The new building, which meets the burgeoning student interest in these fields, also strengthens and enhances the two disciplines by bringing together 22 formerly dispersed faculty members in a collaborative environment and providing space for eight new faculty appointments.

Currently under construction is the Naito Laboratory, which will link Converse and Mallinckrodt laboratories. The complex will augment the facilities for research and teaching in chemistry and chemical biology, and will enable the understaffed department to add faculty.

The Business School is also benefiting from major new construction projects. In April, McArthur Hall was dedicated. This building, which creates a physical identity for the Executive Education Program, provides optimal accommodations for 160

ANNUAL FACILITY EXPENDITURES

In millions of dollars



participants and 10 guest rooms for program visitors, together with a reception area, program offices, and associated support space. Earlier in the year, construction commenced on the Spangler Center, which will enhance the out-of-the-classroom experience for MBA students through a range of activities and amenities that will bring students together informally, helping them to build an effective community and long-lasting relationships.

Renovation and Renewal

The University's annual capital expenditures reflect both a commitment to preserve its plant and a concerted effort to reuse existing space to meet new programmatic needs.

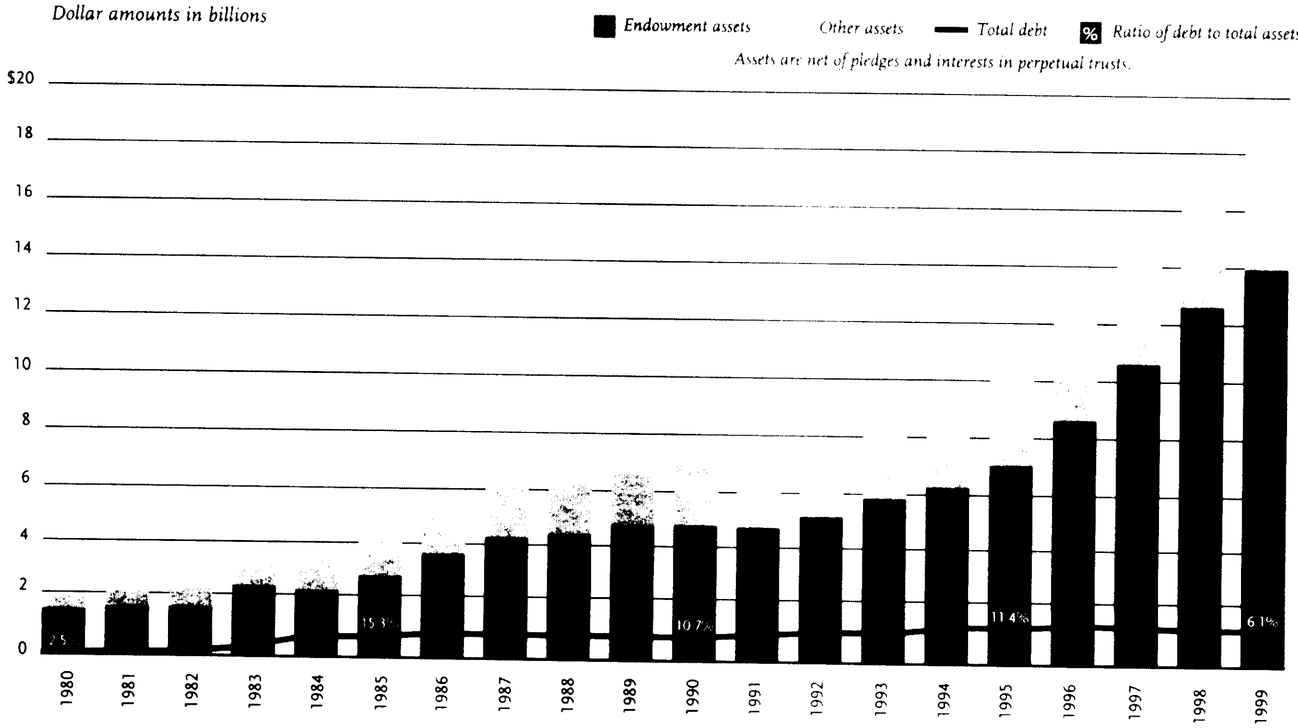
The most visible new renovation project is the crowning of Memorial Hall with a tower to replace the one destroyed by fire in 1956. The addition will replicate the tower as it existed between 1878 and 1897, when a bell and four clock faces were added. The tower will be constructed, as its predecessor was, without sealants, using the original materials of sandstone, slate, and copper. Work has begun on the Widener Library renewal project, which will modernize systems, add space, and, most importantly, help protect and preserve the collection. The renovation will include adding several levels of functional space in the light court at the library's center without altering the flow of natural light into the Widener Memorial Room.

In an innovative renovation, the Linden Street squash courts, rendered obsolete by the opening of the new Murr Center, are being transformed into studio art space. Students, teaching assistants, and visiting artists will make use of the new studios, freeing the Sert Gallery in the Carpenter Center for the Visual Arts for its former use as an exhibition space.

The Medical School's Countway Library is undergoing a comprehensive renovation to improve its services and update its technology. Two floors

Comparison of debt to total assets

Dollar amounts in billions



were completed during fiscal 1999. In June, Rare Books and Special Collections opened its doors in climate-controlled space that features appropriate storage, a reading room with wired workstations, and changing exhibitions that are open to the public.

The Law School tackled three major renovation projects in 1999. Thanks to a $3 million upgrade, two 160-person classrooms in Langdell Hall are equipped with new acoustics, lighting, desks, ergonomic chairs, audio-visual technology, and Internet access at every seat. Areeda Hall is undergoing a $10 million renovation that will add 12 faculty offices, a seminar room, and several staff offices as well as central air conditioning and a new sprinkler system. In the first phase of the renovation of Austin Hall, exterior masonry and roof repairs were completed and major mechanical systems were relocated.

I believe stronger and better partnerships can, and must, be created among the private sector, government, and our not-for-profits, such as Harvard. Each of us may be involved with just one separate institution, or perhaps a few. But we all know that, fundamentally, communities do not work, cities do not work, and each of our own separate institutions will not work, unless we have a large and broader shared vision and design, and a commitment to doing what each of us can appropriately do, working together.
President Neil L. Rudenstine

Annual report of the Harvard Management Company

Harvard Management Company (HMC), *a wholly owned subsidiary of Harvard University, was founded in 1974 to manage the University's endowment, pension assets, working capital, and deferred giving accounts.* HMC *is governed by a Board of Directors that is appointed by the President and Fellows of the University.*

HMC *currently manages $17.7 billion, of which $15.9 billion resides in the General Investment Account* (GIA), *a pooled fund that consists primarily of endowment assets. The information presented below relates to the* GIA.

THE POLICY PORTFOLIO

The cornerstone for the management of the GIA is the Policy Portfolio, the long-term asset mix that is most likely to meet the University's long-term return goals with the appropriate level of risk. It serves as the benchmark against which the performance of the actual portfolio is measured. The components of the Policy Portfolio for fiscal 1999 are shown below:

Domestic equities	32%
Absolute return	4
Foreign equities	15
Emerging markets	9
High-yield securities	2
Commodities	5
Real estate	7
Private equities	15
Domestic bonds	11
Foreign bonds	5
Cash	(5)
TOTAL	**100%**

Several points about the Policy Portfolio are worth noting. First, it is a well-diversified portfolio with an attractive expected return-to-risk ratio. It includes a higher allocation to foreign securities and commodity-based assets and a lower allocation to domestic fixed-income assets than the typical institutional fund. Second, while performance will be measured against the Policy Portfolio, the actual asset mix in the portfolio may differ from the Policy Portfolio at any point in time. For instance, if domestic equities are perceived to be overvalued, the actual portfolio may hold only 26% in domestic equities compared with the 32% weight in the Policy Portfolio. If these tactical asset allocation decisions are correct, on balance, the actual portfolio will tend to outperform the Policy Portfolio. Also, if HMC succeeds in outperforming the benchmarks for the individual asset classes (for example, the Wilshire 5000 within the domestic equity sector), the actual portfolio will outperform the Policy Portfolio. The Policy Portfolio is frequently reviewed and modifications will be made periodically in light of experience and changing circumstances. For instance, effective July 1, 1999 (fiscal 2000), the policy allocation to domestic equities was reduced to 24%, the cash allocation was increased from negative 5% to 0%, and a separate allocation of 4% was established for inflation-indexed bonds.

FISCAL 1999 INVESTMENT RESULTS

Total return on the GIA for the year ended June 30, 1999 was 12.2%. This figure is net of all fees and expense and compares with a 18.9% return on the Policy Portfolio. Most of the underperformance was due to private equity — specifically to our under-representation in the venture capital sector of the private equity universe. This underweighting has not been intentional; we simply have been unable to place as much money as we would like with the top venture capital funds. While we have positions in most of the top venture funds, strong demand limits our allocations. When venture capital results surged in the fourth quarter of fiscal 1999 due to internet-related IPOs, we lagged the benchmark by a substantial margin.

The table below shows total return on the GIA for each of the past ten years. Four indices are shown for comparison. The Composite Index is the Policy Portfolio for fiscal years 1992 through 1999 and a mix of 65% domestic equities and 35% domestic bonds for previous years. The S&P 500 is a broad index of domestic equities. The Salomon Broad Investment Grade Index (SBIG) is an index of domestic bond returns. The Europe, Australia, Far East Index (EAFE) is an index of non-U.S. equities.

TOTAL RETURN

Fiscal year	Harvard GIA*	Composite index	S&P 500	SBIG	EAFE
1990	7.5%	13.3%	16.4%	7.7%	3.2%
1991	1.1	8.6	7.4	10.8	(11.2)
1992	11.8	10.3	13.5	14.2	(0.3)
1993	16.7	12.7	13.6	12.0	20.7
1994	9.8	6.8	1.4	(1.2)	17.3
5-YEAR ANNUAL RATE	**9.3**	**10.3**	**10.3**	**8.6**	**5.3**
1995	16.8	17.2	26.1	12.6	1.9
1996	26.0	22.3	26.1	5.0	13.6
1997	25.8	20.0	34.7	8.2	13.2
1998	20.5	17.1	30.2	10.6	6.4
1999	12.2	18.9	22.7	3.1	7.9
5-YEAR ANNUAL RATE	**20.1**	**19.1**	**27.9**	**7.8**	**8.5**
10-YEAR ANNUAL RATE	**14.6%**	**14.6%**	**18.8%**	**8.2%**	**6.9%**

* *Net of all fees and expenses*

Results by asset class

The following section discusses the investment management philosophy for each of the asset classes of the General Investment Account as well as fiscal 1999 investment results.

Domestic equities In fiscal 1999, the domestic equity program returned 25.8% compared with 21.3% for the domestic equity benchmark. Two internal strategies are employed in the domestic equity program. One focuses on stock selection. A team of eight analysts and portfolio managers attempts to identify, through fundamental analysis, companies within an industry sector that are over- or undervalued. Because industry weightings are kept close to the benchmarks, the returns generated by the stock selection process can be isolated. This stock selection strategy outperformed its benchmark by 3.9% in fiscal 1999.

A second strategy involves arbitrage strategies — merger arbitrage, convertible arbitrage, and pairs trading. These strategies were highly successful in 1999, returning 32.5% compared with 22.7% for its benchmark. Two external managers, retained to manage small-capitalization equities, underperformed their benchmarks in fiscal 1999.

Absolute Return Two external managers are employed to provide positive returns without regard to a specific security index. These managers typically focus on merger arbitrage, convertible arbitrage, pairs trading, and balance sheet arbitrage with a sprinkling of absolute value trades. Ideally, these managers will be sufficiently hedged to generate positive returns in either up or down markets. In fiscal 1999, one absolute return manager exceeded the benchmark return while the other fell well short.

Foreign equities The foreign equity program returned 11.5% in fiscal 1999, compared with 6.5% for the foreign equity benchmark. One portion of the internally managed foreign equity portfolio focuses on arbitrage possibilities, much like the arbitrage strategy for domestic equities. This strategy outperformed the benchmark by 18.6%. A second segment is indexed to the EAFE Index, with incremental returns earned by lending securities. This strategy

General Investment Account asset allocation

The table below shows the breakdown by asset category of the GIA as of June 30, 1999 and 1998.

	June 30, 1999		June 30, 1998	
	$ Millions	Percent	$ Millions	Percent
Domestic equities	$ 3,530	22.2%	$ 4,765	33.1%
Absolute return	871	5.5	n/a	n/a
Foreign equities	2,317	14.5	2,175	15.1
Emerging markets	1,462	9.2	1,114	7.7
High-yield securities	360	2.2	361	2.5
Commodities	759	4.8	623	4.3
Total	9,299	58.4	9,038	62.7
Real estate	1,282	8.1	1,214	8.4
Private equities	2,132	13.4	1,460	10.1
Total	3,414	21.5	2,674	18.5
Domestic bonds	1,569	9.9	1,634	11.3
Foreign bonds	684	4.3	389	2.7
Cash	945	5.9	683	4.8
Total	3,198	20.1	2,706	18.8
TOTAL	**$15,911**	**100.0%**	**$14,418**	**100.0%**

slightly outperformed in 1999. Finally, two external managers are employed: one outperformed by 3.5%, and the other underperformed by 1.9%.

EMERGING MARKETS Four strategies are used to manage assets in the emerging market sector — countries in which the capital markets are smaller and less well-developed than those in the EAFE Index. The first employs an internal fund that buys closed-end funds selling at sharp discounts to net asset values. This fund performed well in fiscal 1999, outperforming its benchmark by 4.4%. The second strategy employs an external manager, which underperformed its benchmark by 2.1%. Third, a small portion of commitments to emerging markets is in private equity funds. Finally, roughly 20% of Harvard's commitment to emerging markets is in emerging market debt. This portfolio is managed internally. Both the private equity and emerging market debt portfolios sharply underperformed their benchmark in fiscal 1999. Overall, emerging markets underperformed its benchmark by 17.2%.

HIGH-YIELD SECURITIES One-half of the high-yield funds is managed internally, with an emphasis on flexibility and on situations where debt securities appear to be incorrectly valued. The internal portfolio outperformed its benchmark by 4.3% in fiscal 1999. An external manager concentrates on the bankruptcy sector of the high-yield market and outperformed the bankruptcy index by 5.7%.

COMMODITIES The commodity portfolio returned a negative 8.0% in fiscal 1999 compared with the benchmark return of negative 1.9%. The primary strategy in the commodity portfolio, much like the other publicly traded portfolios, is to discover and exploit mispricings among similar securities. Timber properties also are held in the commodities portfolio and generated slightly negative returns due to price decreases.

REAL ESTATE The real estate portfolio returned 6.6% in 1999. The benchmark for real estate, a broad index of real estate properties adjusted for leverage, was 17.1%. The real estate benchmark appears to be slow in adjusting to less ebullient conditions in the commercial real estate market. When it does adjust over the next year or two, the real estate portfolio likely will make up for the fiscal 1999 shortfall.

PRIVATE EQUITIES The private equity portfolio returned 29.2% in fiscal 1999 compared with 56.9% for the benchmark, a broad index of returns from private equity funds. At the end of fiscal 1999, the private equity portfolio consisted of roughly 60 externally managed private equity partnerships. As mentioned earlier, the key element in the underperformance was underrepresentation in the venture capital portion of the private equity markets.

DOMESTIC BONDS The domestic bond portfolio returned 1.3% in fiscal 1999 compared to 1.0% for the benchmark. The entire domestic bond portfolio is managed internally with a focus on arbitrage situations — the opportunity to buy relatively cheap securities and simultaneously sell overvalued securities with similar characteristics. Since the overall maturity structure and duration of the portfolio is kept close to the benchmark index, interest rate movements typically have little influence on relative performance.

FOREIGN BONDS The foreign bond portfolio returned 5.2% in fiscal 1999 compared with the return on the J.P. Morgan non-U.S. Bond Index of 4.3%. As with domestic bonds, the emphasis is on arbitrage. Duration and country allocation do not vary substantially from the benchmark.

One of the most significant academic applications of information technology across the University is the electronic catalogue of the 13 million volumes in the collections of Harvard's 92 libraries.

Balance sheets

In thousands of dollars	1999	1998
ASSETS:		
Cash and cash equivalents *(Note 13)*	**$ 416,511**	$ 803,939
Working capital investments, at market *(Notes 13 and 14)*	**1,494,683**	818,961
Receivables *(Note 6)*	**210,663**	158,209
Prepayments and deferred charges	**103,655**	78,435
Notes receivable:		
Students *(Note 4)*	**185,602**	225,578
Faculty and staff	**70,562**	68,692
Other	**21,105**	20,496
Total notes receivable	**277,269**	314,766
Pledges receivable *(Notes 2 and 7)*	**495,478**	450,354
Facilities *(Note 8)*:		
Replacement cost	**4,197,699**	4,031,775
Accumulated replacement cost depreciation	**(1,201,008)**	(1,169,572)
Net replacement cost	**2,996,691**	2,862,203
Adjustment to historical cost	**(1,363,452)**	(1,208,026)
Net historical cost	**1,633,239**	1,654,177
Escrowed bond investments *(Note 9)*	**18,950**	18,950
Interests in perpetual trusts held by others *(Note 10)*	**315,216**	225,217
Long-term investments, at market *(Notes 2, 13 and 14)*	**14,811,090**	13,561,452
TOTAL ASSETS	**19,776,754**	**18,084,460**
LIABILITIES:		
Accounts payable	**201,270**	231,606
Deposits and other liabilities *(Note 11)*	**238,108**	226,336
Liabilities due under life income fund agreements *(Note 11)*	**244,294**	250,467
Bonds and notes payable *(Note 9)*	**1,162,514**	1,142,359
Pension and other accrued retirement obligations *(Note 18)*	**206,715**	175,371
Government loan advances *(Note 4)*	**43,422**	39,677
TOTAL LIABILITIES	**2,096,323**	**2,065,816**
NET ASSETS	**$17,680,431**	**$16,018,644**

	Unrestricted	Temporarily restricted	Permanently restricted	1999	1998
NET ASSETS:					
General Operating Account *(Notes 2 and 19)*	$ 1,866,751	$ 794,380	$ 59,250	**$ 2,720,381**	$ 2,382,673
Endowment *(Note 10)*	2,169,336	9,743,153	2,623,186	**14,535,675**	13,278,938
Life income funds *(Note 11)*	0	123,480	300,895	**424,375**	357,033
TOTAL NET ASSETS	**$4,036,087**	**$10,661,013**	**$2,983,331**	**$17,680,431**	**$16,018,644**

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

Statements of changes in net assets with General Operating Account detail

with summarized financial information for the year ended June 30, 1998

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	1999	1998
REVENUE:					
Student income:					
Undergraduate program	$ 160,798			$ **160,798**	$ 154,372
Graduate programs	205,673			**205,673**	197,848
Board and lodging	80,092			**80,092**	77,607
Continuing education and executive programs	129,355			**129,355**	115,490
Scholarships applied to student income *(Note 4)*	(109,944)			**(109,944)**	(96,424)
Total student income	465,974	0	0	**465,974**	448,893
Sponsored research support *(Note 5)*:					
Federal government — direct costs	214,779			**214,779**	206,426
Federal government — indirect costs	86,738			**86,738**	79,385
Non-federal government — direct costs	22,185	65,722		**87,907**	78,541
Non-federal government — indirect costs	8,307	3,872		**12,179**	9,932
Total sponsored research support	332,009	69,594	0	**401,603**	374,284
Gifts for current use *(Note 12)*	50,076	62,428		**112,504**	107,699
Investment income:					
Endowment income distributed for operations *(Note 10)*	137,209	282,878		**420,087**	394,447
Income on working capital investments distributed for operations	56,753	2,269		**59,022**	46,914
Interest received on student, faculty and staff loans	17,166			**17,166**	21,282
Total investment income	211,128	285,147	0	**496,275**	462,643
Other operating income *(Note 15)*	311,165			**311,165**	285,749
Net assets released from restrictions *(Note 2)*	389,323	(389,323)		**0**	0
TOTAL REVENUE	**1,759,675**	**27,846**	**0**	**1,787,521**	**1,679,268**
EXPENSES:					
Salaries and wages	715,165			**715,165**	661,638
Employee benefits *(Note 18)*	154,713			**154,713**	145,657
Scholarships and other student awards *(Note 4)*	30,831			**30,831**	28,962
Supplies and equipment	204,993			**204,993**	184,889
Space and occupancy	191,595			**191,595**	176,185
Provision for replacement of facilities *(Note 8)*	111,977			**111,977**	90,635
Other expenses *(Note 17)*	374,838			**374,838**	341,548
TOTAL EXPENSES	**1,784,112**	**0**	**0**	**1,784,112**	**1,629,514**
NET REVENUE/(DEFICIT), including provision for replacement of facilities	**(24,437)**	**27,846**	**0**	**3,409**	**49,754**
OTHER PROVISIONS AND CREDITS:					
Historical cost depreciation (in excess of) / less than provision for facilities replacement *(Note 8)*	(69,277)			**(69,277)**	44,939
Change in appreciation, net of operating distribution	125,327	3,130		**128,457**	214,601
Change in undistributed general investment income	81,501	146,234		**227,735**	(75,408)
Other changes *(Note 8)*	0			**0**	67,971
TOTAL OTHER PROVISIONS AND CREDITS	**137,551**	**149,364**	**0**	**286,915**	**252,103**
CAPITAL CHANGES:					
Net increase in pledge balances *(Note 7)*		25,026		**25,026**	36,020
Capital gifts for loan funds and facilities *(Note 12)*		13,319	1,094	**14,413**	41,718
Transfers between General Operating Account and endowment	(9,074)	14,859	(151)	**5,634**	(18,916)
Designated endowment used to finance facilities	2,311			**2,311**	1,247
Non-operating net assets released from restrictions *(Note 2)*	29,729	(29,729)		**0**	0
TOTAL CAPITAL CHANGES	**22,966**	**23,475**	**943**	**47,384**	**60,069**
GENERAL OPERATING ACCOUNT NET INCREASE DURING THE YEAR	**136,080**	**200,685**	**943**	**337,708**	**361,926**
Endowment net increase during the year	171,487	812,297	272,953	**1,256,737**	2,117,177
Life income funds net increase during the year *(Note 11)*	0	22,391	44,951	**67,342**	73,793
NET INCREASE DURING THE YEAR	**307,567**	**1,035,373**	**318,847**	**1,661,787**	**2,552,896**
Balance, beginning of year	3,728,520	9,625,640	2,664,484	**16,018,644**	13,465,748
BALANCE, end of year	**$ 4,036,087**	**$ 10,661,013**	**$ 2,983,331**	**$ 17,680,431**	**$ 16,018,644**

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

Statements of changes in net assets of the endowment

with summarized financial information for the year ended June 30, 1998

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	1999	1998
Gifts for capital *(Note 12)*	$ 13,223	$ 57,110	$ 172,991	$ **243,324**	$ 186,582
Investment return *(Notes 10 and 13)*:					
Endowment income — general investments	61,057	329,905		**390,962**	194,349
Change in net realized and unrealized appreciation during year	175,903	956,675		**1,132,578**	1,968,286
Total investment return	236,960	1,286,580	0	**1,523,540**	2,162,635
Less: Endowment income distributed for operations	(66,113)	(353,974)		**(420,087)**	(394,447)
Plus: Decrease in undistributed general investment income	(30,623)	(165,990)		**(196,613)**	70,451
Net investment return reinvested	140,224	766,616	0	**906,840**	1,838,639
Transfers between endowment and General Operating Account:					
Unexpended income capitalized / (decapitalized)	(3,292)	(8,978)	3,204	**(9,066)**	5,456
Gifts capitalized	8,960	5,240	5,266	**19,466**	20,429
Other	7,212	(17,124)	(6,122)	**(16,034)**	(6,969)
Total transfers	12,880	(20,862)	2,348	**(5,634)**	18,916
Designated endowment used to finance facilities	(1,686)	(625)		**(2,311)**	(1,247)
Capitalization of life income funds *(Note 11)*	2,283	465	1,502	**4,250**	11,594
Net increase in endowment pledge balances *(Note 7)*		14,364	6,113	**20,477**	17,111
Net gain in perpetual trusts held by others *(Note 10)*			89,999	**89,999**	44,127
Other changes		(208)		**(208)**	1,455
Net assets released from restrictions *(Note 2)*	4,563	(4,563)		**0**	0
NET INCREASE DURING THE YEAR	**171,487**	**812,297**	**272,953**	**1,256,737**	**2,117,177**
Balance, beginning of year	1,997,849	8,930,856	2,350,233	**13,278,938**	11,161,761
BALANCE, end of year	**$ 2,169,336**	**$ 9,743,153**	**$ 2,623,186**	**$14,535,675**	**$ 13,278,938**

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

Statements of cash flows

In thousands of dollars	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 1,661,787	$ 2,552,896
Adjustments to reconcile increase in net assets to net cash (used by) / provided by operating activities:		
Provision for historical cost depreciation *(Note 8)*	181,254	45,696
Provision for pension and retirement obligations	31,796	26,901
Net gain in perpetual trusts held by others	(89,999)	(44,127)
Net gain on sale of investments	(826,831)	(1,847,890)
Net unrealized appreciation on investments	(544,450)	(469,328)
Gifts restricted for capital purposes	(282,668)	(312,441)
Change in operating assets and liabilities:		
Working capital investments	(675,722)	91,360
Accrued investment income *(Note 6)*	(54,765)	101,996
Other receivables *(Note 6)*	2,311	(9,245)
Prepayments and deferred charges	(25,220)	(1,485)
Pledges receivable *(Note 7)*	(45,124)	(53,047)
Accounts payable	(30,336)	45,677
Deposits and other liabilities	11,320	31,740
NET CASH (USED BY) / PROVIDED BY OPERATING ACTIVITIES	(686,647)	158,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Student, faculty, and staff loans made	(30,806)	(28,194)
Payment received on student, faculty and staff loans	68,912	46,947
Increase in other notes receivable	(609)	(3,730)
Proceeds from sale of investments	58,505,956	41,103,279
Purchase of investments	(60,255,409)	(46,712,073)
Net security loans and borrowings	1,871,096	5,705,785
Additions to plant *(Note 8)*	(160,316)	(10,690)
NET CASH (USED BY) / PROVIDED BY INVESTING ACTIVITIES	(1,176)	101,324
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	137,662	9,700
Debt repayment	(117,507)	(46,685)
Gifts restricted for capital purposes	282,668	312,441
Liabilities due under life income fund agreements *(Note 11)*	(6,173)	64,277
Government loan advances	3,745	1,388
NET CASH PROVIDED BY FINANCING ACTIVITIES	300,395	341,121
NET INCREASE / (DECREASE) DURING THE YEAR	(387,428)	601,148
Cash and cash equivalents, beginning of year *(Note 13)*	803,939	202,791
CASH AND CASH EQUIVALENTS, end of year *(Note 13)*	$ 416,511	$ 803,939

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

Notes to financial statements

1. University organization

Harvard University is a private, not-for-profit institution of higher education with approximately 6,700 undergraduate and 11,870 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, ten graduate schools, the Division of Continuing Education, a variety of research museums and institutes, and an extensive library system to support the teaching, learning and research activities of the Harvard community. The President and Fellows of Harvard College (the Corporation), a governing board of the University, has oversight responsibility for all of the University's financial affairs. The Corporation delegates to the schools and departments substantial authority for the management of their individual resources and operations.

2. Summary of significant accounting policies

The financial statements include the activities of Harvard University as a whole, including all significant affiliated organizations. During fiscal years 1999 and 1998, Harvard University and Radcliffe College operated under an agreement, subject to termination by either party, whereby student and other income, as well as certain administrative functions and most educational and service functions, are combined and included in Harvard's financial statements. Radcliffe's balance sheet accounts, as well as the operating accounts related to its other activities, are not included in Harvard's financial statements.

On April 20, 1999, Harvard and Radcliffe entered into an agreement to merge and thereby establish the Radcliffe Institute for Advanced Study as an integral part of Harvard University. This merger will be accounted for as a pooling of interests (see Note 20).

For financial reporting purposes, the University classifies resources into three net asset categories pursuant to any donor imposed restrictions. Accordingly, net assets of the University are classified and defined in the accompanying financial statements in the categories that follow.

2. Summary of Significant Accounting Policies continued

Permanently restricted net assets are subject to donor-imposed stipulations that they be invested to provide a permanent source of income to the University. Generally, donors of these assets require the University to maintain and invest the original contribution, but permit the use of some or all investment earnings for general or specific purposes.

Temporarily restricted net assets are subject to legal or donor-imposed stipulations that will be satisfied either by actions of the University, the passage of time, or both. These net assets include gifts donated for a particular purpose, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions such as portions of otherwise unrestricted capital appreciation, which must be reported as temporarily restricted in accordance with Massachusetts law.

Unrestricted net assets are not subject to donor-imposed restrictions. Funds invested in plant and funds functioning as endowment comprise 71% of unrestricted net assets. In addition, this category includes unrestricted gifts and endowment income balances, University-designated loan funds, and other unrestricted designated and undesignated current funds (see *Notes 10* and *19*).

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income to temporarily restricted fund and gift accounts is initially classified as temporarily restricted and reclassified as unrestricted when expenses are incurred for the intended purpose.

Unconditional promises to give (pledges) are reported as increases in the appropriate category of net assets in accordance with donor restrictions (see *Note 7*). Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Funds transferred to the University on behalf of a specific beneficiary are reported as agency transactions and are not included in the *Statements of Changes in Net Assets*. Where material, agency transactions are reported as offsetting sources and uses of funds in the *Statements of Cash Flows*.

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 1998, from which the summarized information was derived. Certain amounts presented in 1998 have been restated to conform to fiscal 1999 presentation.

3. Collections

The University has a vast array of museums and libraries housing priceless works of art, literary works, historical treasures and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

4. Student financial aid

Financial aid granted to students by Harvard totaled $222.8 million in 1999: $140.8 million of scholarships and other student awards, $17.7 million of loans, $43.7 million of term-time employment, and $20.6 million of aid from sponsors for which the University acts as an agent for the recipient. Of the $140.8 million of scholarships and student awards, $30.8 million represents stipends and other payments made directly to students, and $109.9 million represents financial aid applied to student income. More than 70% of this financial aid is funded by gifts, endowment income, and sponsored support.

In addition to administering institutional loan programs, the University participates in various federal loan programs. Notes receivable from students as of June 30, 1999 and 1998 were as follows (in thousands of dollars):

	1999	1998
Government insured loans	$ **90,009**	$ 132,926
Government revolving loans	**50,053**	47,734
Institutional loans	**45,540**	44,918
TOTAL STUDENT NOTES RECEIVABLE	**$ 185,602**	**$ 225,578**

Government insured loans are generally repaid over a ten-year period and earn interest at an adjustable rate that approximates the 90-day U.S. Treasury Bill rate plus 3.0%. Principal and interest payments on these loans are insured by the American Student Assistance Corporation and are reinsured by the federal government.

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled $43.4 million and $39.7 million at June 30, 1999 and 1998, respectively, and are classified as liabilities. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

Notes receivable under federally guaranteed student loan programs are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts.

5. Sponsored research

Direct expenditures funded by U.S. government sponsors or by institutions that sub-contract federally sponsored research to Harvard totaled $214.8 and $206.4 million in fiscal years 1999 and 1998, respectively. Approximately 90% of federal research support in the year ended June 30, 1999 was conducted by the Medical School, the Faculty of Arts and Sciences, and the School of Public Health. The University's principal source of federal research funds is the Department of Health and Human Services. Research grants and contracts awarded but not yet recorded approximated $166.0 million and $152.4 million as of June 30, 1999 and 1998, respectively.

Research grants and contracts normally provide for the recovery of direct and indirect costs. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. Predetermined indirect cost rates have been established for the Medical School, the School of Public Health and the University area through fiscal year 2002. Funds received for federally sponsored research activity are subject to audit.

6. Receivables

The major components of receivables as of June 30, 1999 and 1998 were as follows (in thousands of dollars):

	1999	1998
Investment income	$ 123,177	$ 68,412
U.S. Government, principally related to research	28,057	29,705
Non-federal sponsored research	9,260	6,995
Students	9,101	10,989
Other	41,068	42,108
TOTAL RECEIVABLES	**$ 210,663**	**$ 158,209**

7. Pledges Receivable

Unconditional promises to donate to the University in the future are recorded as pledges receivable in the year promised at the present value of expected cash flows, net of an allowance for unfulfilled pledges. Pledges receivable included in the financial statements as of June 30, 1999 and 1998 are expected to be realized as follows (in thousands of dollars).

	1999	1998
Within one year	$ 80,189	$ 71,886
Between one and five years	320,755	288,210
More than five years	191,883	182,512
Less: discount and allowance for unfulfilled pledges	(97,349)	(92,254)
PLEDGES RECEIVABLE	**$ 495,478**	**$ 450,354**

Pledges receivable have been designated for the following purposes:

	1999	1998
Gifts for current use	$ 104,909	$ 97,709
Non-federal sponsored research	77,986	55,328
Loan funds and facilities	32,904	38,115
General Operating Account balances	215,799	191,152
Endowment	279,679	259,202
PLEDGES RECEIVABLE	**$ 495,478**	**$ 450,354**

Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not estimated by management and are recognized as assets if and when the specified conditions are met.

8. Facilities

The University capitalizes and depreciates the major costs associated with acquiring, constructing, and renovating facilities. Land is presented at its original historical cost when known. Equipment and furniture are generally expensed when purchased.

In order to highlight and better quantify the scope and condition of the University's facilities, supplementary replacement cost data are presented on the face of the *Balance Sheets*, in the *Statements of Changes in Net Assets with General Operating Account detail*, and in the *Notes*.

The major categories of capitalized facility costs as of June 30, 1999 are summarized as follows (in thousands of dollars):

	Net historical value	Net additions, current year	Annual replacement cost depreciation	Estimated replacement value	Estimated useful life (in years)
Housing	$ 373,254	$ 34,806	$ 23,487	$ 1,029,197	35
Laboratories	336,336	13,064	48,902	1,273,121	*
Classrooms and offices	263,599	27,276	17,534	718,002	35
Libraries	68,242	36,698	8,102	354,443	35
Museums/assembly	85,590	1,883	5,983	261,916	35
Athletics	43,938	302	2,711	118,592	35
Service facilities	115,449	4,481	3,902	170,923	35
Other	189,383	545	1,356	204,578	35
Construction in progress	157,448	41,261	–	66,927	–
TOTALS	**$ 1,633,239**	**$ 160,316**	**$ 111,977**	**$ 4,197,699**	

Accumulated historical cost depreciation was $720.4 and $541.7 million at June 30, 1999 and 1998, respectively.

* *Estimated useful lives of components used for calculating historical cost depreciation range from 15 to 60 years.*

Harvard maintains a program of regularly planning for and estimating the cost of major maintenance and renovation of buildings. Replacement cost values and depreciation information have been developed in support of these efforts. This information is integral to planning, managing, and reporting the costs of maintaining the University's facilities. The replacement cost values shown in the preceding table represent reasonable estimates of the current cost to replace existing structures with facilities of comparable utility, or, in the case of historic structures, to reproduce them through modern methods. They do not purport to present the market value of facilities. These estimates are based on building use, on detailed records of the size, type, and quality of construction, and on relevant construction cost indices related to each of the University's buildings. Each building's effective age was developed using available information regarding building condition and acquisition or construction date, together with life expectancy guidelines. These estimates are periodically compared to detailed building surveys and appraisals and are updated annually to reflect inflation or deflation in construction costs.

The University calculates depreciation using the straight-line average remaining useful life method. In fiscal year 1999, the University changed the useful lives used in calculating replacement and historical cost depreciation. The useful lives of all non-research buildings were changed from 31 to 39 years in 1998 to 35 years in 1999. Research buildings were classified as wet and dry labs. The costs of each wet and dry lab were separated into the shell, roof, finishes, fixed equipment, and services, and these components were separately depreciated for historical cost purposes. For replacement cost depreciation, the weighted average life of the labs based on their components was used. The average life is 18 years for wet labs and 23 years for dry labs.

As a result of the change in useful lives, many buildings became fully depreciated. The University recognized the additional amounts of historical cost depreciation in fiscal year 1999, recording total historical cost depreciation of $181.3 million, an increase of approximately $130 million over what historical cost depreciation would have been under the former useful lives.

Replacement cost depreciation is charged to operations via a "provision for replacement of facilities". In order to reflect facilities costs at their historical value, the difference between replacement cost depreciation

($112.0 million for 1999 and $90.6 million for 1998) and historical depreciation ($181.3 million for 1999 and $45.7 million for 1998) has been included in the "other provisions and credits" section of the *Statements of Changes in Net Assets with General Operating Account detail.*

Certain University facilities are subject to restrictions as to use, structural modifications, and ownership transfer. During fiscal year 1998, the University sold its shares of common stock in MATEP, Inc., as well as its rights and obligations under user contracts. The net income from discontinued operations of $68.0 million is included in "other changes" in the "other provisions and credits" section of the *Statement of Changes in Net Assets with General Operating Account detail,* and is comprised of income from MATEP operations of $14.0 million and the gain on sale of $54.0 million.

9. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 1999 and 1998 are summarized as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One year average interest rate	Outstanding principal 1999	1998
TAX-EXEMPT BONDS AND NOTES PAYABLE:					
Variable-rate bonds and notes:					
Series J — Weekly	1985	18	3.6%	$ 207,400	$ 214,200
Series L — Commercial paper	1990	25	3.6	71,140	71,140
Series Q — Weekly	1997 - 1999	41	3.1	32,705	22,530
Total variable-rate			3.5	311,245	307,870
Fixed-rate bonds:					
Series A	1973	3	4.3	2,340	3,040
Series B	1974	15	5.5	15,400	15,940
Series C	1976	6	6.0	3,840	4,350
Series D	1977	8	5.0	5,185	5,700
Series M	1991	16	5.9	121,679*	125,451
Series N	1992	21	6.2	124,995*	128,665
Series P	1995	33	5.6	109,930	110,930
Total fixed-rate			5.9	383,369	394,076
TOTAL TAX-EXEMPT BONDS AND NOTES PAYABLE			**4.8**	**694,614**	**701,946**
TAXABLE BONDS AND NOTES PAYABLE:					
Commercial paper	Various		6.9	228,620	101,133
Fixed-rate bonds	1992	8	8.1	115,000	115,000
Eurobond — dollar	1996	0		0	100,000
Eurobond — pound sterling	1997	1	5.1	124,280	124,280
TOTAL TAXABLE BONDS AND NOTES PAYABLE			**6.7**	**467,900**	**440,413**
TOTAL BONDS AND NOTES PAYABLE			**5.6%**	**$ 1,162,514**	**$ 1,142,359**

**Series M and N principal are net of $6,271 and $1,730 of discounts, respectively.*

Fiscal year 1999 interest payments on a cash basis totaled $60.2 million, and fiscal year 1999 interest expense was $60.3 million. Excluding maturity of taxable commercial paper, scheduled principal payments for fiscal year 2000 are $143.4 million; for fiscal years 2000 through 2004 they total $228.3 million. As of June 30, 1999, the Series A, B, C, and D bonds were collateralized by deposits of securities with a market value in excess of the related aggregate requirement of $27.8 million. All tax-exempt bonds were issued through the Massachusetts Health and Educational Facilities Authority.

Debt service reserve funds are required to be maintained until the final maturity of certain bonds payable. These reserves are invested by the trustee in long-term, fixed-income securities, principally U.S. Treasury Notes. The reserves totaled $19.0 million at June 30, 1999 and 1998.

9. Bonds and Notes Payable (continued)

Based on quoted market prices, the estimated fair value, including accrued interest, of Harvard's bonds and notes payable as of June 30, 1999 and 1998 was $1,198.4 million and $1,194.2 million, respectively.

INTEREST-RATE EXCHANGE AGREEMENTS The University has entered into certain interest rate exchange agreements in order to manage interest costs or change the effective interest rate structure on its underlying debt issues. Each of these exchanges is collateralized, as described in *Note 14*. The interest rates in the preceding schedule reflect any applicable exchange agreements. Net interest expense incurred on these agreements is recorded as a component of interest expense on bonds and notes payable, which is included in "space and occupancy" expense in the *Statements of Changes in Net Assets with General Operating Account detail*.

The fair value of interest rate exchange agreements is the estimated amount that the University would have received or (paid), including accrued interest, to terminate the agreements on the date of the *Balance Sheets*, taking into account the creditworthiness of the underlying counterparties. The following table presents the notional amounts and fair values of interest rate exchange agreements (in thousands of dollars):

	1999		1998	
	Notional amount	Fair value	Notional amount	Fair value
Pay fixed rate / receive variable rate	$ 368,180	($10,481)	$ 319,800	($27,951)
Receive fixed rate / pay variable rate	124,280	(2,583)	124,280	(594)
TOTAL	**$ 492,460**	**($13,064)**	**$ 444,080**	**($28,545)**

10. Endowment Funds

Harvard's endowment consists of more than 8,800 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as either permanently restricted, temporarily restricted, or unrestricted, in accordance with donor specifications. Although funds functioning as endowment are not subject to permanent donor restrictions, the decision to spend their principal requires the approval of the Corporation. All but a small fraction of the endowment is invested in the pooled general investment account (see *Notes 13 and 14*).

The University is also the beneficiary of certain perpetual trusts held and administered by others. The estimated fair values of trust assets, which approximate the present values of expected future cash flows from the trusts, are recognized as assets and as gift revenue when the trusts are established.

10. ENDOWMENT FUNDS CONTINUED

Endowment funds as of June 30, 1999 and 1998 are summarized below (in thousands of dollars):

	1999				1998
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	$ 0	$ 8,491,590	$ 2,083,510	**$10,575,100**	$ 9,723,111
Funds functioning as endowment:					
Departmental funds	1,634,853	1,192,423	0	**2,827,276**	2,567,419
University funds	534,483	3,921	0	**538,404**	503,989
Pledge balances	0	55,219	224,460	**279,679**	259,202
Interests in perpetual trusts held by others	0	0	315,216	**315,216**	225,217
TOTAL	**$ 2,169,336**	**$ 9,743,153**	**$ 2,623,186**	**$14,535,675**	**$13,278,938**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution funded by dividend and interest income and by capital gains may vary significantly from year to year. Amounts withdrawn from endowment capital gains to fund the fiscal 1999 operating distribution totaled $225.7 million.

The portion of investment returns earned on endowment and distributed each year to support current operations is based on a rate (stated in dollars per unit) that is approved by the Corporation. This rate is not set based on a specific formula, nor is it directly tied to current investment returns. Rather, it reflects expectations about long-term returns and inflation rates, and seeks to maintain the distribution rate at between 4.5% and 5% of the market value of the endowment. The table below shows the total return on endowment for the past five fiscal years, as well as the distribution rate for the following fiscal years.

Endowment income capitalized to endowment principal is available to meet future spending needs, subject to the approval of the Corporation.

	Endowment investment returns (in thousands)				Distribution rate*	
Fiscal year	Interest and dividends	Net appreciation	Total return	Total return%	Per unit	As % of market value
1999	$ 390,962	$ 1,132,578	$1,523,540	12.2%	$ 30.15	4.0%
1998	194,349	1,968,286	2,162,635	20.5	23.14	3.3
1997	264,799	1,927,893	2,192,692	25.8	21.90	3.7
1996	273,281	1,539,182	1,812,463	26.0	18.56	3.8
1995	212,757	817,975	1,030,732	16.8	17.20	4.3
5-YEAR TOTAL	$ 1,336,148	$ 7,385,914	$8,722,062			

Since current year interest and dividends are used to fund the following year's distribution, these represent distribution rates for the following fiscal year.

11. Life Income Funds

As of June 30, 1999 Harvard held life income funds — pooled funds, gift annuities, and charitable remainder trusts — for approximately 2,590 donors. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to Harvard in accordance with donor intentions. When a trust is established, life income fund assets are recorded at fair market value, net of related liabilities for the present value of estimated future payments due to beneficiaries and net of obligations under charitable remainder trusts due to other institutions. At June 30, 1999, life income fund assets totaled $733.0 million, with the corresponding liability for amounts due beneficiaries of $244.3 million. Amounts due institutions of $64.3 million are included in "deposits and other liabilities" in the *Balance Sheet*. The changes in life income net assets for fiscal years 1999 and 1998 were as follows (in thousands of dollars):

	1999			1998
	Temporarily restricted	Permanently restricted	Total	Total
Gifts for capital *(Note 12)*	$ 11,452	$ 13,479	$ 24,931	$ 84,141
Investment return:				
Investment income	5,887	13,697	19,584	20,708
Change in net realized and unrealized appreciation	17,540	41,970	59,510	76,930
Total investment return	23,427	55,667	79,094	97,638
Payments to annuitants	(11,589)	(27,017)	(38,606)	(32,115)
Life income funds converted to endowment	(2,778)	(1,472)	(4,250)	(11,594)
Change in liabilities due under life income agreements	1,879	4,294	6,173	(64,277)
NET INCREASE DURING THE YEAR	**22,391**	**44,951**	**67,342**	**73,793**
Balance, beginning of year	101,089	255,944	357,033	283,240
BALANCE, end of year	**$123,480**	**$300,895**	**$424,375**	**$357,033**

12. Gifts

Gifts that are available for current purposes are classified as "gifts for current use." Gifts that have been restricted by the donor or designated by the Corporation for construction, endowment, or similar purposes are classified as "gifts for capital." Both gifts for current use and gifts for capital are classified as unrestricted, temporarily restricted, or permanently restricted in accordance with donor specifications.

Gifts for the years ended June 30, 1999 and 1998 are summarized as follows (in thousands of dollars):

	1999	1998
Gifts for current use:		
Current use gifts accounts	$112,504	$107,699
Support for non-federal projects	56,499	45,994
Total gifts for current use	169,003	153,693
Gifts for capital:		
Endowment funds	243,324	186,582
Life income funds	24,931	84,141
Loan funds and facilities	14,413	41,718
Total gifts for capital	282,668	312,441
TOTAL GIFTS	**$451,671**	**$466,134**

13. Investments

The University's investment holdings as of June 30, 1999 and 1998 are summarized in the following table (net of liabilities, in thousands of dollars).

	1999			1998
	Pooled general investments	Others	Total	Total
Short term investments *	$ 1,756,840	$ 154,354	**$ 1,911,194**	$ 1,622,900
Long-term investments:				
Endowment	13,881,832	58,948	**13,940,780**	12,794,519
Life income funds	134,851	598,099	**732,950**	664,770
Pension	71,460	0	**71,460**	64,237
Post-retirement health	28,401	0	**28,401**	0
Armenise	37,499	0	**37,499**	37,926
Total long-term investments	14,154,043	657,047	**14,811,090**	13,561,452
TOTAL INVESTMENTS	$ 15,910,883	$ 811,401	**$ 16,722,284**	**$ 15,184,352**

** Short term investments include working capital investments and cash and cash equivalents.*
Cash and cash equivalents consist principally of funds deposited in cash management accounts with maturities of fewer than 90 days.

The University employs a market value unit method of accounting for pooled general investments. Each participating fund enters and withdraws from the pooled investment account based on monthly unit market values. Changes in the market value of investments are distributed proportionately to each fund that participates in the investment pool. Net general investment income distributed during the year is allocated on a per unit basis to each participating fund.

The changes in the market value and income of participating units for the years ended June 30, 1999 and 1998 were as follows:

Other investments are managed separately from the pooled general investment account. These investments consist primarily of fixed-income securities, principally government securities and certificates of deposit held for the University's working capital needs, and various managed bond and equity portfolios in connection with life income funds. Those investments that are not readily marketable are carried at cost or at a nominal value. Income on other investments is recorded and distributed when received.

	1999	1998
Unit value at end of year	**$ 758.75**	$ 697.81
Unit value at beginning of year	**697.81**	589.36
Increase in realized and unrealized appreciation	**60.94**	108.45
Net income earned on general investments	**21.57**	10.64
TOTAL UNIT RETURN ON GENERAL INVESTMENTS	**$ 82.51**	**$ 119.09**
TOTAL UNIT RETURN PERCENTAGE USING MONTHLY COMPOUNDING	**12.2%**	**20.5%**

14. Pooled General Investments

The following are the significant accounting policies of the University related to pooled general investments:

A) Securities positions, options contracts, futures, forward contracts, interest-rate exchange agreements, and interest-rate cap and floor agreements are presented at market value based on trade date positions. Private equities, real estate and commodities consist primarily of investments which are not readily marketable. These investments are valued by the University under the direction of, and subject to approval by, the valuation committee of the Harvard Management Company Board of Directors. Investments are valued at estimated fair value assuming an orderly liquidation of the asset. Where applicable, independent appraisers and engineers are utilized to assist in the valuation. Limited partnership investments are valued utilizing the most current information provided by the general partner of the specific fund and reviewed by the University for reasonableness. Investments in publicly-traded securities, which are subject to restrictions limiting their salability, are discounted from the current public market price to levels that reflect the estimated cost of those restrictions.

B) The University amortizes bond premiums and accretes bond discounts where such expense or income is significant.

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed income, commodities, real estate, and private equity markets. The core investment portfolio is structured to mirror the market exposures defined by The Policy Portfolio and is considered to be "unhedged." (The Policy Portfolio is described in the *Annual Report of the Harvard Management Company*, which begins on page 23.) In addition, the University seeks to enhance the returns of certain asset classes through strategies designed to capture mispricings in specific financial instruments without changing the fundamental risk profile of the core investment account. These strategies generally involve several distinct but highly correlated financial instruments which are weighted to neutralize market risk. Depending on the characteristics of the financial instruments, the specific positions within a given strategy may be recorded on the asset or liability sections of the following table.

14. Pooled General Investments continued

The summarization of pooled general investment assets and liabilities as of June 30, 1999 and 1998 is as follows (in thousands of dollars):

	1999	1998
ASSETS:		
Investment securities:		
Domestic equity and convertible securities	**$ 3,217,770**	$ 4,659,631
Foreign equity and convertible securities	**2,253,393**	2,122,960
Domestic fixed-income securities	**2,585,884**	2,132,635
Foreign fixed-income securities	**99,288**	135,189
Emerging markets equity and debt	**1,461,597**	1,198,711
Absolute return	**870,549**	0
Private equities	**2,171,517**	1,568,248
Real estate	**1,492,748**	1,321,017
Commodities	**532,709**	342,500
Total investment securities	**14,685,455**	13,480,891
Positions purchased under hedge transactions:		
Equity and convertible securities	**5,109,842**	3,552,620
Fixed-income securities	**16,009,925**	13,515,441
Options	**514,807**	701,429
Commodities	**5,466**	25,671
Total positions purchased under hedge transactions	**21,640,040**	17,795,161
Collateral advanced under security borrowing agreements	**5,260,286**	6,055,562
Cash and short-term investments	**366,598**	682,599
Accounts receivable/(payable), net *	**594,004**	(341,191)
POOLED GENERAL INVESTMENT ASSETS	**42,546,383**	37,673,022
LIABILITIES:		
Positions sold, not yet purchased, under hedge transactions:		
Equity and convertible securities	**2,839,901**	3,097,436
Fixed-income securities	**4,054,730**	3,239,165
Options	**261,884**	105,902
Total positions sold, not yet purchased, under hedge transactions	**7,156,515**	6,442,503
Collateral held under security lending agreements **	**19,478,985**	16,812,613
POOLED GENERAL INVESTMENT LIABILITIES	**26,635,500**	23,255,116
POOLED GENERAL INVESTMENT NET ASSETS	**$ 15,910,883**	$14,417,906

* *As of June 30, 1999, accounts receivable and payable related to income and the sale and purchase of securities were $4,020,224 ($1,979,239 in 1998) and $3,426,220 ($2,320,430 in 1998), respectively.*

** *The minimum collateral the University requires by contract on each stock loan is 100% of the market value of the security loaned.*

The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. These include futures, options, interest rate exchange agreements, interest rate cap and floor agreements, and forward purchase and sale agreements, which are exchange traded or are executed over-the-counter. These instruments are primarily used in the strategies that enhance the returns of certain asset classes without increasing the market risk to the underlying asset class (see "hedged" market exposure in the tables below). The market risk of a strategy is influenced by the relationship between the financial instruments with off-balance sheet risk and the offsetting positions recorded on the balance sheet. The University controls market risk through the use of industry standard analytical tools which measure the market exposure of each position within a strategy. The strategies are monitored daily and positions are frequently adjusted in response to changes in the financial markets. Financial instruments with off-balance sheet risk are also used by the University to adjust the market exposure of a given asset class without disturbing the underlying instruments in the core investment portfolio (see "unhedged" market exposure in the following tables).

The following table summarizes the market exposure (expressed in cash market equivalents), net ending fair value, net average fair value and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 1999 (in thousands of dollars):

	Market exposure			Net ending fair value				
	Long unhedged	Long hedged	Short hedged	Unhedged	Hedged	Unrealized gain (loss) on related balance sheet positions	Net average fair value	Credit exposure
Equity futures	$353,470	$ 0	($2,064,438)	$15,838	($76,583)		($30,067)	$101,603
Equity options	0	4,327	(5,405)	0	1,822		1,158	27,080
Equity exchange agreements	613,532	107,486	(119,714)	3,732	1,098		14,358	0
Total equity instruments					(73,663)	107,031	(14,551)	
Fixed-income futures	158,202	1,804,587	(1,498,616)	(727)	(33,633)		(47,264)	26,462
Fixed-income options	0	4,142,208	(1,972,523)	0	(77,480)		174,362	25,911
Fixed-income forwards	0	1,648,151	0	0	17,516		7,827	13,726
Interest exchange agreements	72,415	29,828,766	(43,286,335)	(396)	1,059,586		(61,741)	133,430
Interest rate caps and floors	0	793,216	(716,888)	0	5,612		9,853	8,339
Total fixed-income instruments					971,601	(735,956)	83,037	
Commodity futures	111,916	42,847	(51,030)	(2,994)	(240)		(2,580)	33,374
Commodity options	0	56,802	(112,944)	0	7,811		5,872	7,877
Commodity exchange agreements	331,751	397,798	(337,403)	13,692	1,181		11,330	0
Total commodity instruments					8,752	(1,473)	14,622	
Currency forwards	555,695	3,302,943	(3,859,614)	(3,534)	6,837	(12,958)	4,650	10,251
Currency options	0	1,040,414	(444,068)	0	(31,063)	455	(13,908)	638
Private put agreements related to:								
Real estate investments	8,000	0	0	0	0	0	0	0
Private equity investments	0	0	0	0	0	0	0	0

The following table summarizes the market exposure (expressed in cash market equivalents), net ending fair value, net average fair value and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 1998 (in thousands of dollars):

	Market exposure			Net ending fair value				
	Long unhedged	Long hedged	Short hedged	Unhedged	Hedged	Unrealized gain (loss) on related balance sheet positions	Net average fair value	Credit exposure
Equity futures	$114,300	$ 44,230	($916,323)	($1,163)	($14,761)		($ 16,458)	$28,553
Equity options	0	0	0	0	0		4,197	0
Equity exchange agreements	623,578	54,620	(12,927)	49,016	390		16,774	0
Total equity instruments					(14,371)	(53,916)	4,513	
Fixed-income futures	7,658	948,956	(4,815,085)	(24)	(25,520)		(7,293)	41,745
Fixed-income options	0	5,365,921	(930,188)	0	318,575		108,380	6,394
Fixed-income forwards	0	3,805,337	(14,344)	0	8,760		15,960	6,711
Interest exchange agreements	292,527	13,891,486	(27,117,645)	7,059	(780,498)		(539,592)	34,104
Interest rate caps and floors	0	2,598,967	(2,429,199)	0	(2,562)		(3,545)	2,131
Total fixed-income instruments					(481,245)	233,436	(426,090)	
Commodity futures	79,997	1,913	(40,971)	1,804	(1,264)		(2,141)	25,000
Commodity options	0	146,500	(171,350)	0	7,489		8,179	7,617
Commodity exchange agreements	198,917	249,456	(154,104)	(3,854)	5,345		1,811	9,426
Total commodity instruments					11,570	(2,847)	7,849	
Currency forwards	585,972	3,207,522	(3,795,222)	1,434	(3,162)	3,162	13,112	21,331
Currency options	0	1,212,050	(505,550)	0	(2,192)	2,192	7,236	92
Private put agreements related to:								
Real estate investments	7,000	0	0	0	0	0	0	0
Private equity investments	0	0	0	0	0	0	0	0

Contractual and optional commitments are recorded on the balance sheet at market or fair value. The fair value of financial instruments with off-balance sheet risk is meaningful only when related to the unrealized gain/loss on the offsetting positions, if any, recorded on the balance sheet, and all realized gains and losses recorded since the inception of the strategy. Fair value is a function of the characteristics of the individual investment instruments and the length of time each instrument has been held. Futures contracts, for instance, are rolled over frequently, and as a result, would generally have minimal unrealized gains or losses at any one point in time. In contrast, interest rate exchange agreements may be held for the life of a strategy and may reflect significant unrealized gains and losses depending on the change in value since the inception of the contract. Accordingly, fair value is not an accurate reflection of market risk. A more appropriate indicator of market risk is the exposure of the financial instruments expressed in market risk equivalents. (For a detailed analysis of the market exposure of the portfolio at June 30, 1999, see the *Supplemental Information on Pooled General Investments* on page 52.)

Financial instruments with off-balance sheet risk necessarily involve counterparty credit exposure. The policy of the University is to require collateral to the maximum extent possible under normal trading practices. In the event of counterparty default, the University has the right to use the collateral to offset the loss associated with the replacements of the exchange agreements. The University enters into arrangements with only the most creditworthy banks and dealers. Specific credit limits have been established for each counterparty and are monitored and adjusted daily. The limits are developed based on the counterparty's creditworthiness, and on overall industry and other considerations, such as the length and legal structure of the contract, the type of collateral advanced, and historical volatility indicators. Credit exposures

14. Pooled General Investments continued

shown in the preceding tables primarily represent cash or securities advanced by the University to meet legal margin requirements in connection with future, forward, and option contracts.

The asset allocation of the University's portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate, market, sovereign and credit risks. The University anticipates that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

The University has entered into debt service put agreements in connection with its real estate and private equity investments. Under specific circumstances, these put agreements grant those who lend to certain investments held in these portfolios the right to sell senior secured loans to the University at a designated price. These put agreements have been valued by the University under policies previously described. The University has also entered into agreements, primarily with private equity partnerships, that require periodic cash contributions totaling approximately $1,122 million through 2008.

For the year ending June 30, 1999, the total return on the pooled general investments was 12.2%, or $1.74 billion, net of all expenses and fees. This compares with 20.5%, or $2.44 billion for fiscal year 1998. The investment return is primarily a result of the performance of the core investment portfolio, adjusted for the net results of the value added strategies, which were approximately $249 million and $465 million for the years ended June 30, 1999 and June 30, 1998, respectively. The fiscal year 1999 investment results by asset class are described in detail in the *Annual Report of the Harvard Management Company*.

15. Other Operating Income

The major components of other operating income for the years ended June 30, 1999 and 1998 were as follows (in thousands of dollars):

	1999	1998
Publications	$ 80,027	$ 78,174
Rental and parking	39,715	38,659
Expenses recovered	34,676	27,748
Royalties from patents, copyrights and trademarks	24,578	21,165
Other student income	19,069	16,679
Health and clinic fees	17,385	16,230
Other	95,715	87,094
TOTAL OTHER OPERATING INCOME	**$ 311,165**	**$ 285,749**

16. Functional Classification of Expenses

Expenses by functional classification, including an allocation of replacement cost depreciation, for the years ended June 30, 1999 and 1998 were as follows (in thousands of dollars):

	1999	1998
Instruction	$ 466,778	$ 436,321
Research	397,183	368,707
Libraries and museums	105,159	98,078
Academic support	267,381	241,813
Scholarships and fellowships	30,831	28,962
Student services	128,409	119,407
Institutional support	165,342	140,999
Auxiliary services	223,029	195,227
TOTAL EXPENSES	**$1,784,112**	**$1,629,514**

17. Other expenses

The major components of other expenses for the years ended June 30, 1999 and 1998 were as follows (in thousands of dollars):

	1999	1998
Services purchased	**$ 133,394**	$ 107,499
Subcontract expenses		
under sponsored projects	**36,618**	36,971
Publishing	**48,668**	47,928
Travel	**35,171**	34,617
Telephone	**10,380**	10,954
Dining services	**4,832**	3,980
Other	**105,775**	99,599
TOTAL OTHER EXPENSES	**$ 374,838**	**$ 341,548**

18. Employee benefits

The University offers current employees a choice of health plans, dental plans, short-term and long-term disability plans, life insurance, tuition assistance, and a variety of other benefits such as subsidized passes for public transportation and for Harvard athletic facilities. In addition, Harvard has pension plans covering substantially all employees.

Pension Benefits Faculty members and certain long service administrative officers participate in defined contribution plans that are funded on a current basis. All staff and hourly employees are covered by a retirement program that includes both a defined benefit and a defined contribution component. In accordance with ERISA requirements, the University has established trusts to hold plan assets for its defined benefit pension plans.

The market value of the trusts' assets was $631.7 million as of June 30, 1999 and $585.8 million as of June 30, 1998. In addition, the University has internally funded and invested $81.2 million as of June 30, 1999 and $74.4 million as of June 30, 1998 for its defined benefit pension plans. The internal funding is being transferred to the trusts over a period of not more than forty years. The University recorded expenses for its defined contribution plans of $30.4 million as of June 30, 1999 and $28.7 million as of June 30, 1998.

Postretirement Health Benefits The University provides defined benefit postretirement health coverage and life insurance to substantially all of its employees. The University has internally funded and invested $28.4 million and $17.5 million as of June 30, 1999 and 1998, respectively, and accrued an additional $97.2 million and $83.5 million as of June 30, 1999 and 1998 for its defined benefit other than pension plans.

18. Employee Benefits continued

In thousands of dollars	Pension benefits 1999	Pension benefits 1998	Other benefits 1999	Other benefits 1998
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 481,171	$ 414,490	$ 248,940	$ 180,164
Service cost	20,781	16,286	5,862	4,883
Interest cost	34,588	32,471	15,111	16,222
Plan participants' contributions	0	0	1,680	1,603
Amendments	0	1,026	0	0
Actuarial (gain) / loss	(7,603)	48,971	(39,865)	54,084
Benefits paid	(39,261)	(32,073)	(8,401)	(8,016)
Benefit obligation at end of year	$ 489,676	$ 481,171	$ 223,327	$ 248,940
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 585,816	$ 519,346	$ 0	$ 0
Actual return on plan assets	80,775	93,531	0	0
Employer contribution	4,373	5,012	6,721	6,413
Plan participants' contributions	0	0	1,680	1,603
Benefits paid	(39,261)	(32,073)	(8,401)	(8,016)
Fair value of plan assets at end of year	$ 631,703	$ 585,816	$ 0	$ 0
Funded status	$ 142,027	$ 104,645	($223,327)	($248,940)
Unrecognized actuarial (gain) / loss	(211,686)	(164,966)	7,432	50,919
Unrecognized portion of net obligation / (asset) at transition	(6,443)	(8,596)	84,870	90,933
Unrecognized prior service cost / (credit)	(5,054)	(5,468)	5,466	6,102
Net amount recognized	($81,156)	($74,385)	($125,559)	($100,986)
AMOUNTS RECOGNIZED IN THE BALANCE SHEET CONSIST OF:				
Prepaid benefit cost	$ 0	$ 0	$ 0	$ 0
Accrued benefit liability	(81,156)	(74,385)	(125,559)	(100,986)
Net amount recognized	($81,156)	($74,385)	($125,559)	($100,986)
WEIGHTED-AVERAGE ASSUMPTIONS				
Discount rate as of June 30	7.25%	7.00%	7.25%	7.00%
Expected return on plan assets for the year	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase as of June 30	5.00%	5.00%		

For measurement purposes, a 5.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for all future years.

	Pension benefits 1999	Pension benefits 1998	Other benefits 1999	Other benefits 1998
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost	$ 20,781	$ 16,285	$ 5,862	$ 4,883
Interest cost	34,588	32,471	15,111	16,222
Expected return on plan assets and reserves	(47,122)	(41,494)	(1,341)	(1,260)
Amortization of:				
transition obligation/ (asset)	(2,153)	(2,153)	6,062	6,062
prior service cost / (credit)	(414)	(283)	635	635
actuarial loss / (gain)	(2,581)	(2,498)	215	150
Net periodic benefit cost / (income)	3,099	2,328	26,544	26,692
Investment return on invested reserves	8,045	11,416	4,846	1,009
Total periodic cost	$ 11,144	$ 13,744	$ 31,390	$ 27,701

18. Employee Benefits continued

Assumed health care trend rates have a significant effect on the amounts reported for the health care plan. A one percentage-point change in assumed health care trend rates would have the following effects:

	1999		1998	
	1-Percent point decrease	1-Percent point increase	1-Percent point decrease	1-Percent point increase
Effect on total of service cost and interest cost components	$ (2,970)	$ 3,773	$ (3,582)	$ 3,549
Effect on the postretirement benefit obligation	(25,295)	31,000	(30,279)	34,512

19. General Operating Account

The General Operating Account (GOA) consists of the general or current funds of the University as well as the assets, liabilities, and obligations related to student and faculty loans and facilities. The GOA accepts, manages, and pays interest on deposits made by University departments, invests surplus working capital, makes loans, and arranges external financing for major capital programs. It is used to manage, control, and execute all University financial transactions, except for those related to investment activities conducted by Harvard Management Company.

The major components of GOA net asset balances are summarized in the following table (in thousands of dollars).

	1999				1998
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Departmental:					
Unexpended endowment income	$ 116,617	$ 394,799	$ 0	$ 511,416	$ 302,677
Unexpended gift balances	66,646	142,056	0	208,702	227,269
Pledge balances	0	214,357	0	214,357	189,331
Loan funds	44,968	0	59,250	104,218	101,521
Funds for construction	44,313	40,595	0	84,908	81,430
Funds invested in plant	708,955	0	0	708,955	766,806
Other departmental purposes	271,824	0	0	271,824	214,477
Total departmental	1,253,323	791,807	59,250	2,104,380	1,883,511
University	613,428	2,573	0	616,001	499,162
TOTAL	**$ 1,866,751**	**$ 794,380**	**$ 59,250**	**$ 2,720,381**	**$ 2,382,673**

20. Subsequent Event

On October 1, 1999, Harvard and Radcliffe completed the merger announced on April 20, 1999, and established the Radcliffe Institute for Advanced Study at Harvard University. The Institute is an interdisciplinary center where leading scholars can promote learning and scholarship across a broad array of academic and professional fields. The merger will be accounted for as a pooling of interests in the fiscal year 2000 financial statements. The following unaudited data summarizes the combined operating results of Harvard and Radcliffe as if the merger had occurred at the beginning of fiscal year 1998 (in thousands of dollars):

	1999	1998
Operating revenue	$ 1,873,399	$ 1,762,192
General operating account net increase during the year	$ 362,633	$ 387,454
Net increase in net assets during the year	$ 1,685,789	$ 2,578,181
Total net assets	$17,930,530	$16,244,741

Report of independent accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston MA 02110
Telephone (617) 478 5000
Facsimile (617) 478 3900

To the Board of Overseers of Harvard College:

In our opinion, the accompanying balance sheet and the related *Statements of Changes in Net Assets with General Operating Account Detail, Changes in Net Assets of the Endowment,* and *Cash Flows* present fairly, in all material respects, the financial position of Harvard University as of June 30, 1999, and the changes in the net assets of its general operating account and endowment funds, and its cash flows for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the supplemental information about replacement cost and replacement cost depreciation of the University's facilities is presented fairly in all material respects, on the basis of accounting described below and in *Note 8*. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Harvard University's 1998 financial statements; in our report dated October 22, 1998, we expressed an unqualified opinion, which included an explanatory paragraph about replacement cost and replacement cost depreciation, on those financial statements. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As noted above and described in *Note 8*, the University has also included on its 1999 balance sheet supplemental data about the estimated replacement cost of its facilities and the related depreciation, and on its statement of changes in net assets with general operating account detail for that year the related annual depreciation on a replacement cost basis. Although replacement cost data differs significantly from historical cost data required by generally accepted accounting principles, management believes that this information is critical to understanding Harvard's financial position and changes in the net assets of its general operating account. The supplemental replacement cost data presented on the balance sheet does not purport to present the net realizable, liquidation, or market value of Harvard's facilities as a whole.

PricewaterhouseCoopers LLP

November 5, 1999

Supplemental information

Harvard has enhanced the undergraduate experience through initiatives that range from increased financial aid, an improved faculty-student ratio, and smaller section size to renovated dormitories and new dining facilities.

Pooled general investments

The asset allocation for the General Investment Account is based on the Policy Portfolio as described in the *Annual Report of the Harvard Management Company*. The Policy Portfolio is the asset mix that is most likely to meet the long-term needs of the University with the appropriate level of risk. While the Policy Portfolio defines Harvard's market risk profile, HMC undertakes a number of diversified arbitrage activities to enhance the returns without changing the portfolio's risk profile. The focus of these return enhancement strategies is to identify mispricings of specific financial instruments relative to other similar instruments. Once these mispricings are identified, a series of long and short transactions are undertaken to capture the mispricings and to remain neutral to changes in the value of the underlying asset class. These offsetting positions are taken in both instruments recorded on the summary of assets and liabilities (balance sheet cash instruments) and in off-balance sheet products (futures, options, over-the-counter exchange agreements and forwards), as exhibited in *Note 14* to the University's financial statements.

The accompanying table combines the balance sheet and off-balance sheet financial instruments in a form consistent with HMC's approach to the management of the General Investment Account. The table categorizes the information presented in the financial statements into groupings reflecting the type of strategy. There are several key points to be noted:

A) The "Balance sheet cash positions" are the assets and liabilities shown on the summary of assets and liabilities included in *Note 14* to the University's financial statements.

B) The on-balance sheet and off-balance sheet instruments, both long and short, net to the core market exposure of the portfolio, which approximates the market exposure of the Policy Portfolio.

C) From a market exposure standpoint, HMC uses on-balance sheet and off-balance sheet financial instruments interchangeably.

D) The off-balance sheet amounts represent the market exposure on the notional value of the forwards, futures, options, and exchange agreements included in *Note 14* to the financial statements.

The "Asset class" column describes the basic assets of the Policy Portfolio broken down into its major categories with the addition of a series of diversified arbitrage accounts related to the equity and fixed-income portfolios. The arbitrage accounts represent the positions taken in market neutral strategies to enhance the returns of the underlying Policy Portfolio. The "Other" asset class represents on-balance sheet and off-balance sheet positions that are not subject to market risk. Included in this category are financial instruments such as cash, the floating rate side of interest rate exchange agreements, premiums paid or received on option positions, and balances related to securities lending (collateral held under security lending agreements) and securities borrowing (collateral advanced under security borrowing agreements).

The remainder of the schedule shows the on-balance sheet and off-balance sheet positions of the specific investment categories. The "Balance sheet cash positions" columns show the financial positions that are reported on the pooled general investment balance sheet. These columns include ownership or short sells in stock and bond positions, as well as investments in real estate and private equities, either directly or through limited partnerships.

The "Market exposure adjustment" column adjusts the cash positions and off-balance sheet amounts reported in accordance with generally accepted accounting principles to market risk exposure amounts. For instance, in the equity area, the University owns convertible debt positions hedged by equity. The balance sheet reflects the market value of the convertible debt; however, depending on the conversion features of the bond and the volatility of the underlying equity, the convertible debt will have significantly less equity market exposure than the amount recorded on the balance sheet. In the fixed-income area, the market adjustment is necessary to duration-weight fixed-income positions. For example, floating rate versus floating rate interest rate exchange agreements are included in the schedule at their gross notional value. These types of interest rate exchange agreements do not represent significant exposure to movement in interest rates.

The "Forwards," "Futures," "Options," and "Exchange agreements" columns represent the long and short values of the off-balance sheet positions. Option positions have been adjusted to reflect the market exposure of the underlying asset. Fixed-income futures have been adjusted to reflect duration weighting where appropriate. The positions in these categories are primarily used for the value-added arbitrage transactions, but may also be used to adjust the core asset mix in a non-disruptive and cost effective manner. For instance, HMC has utilized long and short futures and options to adjust the exposure of the cash assets of domestic and foreign equity and fixed-income portfolios.

The activities of arbitrage accounts are focused on adding value to the Policy Portfolio, taking advantage of mispricings in a variety of financial instruments, and creating a well-diversified set of specific strategies. The market, credit, legal, operational, and liquidity risks associated with these strategies are monitored on a daily basis by an independent risk management group. This risk management group utilizes a number of different methodologies to evaluate and control the various risks of the core portfolios and value-added strategies. Individual strategies and portfolios are reviewed to ensure that market neutrality is achieved, cash and margin requirements are matched, and the credit risk created by the various financial instruments is within the pre-determined limits established by HMC for each counterparty. All positions other than private equity and real estate are marked-to-market on a daily basis, with applicable profit and loss statements generated for each strategy.

The column "Total net market exposure" reflects the adjusted net exposure of the eleven asset classes included in the Policy Portfolio and agrees with the asset allocation as reported in the *Annual Report of the Harvard Management Company.*

In millions of dollars

	Balance sheet cash positions		Market exposure adjustment	Off-balance sheet instruments										Total net market exposure[3]
				Forwards		Futures		Options		Exchange agreements		Total		
ASSET CLASS	Long	Short		Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	
Equity:														
Domestic	3,218	0	(532)	0	0	290	0	0	0	554	0	4,062	(532)	3,530
Absolute return	871	0	0	0	0	0	0	0	0	0	0	871	0	871
Foreign	2,253	0	64	0	0	0	0	0	0	0	0	2,317	0	2,317
Emerging markets[1]	1,462	0	(122)	0	0	63	0	0	0	59	0	1,584	(122)	1,462
Arbitrage accounts	5,110	(2,840)	(192)	0	0	0	(2,064)	4	(5)	107	(120)	5,221	(5,221)	(0)
Total equity market exposure	**12,914**	**(2,840)**	**(782)**	**0**	**0**	**353**	(2,064)	**4**	**(5)**	**720**	**(120)**	**14,055**	**(5,875)**	**8,180**
Fixed-income:														
Domestic	2,250	0	(706)	0	0	57	(39)	7	0	0	0	2,314	(745)	1,569
Foreign	99	0	(184)	0	0	102	0	766	(164)	72	(7)	1,039	(355)	684
High-yield securities[2]	335	0	25	0	0	0	0	0	0	0	0	360	0	360
Arbitrage accounts	16,010	(4,054)	(2,173)	1,684	0	1,805	(1,460)	4,163	(2,525)	29,829	(43,279)	53,491	(53,491)	0
Total fixed-income market exposure	**18,694**	**(4,054)**	**(3,038)**	**1,684**	**0**	**1,964**	(1,499)	**4,936**	**(2,689)**	**29,901**	**(43,286)**	**57,204**	**(54,591)**	**2,613**
Commodities														
Core	533	0	(216)	0	0	112	(2)	0	0	332	0	977	(218)	759
Arbitrage accounts	5	0	(3)	0	0	43	(49)	57	(113)	397	(337)	502	(502)	0
Total commodities market exposure	**538**	**0**	**(219)**	**0**	**0**	**155**	**(51)**	**57**	**(113)**	**729**	**(337)**	**1,479**	**(720)**	**759**
Private equity	2,171	0	(39)	0	0	0	0	0	0	0	0	2,171	(39)	2,132
Real estate	1,493	0	(211)	0	0	0	0	0	0	0	0	1,493	(211)	1,282
Total market exposure	**35,810**	**(6,894)**	**(4,289)**	**1,684**	**0**	**2,472**	(3,614)	**4,997**	(2,807)	**31,350**	**(43,743)**	**76,402**	**(61,436)**	**14,966**
Other:														
Cash and cash equivalents	367	0	0	0	0	0	0	0	0	0	0			367
Collateral advanced on borrows	5,260	0	0	0	0	0	0	0	0	0	0			5,260
Collateral held on loans	0	(19,479)	0	0	0	0	0	0	0	0	0			(19,479)
Accounts receivable	594	0	0	0	0	0	0	0	0	0	0			594
Market exposure adjustment	0	0	4,289	0	0	0	0	0	0	0	0			4,289
Option premium	515	(262)	0	0	0	0	0	0	0	0	0			253
Cash side of off-balance sheet positions	0	0	0	(1,684)	0	(2,472)	3,614	(4,997)	2,807	(31,350)	43,743			9,661
Total cash and other	**6,736**	**(19,741)**	**4,289**	**(1,684)**	**0**	**(2,472)**	3,614	**(4,997)**	2,807	**(31,350)**	**43,743**			**945**
NET ASSETS PER BALANCE SHEET	**42,546**	**(26,635)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			**15,911**

[1] *Emerging markets include equity and fixed-income securities.*

[2] *High-yield securities are included under fixed-income in this analysis rather than as equity as they appear in the* Annual Report of the Harvard Management Company.

[3] *Numbers presented in this column agree with the asset allocation in the* Annual Report of the Harvard Management Company.

Gifts for current use

Year ended June 30, 1999	
FACULTIES:	
Faculty of Arts and Sciences	$ 40,205,517
College Life and Student Services	204,334
Committee on Athletic Sports	722,454
Division of Applied Sciences	573,507
Division of Continuing Education	1,295
Graduate Dorms	20,050
Harvard College Observatory	403,239
Harvard Forest	631,550
Library	1,199,123
Museum of Comparative Zoology	105,708
Organismic & Evolutionary Biology Research	790,659
Peabody Museum	572,930
Semitic Museum	1,318,453
University Extension	83,000
School of Business Administration	12,763,617
School of Dental Medicine	652,523
School of Design	840,812
Divinity School	1,809,973
School of Education	9,416,719
John F. Kennedy School of Government	19,413,859
Law School	10,923,472
Medical School	31,006,473
School of Public Health	19,893,831
TOTAL FACULTIES	**153,553,098**
OTHER ACADEMIC DEPARTMENTS:	
Arnold Arboretum	642,153
Committee on General Scholarships	139,863
Dumbarton Oaks	4,540
Harvard Institute for International Development	689,241
Harvard University Art Museums	4,630,085
Harvard Yenching Institute	2,543,205
Joint Center for Housing Studies	1,314,976
Nieman Foundation	90,335
Nondepartmental	1,436,218
Villa I Tatti	507,560
TOTAL OTHER ACADEMIC DEPARTMENTS	**11,998,176**
SERVICE DEPARTMENTS:	
Harvard University Press	2,500
University Health Services	14,025
TOTAL SERVICE DEPARTMENTS	**16,525**
CENTRAL ADMINISTRATION:	
Alumni Affairs	1,500
Memorial Church and Appleton Chapel	231,877
President's Discretionary Fund	3,137,948
University Library	30,900
University Unrestricted	33,453
TOTAL CENTRAL ADMINISTRATION	**3,435,678**
TOTAL GIFTS FOR CURRENT USE	**$ 169,003,477**

Gifts for capital

Year ended June 30, 1999	Endowment funds	Loan funds	Total
FACULTIES:			
Faculty of Arts and Sciences	$ 73,490,304	$ 45,397	$ 73,535,701
College Life and Student Services	2,271,121		2,271,121
Committee on Athletic Sports	2,995,015		2,995,015
Division of Applied Sciences	1,641,843		1,641,843
Division of Continuing Education	52,452		52,452
Harvard College Observatory	353,360		353,360
Harvard Forest	1,350		1,350
Library	4,206,055		4,206,055
Museum of Comparative Zoology	20,000		20,000
Organismic & Evolutionary Biology Research	27,230		27,230
Peabody Museum	70,000		70,000
Semitic Museum	10,751		10,751
University Extension	2,850		2,850
School of Business Administration	28,152,576	85,951	28,238,527
School of Dental Medicine	591,226	20,827	612,053
School of Design	1,219,105		1,219,105
Divinity School	3,431,990		3,431,990
School of Education	4,773,038		4,773,038
John F. Kennedy School of Government	11,758,555		11,758,555
Law School	33,490,669	368,971	33,859,640
Medical School	38,739,056	571,468	39,310,524
School of Public Health	2,538,523	325	2,538,848
TOTAL FACULTIES	**209,837,069**	**1,092,939**	**210,930,008**
OTHER ACADEMIC DEPARTMENTS:			
Arnold Arboretum	188,909		188,909
Committee on General Scholarships	224,374		224,374
Harvard Institute for International Development	5,000		5,000
Harvard University Art Museums	7,145,350		7,145,350
Nieman Foundation	305,832		305,832
Nondepartmental	24,020,933	1,000	24,021,933
University Professorships	301,000		301,000
Villa I Tatti	1,104,445		1,104,445
TOTAL OTHER ACADEMIC DEPARTMENTS	**33,295,843**	**1,000**	**33,296,843**
SERVICE DEPARTMENTS:			
Harvard University Press	11,393		11,393
University Health Services	10,025		10,025
TOTAL SERVICE DEPARTMENTS	**21,418**	**0**	**21,418**
CENTRAL ADMINISTRATION:			
Memorial Church and Appleton Chapel	408,298		408,298
President's Discretionary Fund	12,711,941		12,711,941
University Library	285,956		285,956
University Unrestricted	82,805		82,805
TOTAL CENTRAL ADMINISTRATION	**13,489,000**	**0**	**13,489,000**
TOTAL ENDOWMENT AND LOAN FUNDS	**$ 256,643,330**	**$ 1,093,939**	**$ 257,737,269**
LIFE INCOME FUNDS:			
Charitable remainder annuities and unitrusts			15,570,293
Gift Annuities			5,624,058
Harvard Balanced Fund			232,399
Harvard Growth Fund			140,856
Harvard Income Fund			36,447
Harvard High Yield Fund			48,411
Harvard Life Return Fund			3,022,887
Harvard Long-Term Income Fund			129,588
Harvard International Pooled Funds			126,340
TOTAL LIFE INCOME FUNDS			**24,931,279**
TOTAL GIFTS FOR CAPITAL			**$ 282,668,548**

Endowment funds by department

Year Ended June 30, 1999	Endowment principal				
	Book value July 1, 1998	Gifts and other changes	Book value June 30, 1999	Market value June 30, 1999	Participating units June 30, 1999
FACULTIES:					
Faculty of Arts and Sciences	$ 1,570,019,099	$ 100,067,067	$ 1,670,086,166	$ 6,075,041,078	7,957,965
School of Business Administration	309,988,126	33,070,188	343,058,314	950,779,391	1,250,645
School of Dental Medicine	19,721,839	6,014,519	25,736,358	95,565,328	125,266
School of Design	48,384,443	1,025,801	49,410,244	196,754,853	256,857
Divinity School	60,954,848	3,508,592	64,463,440	265,759,763	349,972
School of Education	54,329,907	8,079,540	62,409,447	215,421,510	283,892
John F. Kennedy School of Government	119,378,095	15,654,697	135,032,792	408,999,541	539,042
Law School	202,286,776	32,693,901	234,980,677	717,799,097	940,346
Medical School	485,199,590	48,646,648	533,846,238	1,607,976,456	2,113,085
School of Public Health	133,991,395	4,643,076	138,634,471	508,973,104	665,091
TOTAL FACULTIES	**3,004,254,118**	**253,404,029**	**3,257,658,147**	**11,043,070,121**	**14,482,161**
OTHER ACADEMIC DEPARTMENTS:					
Arnold Arboretum	27,146,397	685,059	27,831,456	124,824,612	164,513
Center for Hellenic Studies	13,828,652	(193,853)	13,634,799	72,172,947	95,120
Dumbarton Oaks	72,760,970	750,440	73,511,410	404,157,313	532,660
Harvard Institute for International Development	10,208,159	(1,990,761)	8,217,398	21,877,353	28,833
Harvard University Art Museums	75,909,167	6,755,505	82,664,672	275,009,942	353,584
Nieman Foundation	13,883,347	308,757	14,192,104	63,263,437	83,378
Nondepartmental	115,127,577	14,750,232	129,877,809	455,522,189	550,861
University Professorships	39,231,923	564,082	39,796,005	134,260,978	176,949
Villa I Tatti	39,576,530	1,137,948	40,714,478	116,049,758	152,222
TOTAL OTHER ACADEMIC DEPARTMENTS	**407,672,722**	**22,767,409**	**430,440,131**	**1,667,138,529**	**2,138,120**
SERVICE DEPARTMENTS:					
Harvard University Press	7,182,508	24,430	7,206,938	37,559,059	49,501
University Health Services	3,414,172	10,297	3,424,469	19,091,957	25,162
TOTAL SERVICE DEPARTMENTS	**10,596,680**	**34,727**	**10,631,407**	**56,651,016**	**74,663**
Central Administration	245,178,837	14,351,316	259,530,153	1,214,515,318	1,600,633
SUBTOTAL	**3,667,702,357**	**290,557,481**	**3,958,259,838**	**13,981,374,984**	**18,295,577**
Pledges outstanding	259,202,000	20,477,000	279,679,000	279,679,000	
Interests in perpetual trusts held by others	225,217,316	89,998,666	315,215,982	315,215,982	
Funds for construction and other purposes	(37,635,771)	(2,959,165)	(40,594,936)	(40,594,936)	
TOTAL	**$ 4,114,485,902**	**$ 398,073,982**	**$ 4,512,559,884**	**$14,535,675,030**	**18,295,577**

Year Ended June 30, 1999		Endowment income			
	Unexpended income July 1, 1998	Investment income distributed	Other receipts and transfers	Fund income availed of	Unexpended income June 30, 1999
FACULTIES:					
Faculty of Arts and Sciences	$ 45,028,668	$189,593,071	($2,608,355)	($179,965,377)	$52,048,007
School of Business Administration	1,370,675	32,133,320	5,935,315	(38,706,384)	732,926
School of Dental Medicine	254,934	2,743,134	121,979	(3,085,674)	34,373
School of Design	1,292,039	6,225,797	1,386,769	(7,534,952)	1,369,653
Divinity School	1,987,628	8,258,375	1,273,516	(9,189,152)	2,330,367
School of Education	748,544	6,426,034	1,322,509	(7,229,977)	1,267,110
John F. Kennedy School of Government	3,033,996	12,616,574	3,701,473	(15,539,558)	3,812,485
Law School	4,530,345	21,529,452	433,303	(20,294,480)	6,198,620
Medical School	25,327,407	50,753,179	10,069,555	(57,329,969)	28,820,172
School of Public Health	12,928,461	16,679,857	654,654	(13,443,775)	16,819,197
TOTAL FACULTIES	**96,502,697**	**346,958,793**	**22,290,718**	**(352,319,298)**	**113,432,910**
OTHER ACADEMIC DEPARTMENTS:					
Arnold Arboretum	399,492	4,516,181	108,177	(4,509,434)	514,416
Center for Hellenic Studies	108,387	2,258,005	4,940	(2,159,458)	211,874
Dumbarton Oaks	0	12,496,725	(250,440)	(12,246,285)	0
Harvard Institute for International Development	171,841	709,590	(342,048)	(452,133)	87,250
Harvard University Art Museums	2,943,191	8,716,933	(317,322)	(8,074,200)	3,268,602
Nieman Foundation	1,899,436	2,064,398	3,993	(1,781,603)	2,186,224
Nondepartmental	6,814,761	13,122,054	(4,481,379)	(7,409,727)	8,045,709
University Professorships	885,128	3,977,870	511,907	(4,154,251)	1,220,654
Villa I Tatti	918,229	3,621,645	(207,874)	(3,700,833)	631,167
TOTAL OTHER ACADEMIC DEPARTMENTS	**14,140,465**	**51,483,401**	**(4,970,046)**	**(44,487,924)**	**16,165,896**
SERVICE DEPARTMENTS:					
Harvard University Press	2,521,421	1,523,110	3,360,658	(4,423,730)	2,981,459
University Health Services	186,579	603,677	2,228	(636,643)	155,841
TOTAL SERVICE DEPARTMENTS	**2,708,000**	**2,126,787**	**3,362,886**	**(5,060,373)**	**3,137,300**
Central Administration	6,478,588	37,493,893	8,244,313	(47,200,745)	5,016,049
SUBTOTAL	**119,829,750**	**438,062,874**	**28,927,871**	**(449,068,340)**	**137,752,155**
Interdepartmental transactions			(5,691,674)	5,691,674	
TOTAL	**$119,829,750**	**$438,062,874**	**$23,236,197**	**($443,376,666)**	**$137,752,155**

Endowment and income information for the ten schools

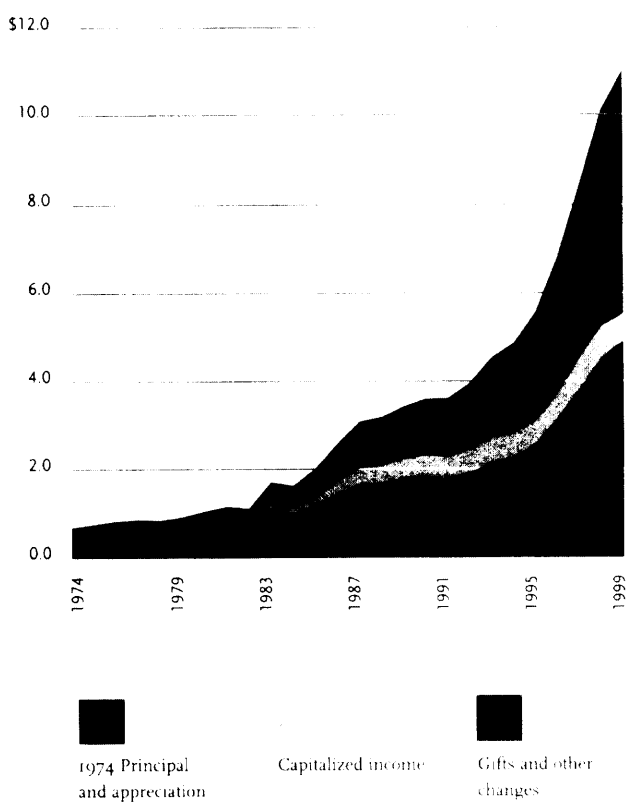
The charts and graphs in this section present summaries of endowment and income information for each of the University's ten major academic departments that receive tuition, and for those ten schools taken together.

The endowment graphs show the growth since 1974 of the major components of the endowment: principal and appreciation as of 1974, capitalized income, and gifts and other changes. To allow for comparibility with years prior to fiscal year 1995, endowment values exclude pledge balances and interests in perpetual trusts.

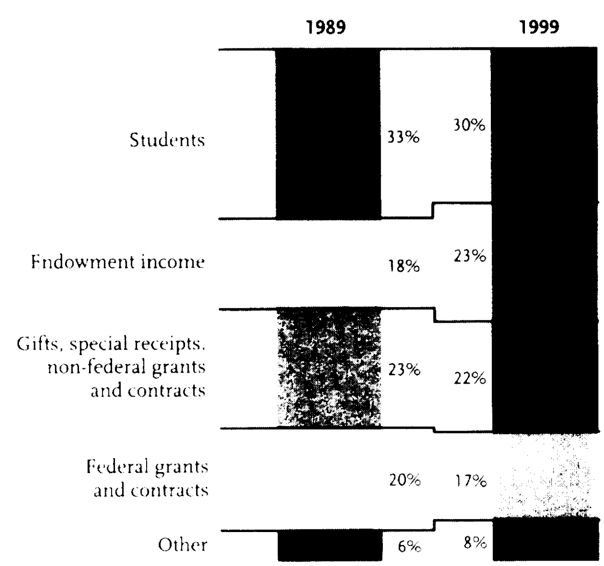
The income charts show the major components of income in fiscal years 1989 and 1999. Shown below each of these charts is the ten-year compound growth rate after inflation for total income.

Summary of the ten schools

Endowment growth *(in billions of dollars)*



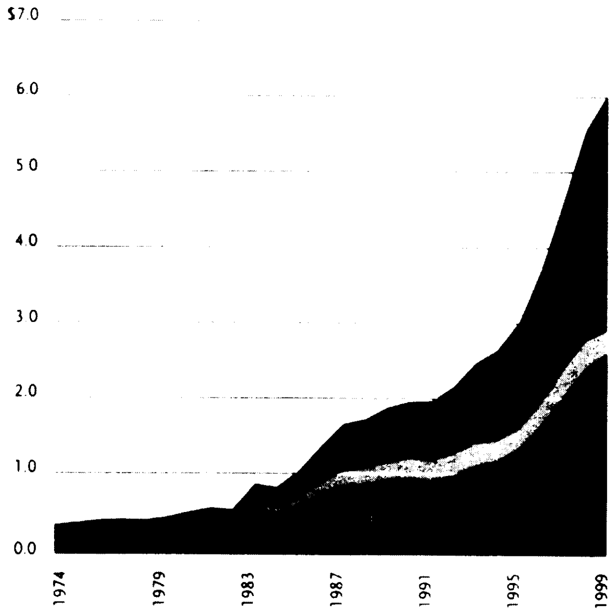
Sources of income *(% of total)*



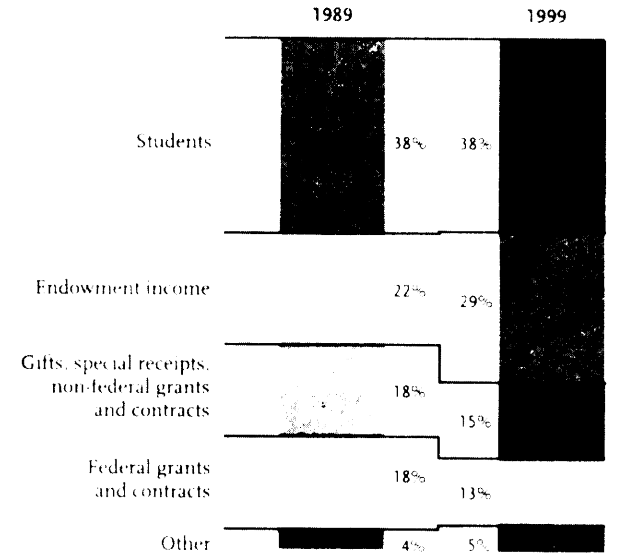
Real growth rate of income 1989–1999: **4.0%**

Faculty of Arts and Sciences

Endowment growth *(in billions of dollars)*



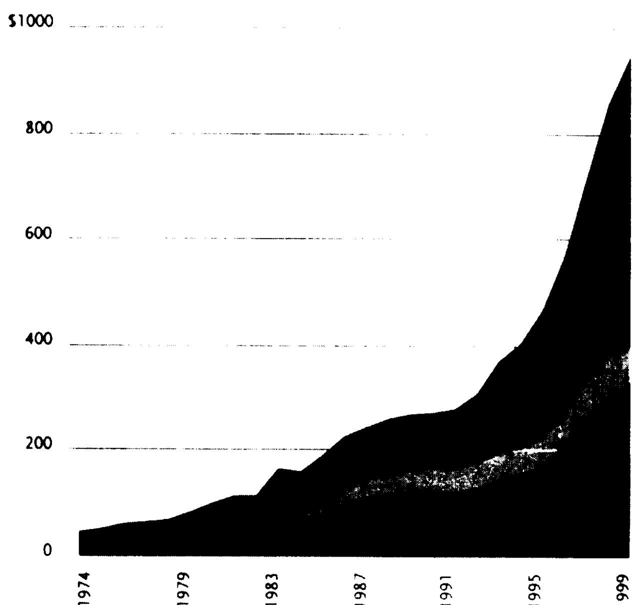
Sources of income *(% of total)*



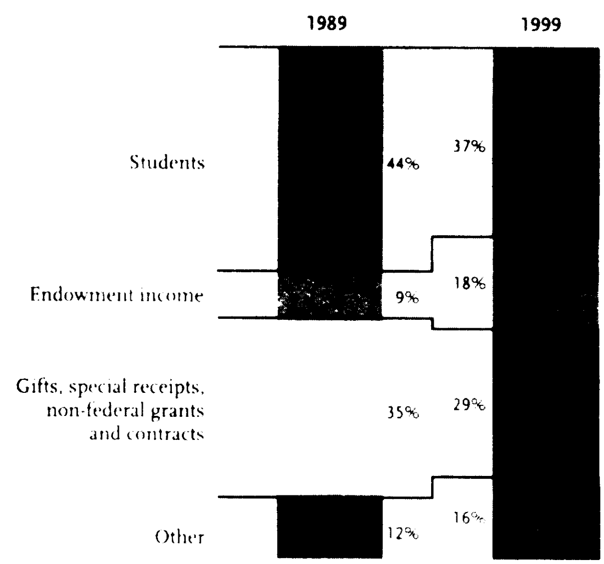
Real growth rate of income 1989–1999 **2.7%**

School of Business Administration

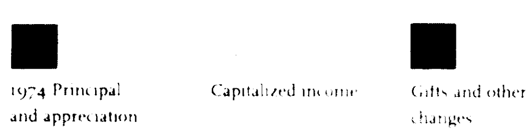
Endowment growth *(in millions of dollars)*



Sources of income *(% of total)*

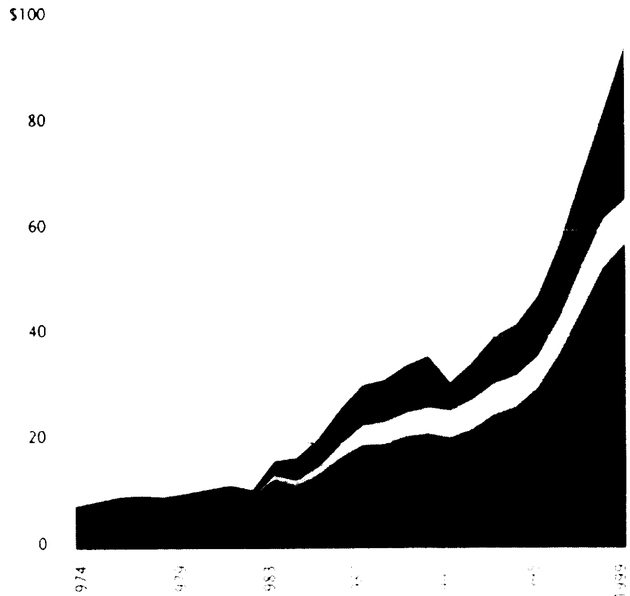


Real growth rate of income 1989–1999 **4.6%**

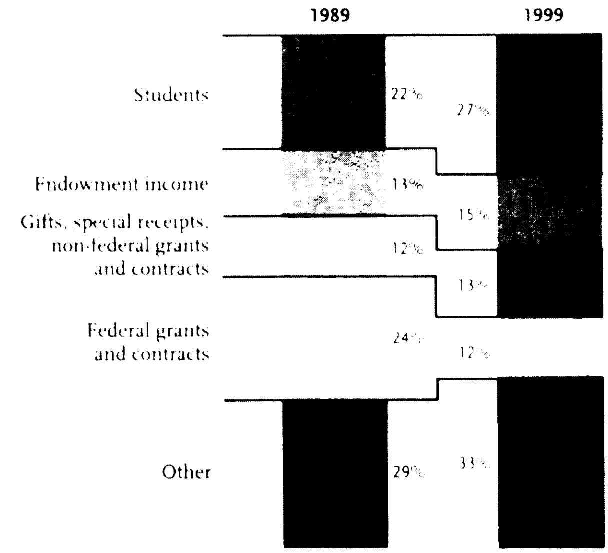


SCHOOL OF DENTAL MEDICINE

ENDOWMENT GROWTH *(in millions of dollars)*



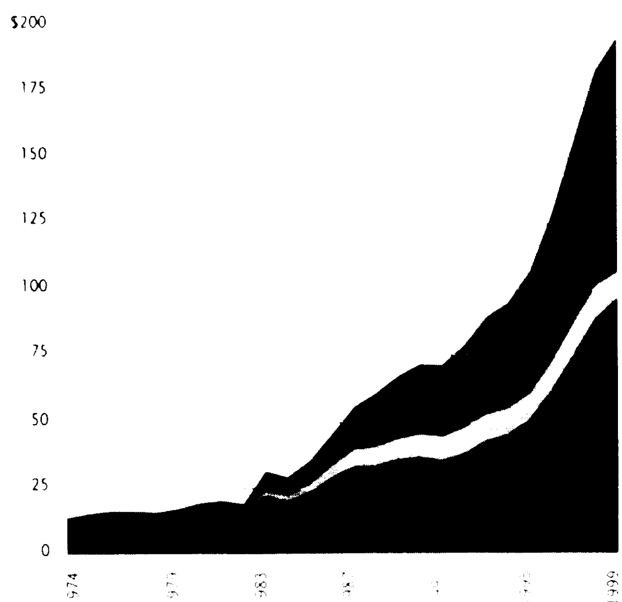
SOURCES OF INCOME *(% of total)*



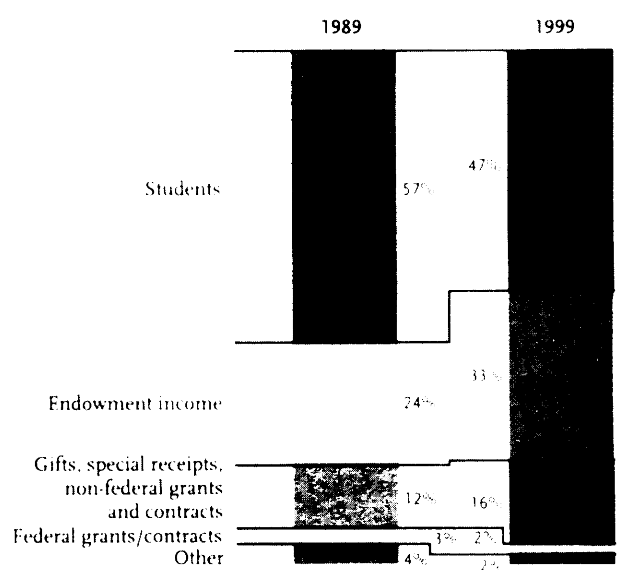
Real growth rate of income **4.3%**

GRADUATE SCHOOL OF DESIGN

ENDOWMENT GROWTH *(in millions of dollars)*



SOURCES OF INCOME *(% of total)*

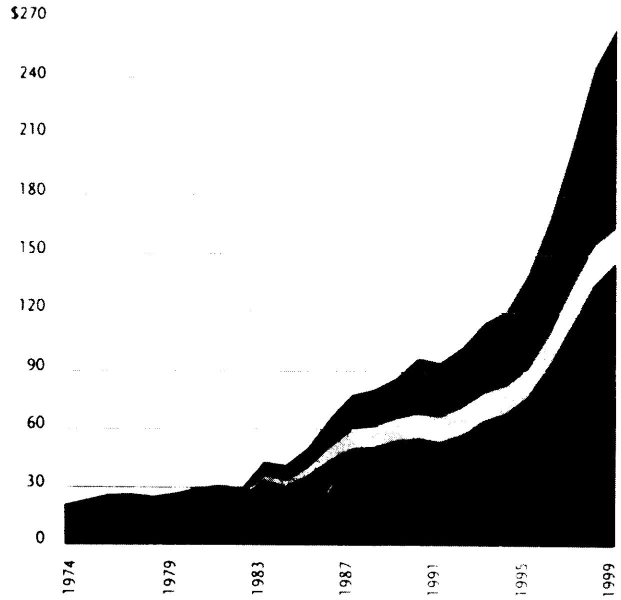


Real growth rate of income **3.8%**

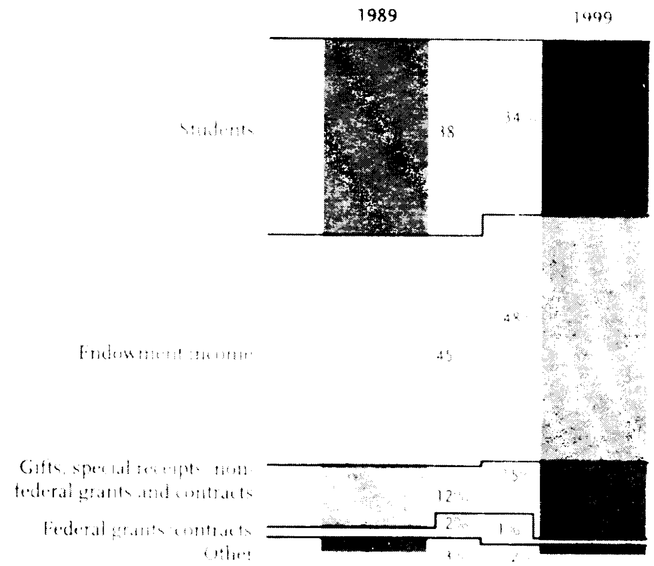
1974 Principal and appreciation

Divinity School

Endowment growth *(in millions of dollars)*



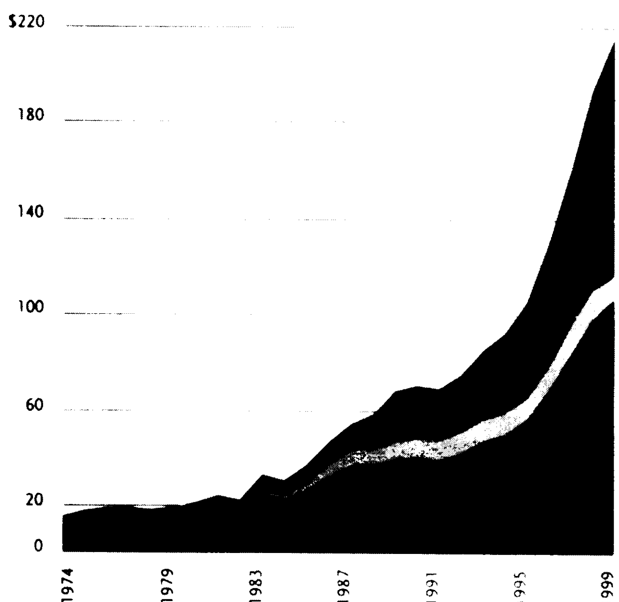
Sources of income *(% of total)*



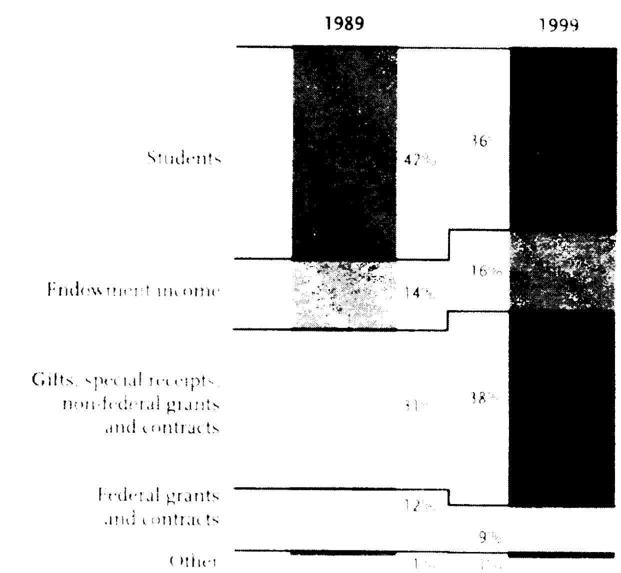
Real growth rate of income 1989–1999: 4.6

Graduate School of Education

Endowment growth *(in millions of dollars)*



Sources of income *(% of total)*



Real growth rate of income 1989–1999: 5.3%

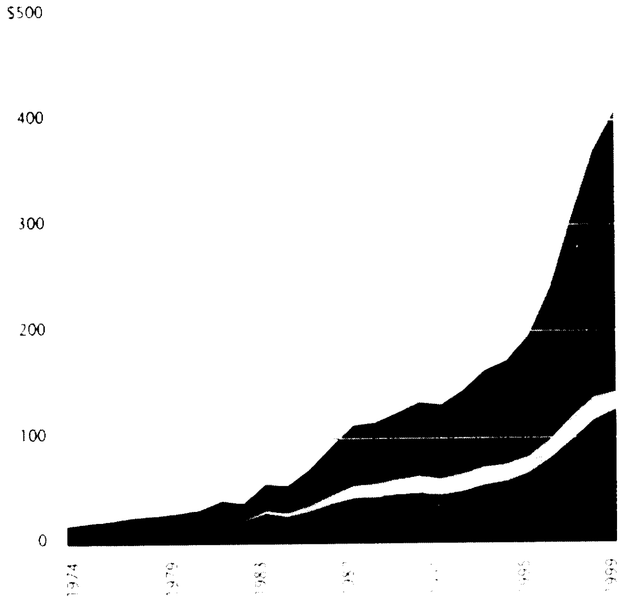
1974 Principal and appreciation

Capitalized income

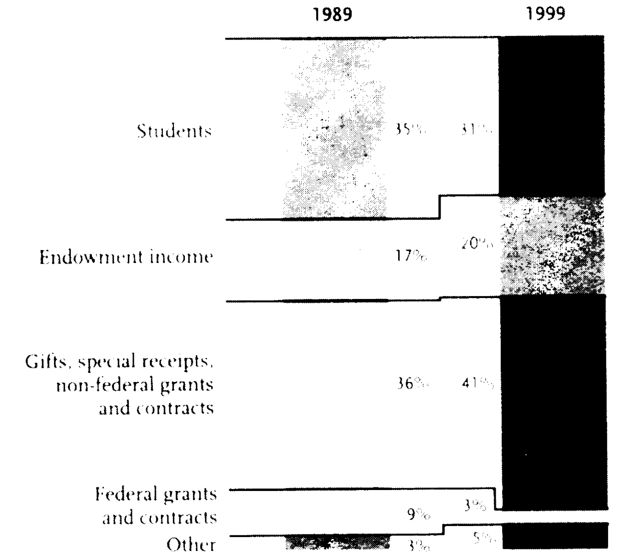
Gifts and other changes

John F. Kennedy School of Government

Endowment growth *(in millions of dollars)*



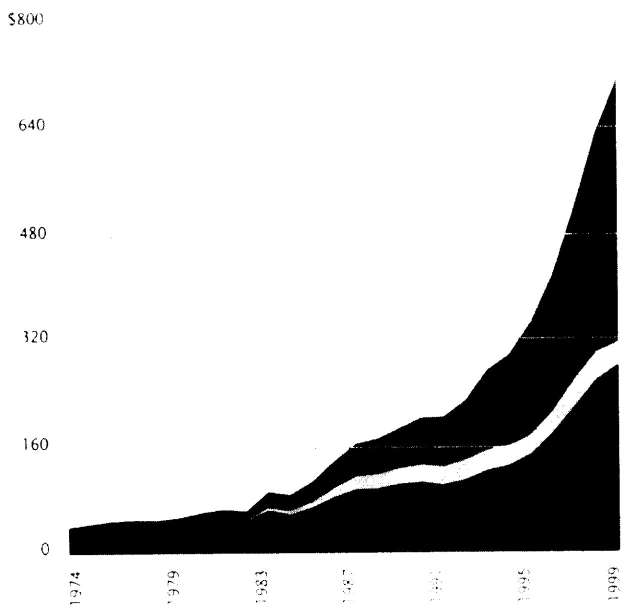
Sources of income *(% of total)*



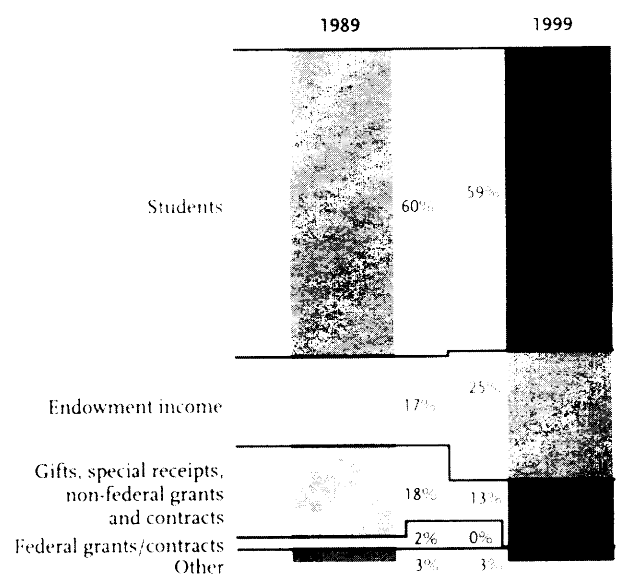
Real growth rate of income **6.1%**

Law School

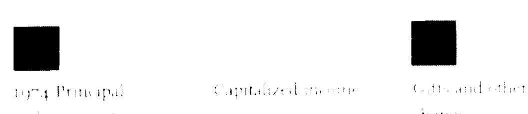
Endowment growth *(in millions of dollars)*



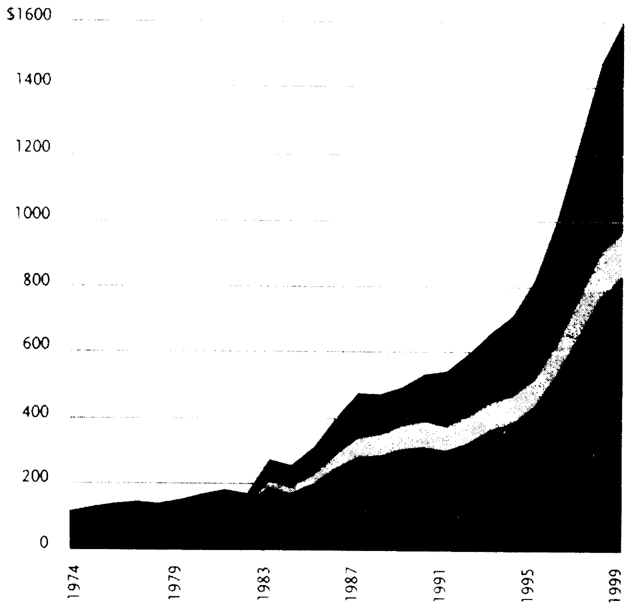
Sources of income *(% of total)*

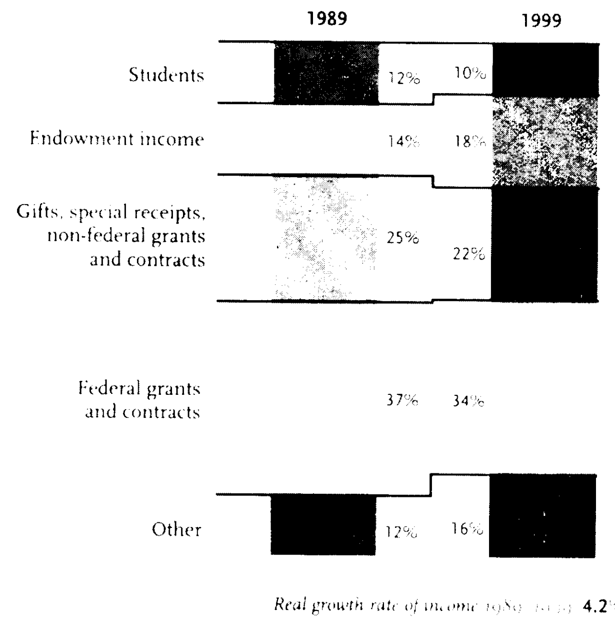


Real growth rate of income **4.3%**

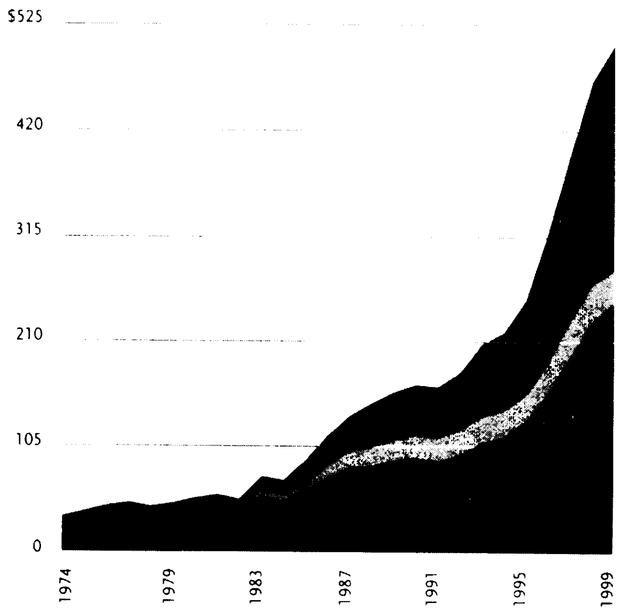


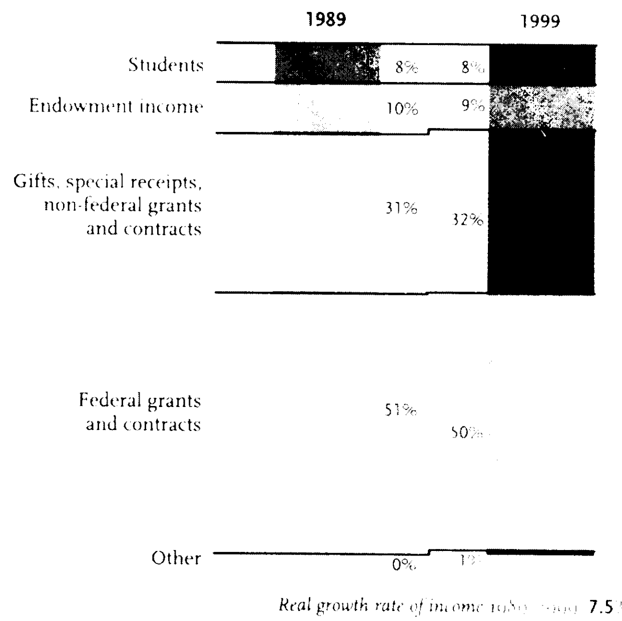
Medical School





School of Public Health



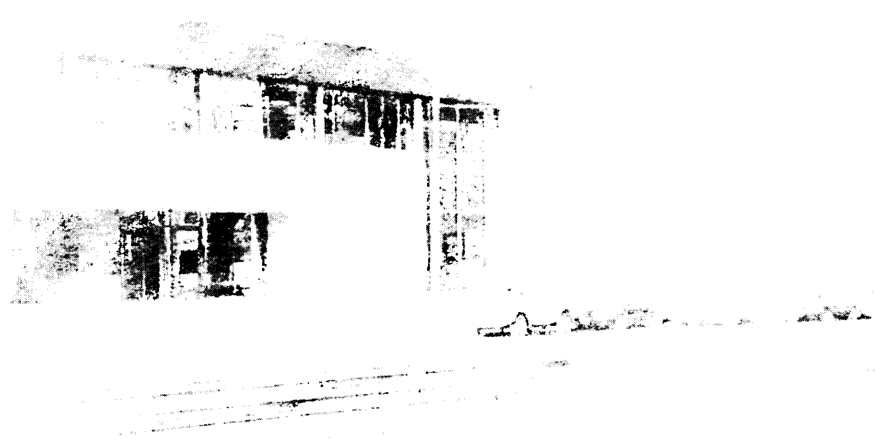


1974 Principal and appreciation

Capitalized income

Gifts and other changes

Harvard has expanded its capacity for scientific inquiry on many fronts. The FRANÇOIS XAVIER BAGNOUD CENTER at the School of Public Health fosters understanding of the relationship between public health and human rights. In the Virtual Patient Project at the Medical School, students use interactive CD-ROMs to explore patient care



SERIES W AGREEMENT

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following terms have the following meanings in this Official Statement, unless the context otherwise requires.

"Act" means Chapter 614 of the Massachusetts Acts of 1968 as amended from time to time.

"Authorized Officer" means: (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Director of Financing Programs, Director of Administration and Finance or General Counsel, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the President, Vice President for Finance, the Treasurer or other chief financial officer or any Assistant Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document.

"Bond Counsel" means any nationally recognized bond counsel selected by the Institution and satisfactory to the Trustee and the Authority.

"Bondowners" means the registered owners of the Series W Bonds from time to time as shown in the books kept by the Paying Agent as bond registrar and transfer agent.

"Business Day" means a day on which banks in each of the cities in which the principal offices of the Trustee and the Paying Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement between the Institution and the Trustee dated the date of issuance and delivery of the Series W Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; and (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian.

"Hedge Agreement" means an interest rate swap, cap, collar, floor, forward, or other hedging agreement, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any indebtedness.

"IRC" means the Internal Revenue Code of 1986, as it may be amended and applied to the Series W Bonds from time to time.

"Moody's" means Moody's Investors Service, Inc., or any successor rating agency.

"Opinion of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter or action in question will not have an adverse impact on the tax-exempt status of the Series W Bonds for federal income tax purposes.

"Outstanding," when used to modify Series W Bonds, refers to Series W Bonds issued under the Series W Agreement, excluding: (i) Series W Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or a sinking fund installment; (ii) Series W Bonds which have been paid; (iii) Series W Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Series W Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent

Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Series W Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Series W Bonds and notice of such redemption shall have been duly mailed in accordance with the Series W Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

"Paying Agent" means the Paying Agent designated from time to time.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the following:

(i) Existing Part of the Project: acquisition of a long-term leasehold interest in 1033 Massachusetts Avenue, Cambridge;

(ii) New Part of the Project:

(1) Construction, furnishing and equipping of (A) a shrub and vine collection garden to be located at the Arnold Arboretum, 1050 Centre Street, Boston; (B) an approximately 60,000 square foot building to be located at 13 Frisbie Place, Cambridge; (C) an approximately 205,000 square foot building to be located at 1727 and 1737 Cambridge Street and 34 and 38 Kirkland Street, Cambridge; (D) an approximately 100,000 square foot building to be located on the west side of Oxford Street between Kirkland and Everett Streets, Cambridge; (E) an approximately 90,000 square foot building to be located at 37 Harvard Way, Boston; (F) an approximately 40,000 square foot building to be located at 35 Harvard Way, Boston; (G) an approximately 95,000 square foot building to be located at 47A Harvard Way, Boston; (H) an approximately 400,000 square foot building to be located at 77 Avenue Louis Pasteur, Boston; (I) an approximately 15,000 square foot building to be located at 1 Pine Hill Drive, Southborough; (J) an approximately 275,000 and 260,000 square foot building and underground parking facility, respectively, both to be located at 109 Western Avenue, Boston; (K) an approximately 25,000 square foot building to be located at 90 Mt. Auburn Street, Cambridge; and (L) an approximately 1,100 linear foot sewer separation to be located under Harvard Yard, Cambridge;

(2) Other renovation, furnishing and equipping and other capital expenditures at (A) the Institution's Business School Campus in Boston; (B) the Institution's Medical School Campus in Boston; (C) the Institution's main campus in Cambridge and Boston; (D) Old Causeway Road, Bedford; (E) 1 Pine Hill Drive, Southborough; (F) the Arnold Arboretum, 1050 Centre Street, Boston and (G) administrative data systems upgrades throughout the Institution's campuses; and

(3) The projects described in section (H) of the Notice of Public Hearing filed with the Massachusetts Secretary of State on September 7, 1999.

The word "Project" also refers to the facilities which result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased with the written consent of the Authority upon certification by the Project Officer on behalf of the Institution describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: that the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or educational laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Series W Agreement. The signers of the certificate may rely, as to conclusions of law, on an opinion of counsel furnished to the Authority and referred to in the certificate. The Authority may waive any provision required to be contained in the certificate upon advice of counsel that the waiver does not adversely affect the security for the Series W Bonds. The scope of the Project may be increased only upon receipt by the Authority of an Opinion of Bond Counsel regarding the increase in scope.

"Project Costs" means the costs of issuing the Series W Bonds and carrying out the Project, including repayment of external loans and internal advances for the same to the extent permitted by the Series W Agreement, working capital expenditures directly related to the Project, and interest prior to, during and for up to one year after construction is substantially complete, but excluding general administrative expenses, overhead of the Institution and interest on internal advances.

"Project Officer" means the Vice President for Finance or Assistant Treasurer or an alternate or successor appointed by the Institution.

"Rebate Year" means the one year period (or shorter period beginning on the date of issue) ending on June 30.

"Revenues" means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security provided under the Series W Agreement, payable to the Authority or the Trustee under the Series W Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

"S&P" means Standard & Poor's Ratings Group, Inc., or any successor rating agency.

"Series W Bonds" means the $120,080,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series W, dated May 1, 2000 and any Series W Bond or Series W Bonds duly issued in exchange or replacement therefor.

"UCC" means the Massachusetts Uniform Commercial Code.

Words importing persons include firms, associations and corporations, and the singular and plural form of words shall be deemed interchangeable wherever appropriate.

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APPENDIX C

SUMMARY OF THE SERIES W LOAN AND TRUST AGREEMENT

The following is a brief summary, prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement (the "Series W Agreement"), pertaining to the Series W Bonds and the Project. The summary does not purport to be complete, and reference is made to the Series W Agreement for full and complete statements of such and all provisions.

Establishment of Funds

The following funds have been established and shall be maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Series W Agreement:

Debt Service Fund; and

Redemption Fund.

A Construction Fund and Expense Fund have been established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Series W Agreement. (Sections 303, 305, 307 and 401)

Construction Fund

The moneys in the Construction Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Series W Agreement, shall be applied by the Authority solely to the payment or reimbursement of Project Costs. If there is an Event of Default known to the Authority with respect to payments to the Debt Service Fund or to the Authority, the Paying Agent or the Trustee, the Authority may use the Construction Fund without requisition to make up the deficiency, and the Institution shall restore the funds so used. (Section 401)

Debt Service Fund

Accrued interest received upon the sale of the Series W Bonds shall be deposited in the Debt Service Fund. The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal, redemption premium, if any, and interest on the Series W Bonds. Moneys shall be transferred by the Trustee from the Debt Service Fund to the Paying Agent for the payment of the Series W Bonds. (Section 303)

Redemption Fund

The moneys in the Redemption Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Series W Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Series W Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Series W Bonds shall be paid by the Institution.

If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal and interest then due on the Series W Bonds, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Series W Bonds or required to purchase Series W Bonds under outstanding purchase contracts) to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If any moneys in the Redemption Fund are invested in accordance with the Series W Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Series W Bonds called for redemption in accordance with the Series W Agreement, then the Institution shall immediately supply the deficiency. (Section 305)

Payment of Rebate to the United States

No later than sixty (60) days after the close of the fifth Rebate Year following the date of issue of the Series W Bonds (or any earlier date that may be required) and the close of each fifth Rebate Year thereafter, the Institution shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under IRC §148(f) and the regulations thereunder (the "Rebate Provision"). Within sixty (60) days after the Series W Bonds have been paid in full, the Institution shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under the Rebate Provision. (Section 306)

Expense Fund

The moneys in the Expense Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Series W Agreement, shall be applied by the Authority solely to the payment or reimbursement of the costs of issuing the Series W Bonds. The Authority shall pay from the Expense Fund the costs of issuing the Series W Bonds, including the Authority's initial administrative fee, the reasonable fees and expenses of financial consultants and bond counsel, the reasonable fees and expenses of the Trustee incurred prior to the completion of the Project in accordance with the Series W Agreement, any recording or similar fees and any expenses of the Institution in connection with the issuance of the Series W Bonds which are approved by the Authority. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Series W Bonds, but shall be transferred to the Construction Fund as provided in the Series W Agreement. After all costs of issuing the Series W Bonds have been paid any amounts remaining in the Expense Fund shall be transferred to the Construction Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 307)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay all principal, redemption price and interest on the Outstanding Series W Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Series W Bonds or required to purchase Series W Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the Series W Agreement, be applied (in the order such Funds are named in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to this section, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Series W Bond, the Trustee may require presentation of the Series W Bond for endorsement of the payment. (Section 308)

Payments by the Institution

Not later than the opening of business on the Business Day next preceding the date on which a payment of principal or interest is due, the Institution shall pay or cause to be paid to the Trustee for deposit in the Debt Service Fund an amount available on such payment date equal to such payment less the amount, if any, in the Debt Service Fund and available therefor.

At any time when any principal of the Series W Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required under this section shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund under the Series W Agreement shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Series W Agreement and a loss results therefrom so that there are insufficient funds to pay principal and interest on the Series W Bonds when due, the Institution shall supply the deficiency. (Section 309)

Investments

(a) Pending their use under the Series W Agreement, moneys in the Debt Service Fund, and Redemption Fund may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee. Moneys in the Expense Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder not later than the time when such moneys are expected to be needed. Moneys in the Construction Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder within two (2) years and not later than the times when such moneys are expected to be needed. Notwithstanding the foregoing, any amount of Series W Bond proceeds deposited in the Construction Fund pursuant to the Series W Agreement which has not been expended by June 1, 2003 shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Series W Bonds, or in Permitted Investments described in Clause (c)(B) without regard to yield.

(b) Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings (which for this purpose include net profit and are after deduction of net loss), on accrued interest deposited in the Debt Service Fund and on the Expense Fund shall be transferred to the Construction Fund not less often than quarterly. Earnings on the Redemption Fund shall be transferred to the Debt Service Fund and credited against payments otherwise required to be made thereto not less often than quarterly.

(c) The term "Permitted Investments" means (A) Government or Equivalent Obligations or shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to Government or Equivalent Obligations and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority or United States government agency securities, (B) "tax exempt bonds" as defined in IRC §150(a)(6), other than "specified private activity bonds" as defined in IRC §57(a)(5)(C), rated at least AA or Aa by S&P and Moody's, respectively, or the equivalent by any other nationally recognized rating agency, at the time of acquisition thereof or shares of a so-called money market or mutual fund that do not constitute "investment property" within the meaning of IRC §148(b)(2), provided either that the fund has all of its assets invested in obligations of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated AAm or AAm-G if rated by S&P, (C) certificates of deposit of, banker's acceptances drawn on and accepted by, and interest bearing deposit accounts of, a bank or trust company which has a capital and surplus of not less than $50,000,000, (D) Repurchase Agreements, (E) money market funds rated at least AAm or AAm-G by S&P and (F) investment agreements with provider rated at least AA- or Aa3 by S&P or Moody's. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than $50,000,000 or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from the Authority or the Trustee obligations issued or guaranteed by the United States; provided that the market value of such obligations is at the time of entering into the agreement at least one hundred and three percent (103%) of the repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee.

The Trustee may hold undivided interests in Permitted Investments for more than one Fund (for which they are eligible) and may make interfund transfers in kind. (Section 312)

Indemnification as to the Project

Pursuant to the Series W Agreement, the Institution shall indemnify the Authority and the Trustee against (a) the claims of any person arising out of any condition of the Project, the construction, use, occupancy or management thereof, or any accident, injury or damage to any person occurring in or about the Project; and (b) any and all costs, counsel fees, expenses or liabilities reasonably incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding is brought against the Authority or the Trustee by reason of any such claim, the Institution upon notice from the affected party shall defend the same and the Authority and the Trustee shall cooperate with the Institution at the expense of the Institution in connection therewith. (Section 405)

Default by the Institution

"Event of Default" in the Series W Agreement means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(i) Debt Service. Any principal of or interest or redemption premium on the Series W Bonds shall not be paid when due.

(ii) Other Obligations. The Institution shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Authority or the Trustee to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Series W Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.

(iii) Warranties. There shall be a material breach of warranty made in the Series W Agreement by the Institution as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.

(iv) Voluntary Bankruptcy. The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

(v) Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

(vi) Involuntary Bankruptcy. The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

(vii) Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of other indebtedness of the Institution for borrowed money with respect to loans exceeding $10,000,000, or with respect to the performance of any agreement securing such other indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (vii) if (A) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (B) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Institution shall notify the Authority and the Trustee of any such breach or event immediately upon the Institution's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (vii) has occurred and whether such acceleration continues to be in effect.

If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Series W Bonds. (Section 601)

Remedies for Events of Default

If an Event of Default occurs and is continuing:

The Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal amount of the Outstanding Series W Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Debt Service Fund and the Redemption Fund, including the right to sell or redeem such securities and the right to retain such securities in satisfaction of the obligations of the Institution under the Series W Agreement. (Section 602)

Action by Bondowners

Any request, authorization, direction, notice, consent, waiver or other action provided by the Series W Agreement to be given or taken by Bondowners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondowners or their attorneys duly appointed in writing. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, shall be sufficient for any purpose of the Series W Agreement (except as otherwise expressly provided in the Series W Agreement) if made in the following manner, but the Authority or the Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable.

The ownership of Series W Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

Any request, consent or vote of the owner of any Series W Bond shall bind all future owners of such Series W Bond. Series W Bonds owned or held by or for the account of the Authority or the Institution shall not be deemed Outstanding Series W Bonds for the purpose of any consent or other action by Bondowners. (Section 901)

Proceedings by Bondowners

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Series W Agreement or any applicable remedy under the Series W Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in the Series W Agreement and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the obligations of the Authority under the Series W Agreement or any applicable remedy under the Series W Agreement, unless the Bondowners have directed the Trustee to act and furnished the Trustee indemnity as provided in the Series W Agreement and have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter fail or refuse to take such action.

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Series W Agreement and under the laws of The Commonwealth of Massachusetts. (Section 902)

Tax Status

In the Series W Agreement, the Institution represents and warrants that (i) it is an organization described in Section 501(c)(3) of the IRC and it is not a "private foundation" as defined in Section 509 of the IRC; (ii) it has received letters from the Internal Revenue Service to that effect; (iii) such letters have not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letters; (v) the facts and circumstances which form the basis of such letters continue substantially to exist as represented to the Internal Revenue Service; and (vi) it is exempt from federal income taxes under Section 501(a) of the IRC. To the extent consistent with its status as a nonprofit educational institution, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution.

Pursuant to the Series W Agreement, the Institution shall not take or omit to take any action if such action or omission (i) would cause the Series W Bonds to be "arbitrage bonds" under Section 148 of the IRC, (ii) would cause the Series W Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Series W Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. The Institution represents and warrants that no more than five percent (5%) of the Project Costs were incurred prior to September 1997. (Section 1002)

Maintenance of Corporate Existence

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve or dispose of all or substantially all of its assets, or spin off a substantial amount of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Series W Agreement, (b) the transaction does not result in a conflict, breach or default referred to in the Series W Agreement, (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Series W Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Institution, and (iii) executes, delivers, registers, records and files such other instruments as the Authority or the Trustee may reasonably require to confirm, perfect or maintain the security granted under the Series W Agreement. (Section 1005)

Amendment

The Series W Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of the Series W Agreement, (b) to provide for the establishment or amendment of a book entry system of registration for the Series W Bonds through a securities depository (which may or may not be DTC), (c) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, or (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Series W Agreement and which do not impair the security for the Series W Bonds.

Except as provided in the foregoing paragraph, the Series W Agreement may be amended only with the written consent of the owners of at least two-thirds (2/3) in principal amount of the Outstanding Series W Bonds; provided, however, that no amendment of the Series W Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Series W Bond, (ii) to reduce the principal amount or interest rate of any Series W Bond, (iii) to make any Series W Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Series W Bond or Series W Bonds over any other Series W Bond or Series W Bonds, or (v) to reduce the percentage of the Series W Bonds required to be represented by the Bondowners giving their consent to any amendment. (Section 1101)

Defeasance

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Series W Bonds in full, and when all the rights under the Series W Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Series W Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Series W Agreement, the security interests created by the Series W Agreement (except in such funds and investments) shall terminate, the Series W Bonds shall be deemed paid, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Series W Agreement; provided, however, that if any such Series W Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Series W Bonds and notice of such redemption shall have been duly mailed in accordance with the Series W Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Series W Bonds in full shall be irrevocably set aside for that purpose, subject, however, to the Series W Agreement, and moneys held for defeasance shall be invested only as provided above in this section. Any funds or property held by the Trustee and not required for payment or redemption of the Series W Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for payment or rebate to the United States, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require. (Section 202)

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SERIES Y AGREEMENT

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following terms have the following meanings in this Official Statement, unless the context otherwise requires.

"Act" means Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time.

"Authorized Officer" means: (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Director of Financing Programs, Director of Administration and Finance or General Counsel, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the President, Vice President for Finance, the Treasurer or other chief financial officer or any Assistant Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document.

"BMA Index" means the BMA Municipal Swap Index disseminated by Municipal Market Data, a Thomson Financial Services Company or its successor; or, if at the time a Flexible Rate is to be determined, Municipal Market Data has not provided the relevant information on the BMA Municipal Index, then the rate determined by Municipal Market Data on the day next preceding the beginning of the Rate Period for which such Flexible Rate is to be determined. If the BMA Index ceases to be published, the Remarketing Agent in its reasonable judgment, in consultation with the Institution, will select or construct an alternative index which it reasonably believes will produce the rate that would have been produced by Municipal Market Data as in effect prior to such cessation.

"Bond Counsel" means any nationally recognized bond counsel selected by the Institution and satisfactory to the Trustee and the Authority.

"Bondowners" means the registered owners of the Series Y Bonds from time to time as shown in the books kept by the Paying Agent as bond registrar and transfer agent.

"Borrower Bond" means any Series Y Bond registered to the Institution pursuant to the Series Y Agreement.

"Business Day" means a day on which banks in each of the cities in which the principal offices of the Trustee, the Paying Agent and, if applicable, the Tender Agent and the Remarketing Agent are located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement between the Institution and the Trustee dated the date of issuance and delivery of the Series Y Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Conversion Date" means the date on which a new Mode becomes effective.

"Daily Mode" means the Mode in which the interest rate on the Series Y Bonds is fixed for periods of one day.

"Delivery Date" means, with respect to a Series Y Bond tendered for purchase at the election of the Bondowner, the Purchase Date or any subsequent Business Day on which such Series Y Bond is delivered to the Paying Agent as provided in the Series Y Agreement.

"Effective Date" means, while the Series Y Bonds are in a Variable Rate Mode or the Flexible Mode, the date on which a new interest rate takes effect.

APPENDIX D

"Fixed Rate" means a rate or rates of interest on the Series Y Bonds that is fixed for the remaining term or terms of the Series Y Bonds.

"Fixed Rate Conversion Date" means with respect to the Series Y Bonds, the date upon which the Fixed Rate first becomes effective for the Series Y Bonds.

"Fixed Rate Mode" means the Mode in which the interest rate on the Series Y Bonds is the Fixed Rate.

"Flexible Mode" means the Mode in which the interest rate on the Series Y Bonds is set by the Remarketing Agent at the Flexible Rate.

"Flexible Rate" means a rate of interest set by the Remarketing Agent for periods of from one to 270 days.

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; and (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian.

"Hedge Agreement" means an interest rate swap, cap, collar, floor, forward, or other hedging agreement, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on all or a portion of any indebtedness.

"Interest Payment Date" means (i) July 3, 2000; (ii) when the Series Y Bonds are in the Daily or Weekly Mode, the first Business Day of each calendar month; (iii) when the Series Y Bonds are in the Multiannual Mode, the first day of any January or July of each year commencing with a January 1 or July 1 which is at least two but less than ten months after the Series Y Bonds have been converted to the Multiannual Mode; (iv) when the Series Y Bonds are in the Flexible Mode, the first Business Day following the period during which a Flexible Rate is in effect as to the Series Y Bonds; and (v) with respect to each such Mode, the Maturity Date.

"IRC" means the Internal Revenue Code of 1986, as it may be amended and applied to the Series Y Bonds from time to time.

"Mode" means the period for and the manner in which the interest rates on the Series Y Bonds are set and includes the Flexible Mode, the Variable Rate Mode and the Fixed Rate Mode. The Variable Rate Mode includes the Daily Mode, the Weekly Mode and the Multiannual Mode.

"Moody's" means Moody's Investors Service, Inc. or any successor rating agency.

"Multiannual Mode" means the Mode in which the interest rate on the Series Y Bonds is fixed for periods of six months or multiples thereof designated by the Institution.

"Opinion of Bond Counsel" means an opinion of Bond Counsel to the effect that the matter or action in question will not have an adverse impact on the tax-exempt status of the Series Y Bonds for federal income tax purposes.

"Outstanding," when used to modify Series Y Bonds, refers to Series Y Bonds issued under the Series Y Agreement, excluding: (i) Series Y Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or a sinking fund installment; (ii) Series Y Bonds which have been paid; (iii) Series Y Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Series Y Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Series Y Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Series Y Bonds and notice of such redemption shall have been duly mailed in accordance with the Series Y Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

"Paying Agent" means the Paying Agent designated from time to time.

"Period" or "Rate Period" means, when used with respect to any particular rate of interest on a Series Y Bond in any Variable Rate Mode or in the Flexible Mode, the period during which such rate of interest determined for such Series Y Bond will remain in effect as provided in the Series Y Agreement.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the following:

(i) Existing Part of the Project: acquisition of a long-term leasehold interest in 1033 Massachusetts Avenue, Cambridge;

(ii) New Part of the Project:

(1) Construction, furnishing and equipping of (A) a shrub and vine collection garden to be located at the Arnold Arboretum, 1050 Centre Street, Boston; (B) an approximately 60,000 square foot building to be located at 13 Frisbie Place, Cambridge; (C) an approximately 205,000 square foot building to be located at 1727 and 1737 Cambridge Street and 34 and 38 Kirkland Street, Cambridge; (D) an approximately 100,000 square foot building to be located on the west side of Oxford Street between Kirkland and Everett Streets, Cambridge; (E) an approximately 90,000 square foot building to be located at 37 Harvard Way, Boston; (F) an approximately 40,000 square foot building to be located at 35 Harvard Way, Boston; (G) an approximately 95,000 square foot building to be located at 47A Harvard Way, Boston; (H) an approximately 400,000 square foot building to be located at 77 Avenue Louis Pasteur, Boston; (I) an approximately 15,000 square foot building to be located at 1 Pine Hill Drive, Southborough; (J) an approximately 275,000 and 260,000 square foot building and underground parking facility, respectively, both to be located at 109 Western Avenue, Boston; (K) an approximately 25,000 square foot building to be located at 90 Mt. Auburn Street, Cambridge; and (L) an approximately 1,100 linear foot sewer separation to be located under Harvard Yard, Cambridge;

(2) Other renovation, furnishing and equipping and other capital expenditures at (A) the Institution's Business School Campus in Boston; (B) the Institution's Medical School Campus in Boston; (C) the Institution's main campus in Cambridge and Boston; (D) Old Causeway Road, Bedford; (E) 1 Pine Hill Drive, Southborough; (F) the Arnold Arboretum, 1050 Centre Street, Boston and (G) administrative data systems upgrades throughout the Institution's campuses; and

(3) The projects described in section (H) of the Notice of Public Hearing filed with the Massachusetts Secretary of State on September 7, 1999.

The word "Project" also refers to the facilities which result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased with the written consent of the Authority upon certification by the Project Officer on behalf of the Institution describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: that the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or educational laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Series Y Agreement. The signers of the certificate may rely, as to conclusions of law, on an opinion of counsel furnished to the Authority and referred to in the certificate. The Authority may waive any provision required to be contained in the certificate upon advice of counsel that the waiver does not adversely affect the security for the Series Y Bonds. The scope of the Project may be increased only upon receipt by the Authority of an Opinion of Bond Counsel regarding the increase in scope.

"Project Costs" means the costs of issuing the Series Y Bonds and carrying out the Project, including repayment of external loans and internal advances for the same to the extent permitted by the Series Y Agreement, working capital expenditures directly related to the Project, and interest prior to, during and for up to one year after construction is substantially complete, but excluding general administrative expenses, overhead of the Institution and interest on internal advances.

"Project Officer" means the Vice President for Finance or Assistant Treasurer or an alternate or successor appointed by the Institution.

"Purchase Date" means, while the Series Y Bonds are in a Flexible Mode or Variable Rate Mode, the date on which Series Y Bonds shall be required to be purchased following a mandatory or optional tender in accordance with the provisions in the Series Y Agreement.

"Purchase Price" means, with respect to any Series Y Bond on any Purchase Date, a price equal to the principal amount of such Series Y Bond plus accrued interest thereon, if any, to the Purchase Date.

"Rebate Year" means the one year period (or shorter period beginning on the date of issue) ending on June 30.

"Record Date" means (i) when the Series Y Bonds are in the Daily Mode, the Weekly Mode or the Flexible Mode, the Business Day immediately preceding each Interest Payment Date; and (ii) when the Series Y Bonds are in the Multiannual Mode or the Fixed Rate Mode, the 15th day of the month preceding each Interest Payment Date whether or not a Business Day.

"Remarketing Agent" means the corporation, association, partnership or firm acting as Remarketing Agent as provided in the Series Y Agreement, which may be the Institution, and any successor Remarketing Agent appointed from time to time.

"Remarketing Agreement" means the Remarketing Agreement dated June 1, 2000 between the Institution and the Remarketing Agent.

"Revenues" means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security provided under the Series Y Agreement, payable to the Authority or the Trustee under the Series Y Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

"S&P" means Standard & Poor's Ratings Group, Inc., or any successor rating agency.

"Series Y Bonds" means the $117,905,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series Y, dated the date of original delivery thereof, and any Series Y Bond or Series Y Bonds duly issued in exchange or replacement therefor.

"Tender Agent" means the Trustee or other Tender Agent as designated by the Institution.

"Tendered Bond" means any Series Y Bond with respect to which the Bondowner has elected to require purchase pursuant to the Series Y Agreement.

"UCC" means the Massachusetts Uniform Commercial Code.

"Variable Rate" means the rate of interest on the Series Y Bonds that is set daily, weekly, or for multiples of six months or one year.

"Variable Rate Mode" means the Mode in which the interest rate on the Series Y Bonds is the Variable Rate, and includes the Daily Mode, the Multiannual Mode and the Weekly Mode.

"Weekly Mode" means the Mode in which the interest on the Bonds is fixed for periods of one week.

Words importing persons include firms, associations and corporations, and the singular and plural form of words shall be deemed interchangeable wherever appropriate.

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APPENDIX D

SUMMARY OF THE SERIES Y LOAN AND TRUST AGREEMENT

The following is a brief summary, prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement (the "Series Y Agreement"), pertaining to the Series Y Bonds and the Project. The summary does not purport to be complete, and reference is made to the Series Y Agreement for full and complete statements of such and all provisions.

Optional Tender

While the Series Y Bonds are in the Daily Mode, Weekly Mode or Multiannual Mode, the Bondowners have the right to tender Series Y Bonds for purchase in multiples of $5,000, at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, upon compliance with the conditions described below. In order to exercise the right to tender, the Bondowners must give telephone notice by 11:00 a.m. (in the Daily Mode) or (in other Modes) deliver to the Paying Agent a written irrevocable notice of tender substantially in the form of the Bondowner's Election Notice set forth in the Series Y Agreement and satisfactory to the Paying Agent at the times provided in the Series Y Agreement. Series Y Bonds in the Daily Mode will be purchased by 5:00 p.m. on the date of such notice. Series Y Bonds in the Weekly Mode will be purchased on the Business Day specified in such Bondowner's Election Notice, provided such date is a Business Day which is at least seven calendar days after receipt by the Paying Agent of such notice. If the Series Y Bonds are in the Multiannual Mode, the Bondowner's Election Notice must be delivered to the Paying Agent not later than seven days prior to any Effective Date for purchase on such Effective Date. If a Bondowner elects to require purchase as provided above, the Bondowner shall be deemed, by such election, to have agreed irrevocably to sell its Series Y Bonds to any purchaser determined in accordance with the provisions of the Series Y Agreement on the date fixed for purchase at a price equal to the principal amount of, plus accrued interest thereon, if any, to the Purchase Date. The Purchase Price of the Series Y Bonds shall be paid to the Bondowner by the Paying Agent on the Delivery Date, which shall be the Purchase Date or any subsequent Business Day on which the Series Y Bonds are delivered to the Paying Agent. The Purchase Price of Series Y Bonds shall be paid only upon surrender of the Series Y Bonds to the Tender Agent. From and after the Purchase Date, no further interest on the Series Y Bonds shall accrue to the Bondowner who tendered the Series Y Bonds for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. Tender of the Series Y Bonds will not be effective and the Series Y Bonds will not be purchased if at the time fixed for purchase an acceleration of the maturity of the Series Y Bonds shall have occurred and not have been annulled in accordance with the Series Y Agreement. Notice of tender of the Series Y Bonds is irrevocable.

While the Series Y Bonds are in the Flexible Mode or after conversion to the Fixed Rate Mode, the Bondowners shall have no right of optional tender of the Series Y Bonds for purchase. (Sections 301 and 311)

Conversion to a Fixed Rate

The interest rate on the Series Y Bonds may be converted to a Fixed Rate at the sole option of the Institution provided that no default exists under the Series Y Agreement, as certified to the Trustee by an Authorized Officer of the Institution. The Fixed Rate shall be determined by the Remarketing Agent at least seven days prior to the Fixed Rate Conversion Date. The Fixed Rate shall be the lowest rate which in the judgment of the Remarketing Agent, on the basis of prevailing financial market conditions, would permit the sale of the Series Y Bonds on the date of such determination at par on the basis of their terms as converted. In the event of conversion to the Fixed Rate Mode, the Series Y Bonds will be subject to mandatory tender. The determination of the Fixed Rate shall be conclusive and binding on the Authority, the Trustee, the Paying Agent, the Institution and the Bondowners. (Section 301)

Partial Conversions

The Series Y Bonds may be converted in whole or in part to or from the Flexible Mode, any of the Variable Rate Modes or to the Fixed Rate Mode upon compliance with the conditions set forth in the Series Y Agreement. In the event the Series Y Bonds are in (or are to be converted to) more than one Mode the provisions of the Series Y Agreement relating to Series Y Bonds in a particular Mode (or to be converted to a particular Mode) shall apply only to the Series Y Bonds in (or to be converted to) such Mode and, where necessary or appropriate, any reference in the Series Y Agreement to the Series Y Bonds shall be construed to mean the Series Y Bonds in (or to be converted to) such Mode.

In the event of any partial conversion of the Series Y Bonds to a new Mode, the Series Y Bonds to be converted shall be selected by the Trustee from Series Y Bonds in the Mode selected by the Institution. The particular Series Y Bonds to be converted shall be selected by the Trustee from all the Series Y Bonds in the Mode from which Series Y Bonds are to be converted and, except in the Flexible Mode, by lot from numbers assigned to each $5,000 of principal amount of the Series Y Bonds. The principal amount of Series Y Bonds to be converted shall be determined so that all of the Series Y Bonds shall be in the denominations specified in the Series Y Agreement for the particular Modes. (Section 301)

Establishment of Funds

The following funds have been established and shall be maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Series Y Agreement:

Debt Service Fund; and

Redemption Fund.

A Construction Fund and Expense Fund have been established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Series Y Agreement. (Sections 303, 304, 306 and 401)

Construction Fund

The moneys in the Construction Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Series W Agreement, shall be applied by the Authority solely to the payment or reimbursement of Project Costs. If there is an Event of Default known to the Authority with respect to payments to the Debt Service Fund or to the Authority, the Paying Agent or the Trustee, the Authority may use the Construction Fund without requisition to make up the deficiency, and the Institution shall restore the funds so used. (Section 401)

Debt Service Fund

The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal, redemption premium, if any, and interest on the Series Y Bonds. The Trustee shall transfer moneys from the Debt Service Fund to the Paying Agent for the payment of the Series Y Bonds. (Section 303)

Redemption Fund

The moneys in the Redemption Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Series Y Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Series Y Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Series Y Bonds shall be paid by the Institution.

If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal and interest then due on the Series Y Bonds, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Series Y Bonds or required to purchase Series Y Bonds under outstanding purchase contracts) to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If any moneys in the Redemption Fund are invested in accordance with the Series Y Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Series Y Bonds called for redemption in accordance with the Series Y Agreement, then the Institution shall immediately supply the deficiency. (Section 304)

Payment of Rebate to the United States

No later than sixty (60) days after the close of the fifth Rebate Year following the date of issue of the Series Y Bonds (or any earlier date that may be required) and the close of each fifth Rebate Year thereafter, the Institution shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under IRC §148(f) and the regulations thereunder (the "Rebate Provision"). Within sixty (60) days after the Series Y Bonds have been paid in full, the Institution shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under the Rebate Provision. (Section 305)

Expense Fund

The moneys in the Expense Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Series Y Agreement, shall be applied by the Authority solely to the payment or reimbursement of the costs of issuing the Series Y Bonds. The Authority shall pay from the Expense Fund the costs of issuing the Series Y Bonds, including the Authority's initial administrative fee, the reasonable fees and expenses of financial consultants and bond counsel, the reasonable fees and expenses of the Trustee incurred prior to the completion of the Project in accordance with the Series Y Agreement, any recording or similar fees and any expenses of the Institution in connection with the issuance of the Series Y Bonds which are approved by the Authority. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Series Y Bonds, but shall be transferred to the Construction Fund as provided in the Series Y Agreement. After all costs of issuing the Series Y Bonds have been paid any amounts remaining in the Expense Fund shall be transferred to the Construction Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 306)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay all principal, redemption price and interest on the Outstanding Series Y Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Series Y Bonds or required to purchase Series Y Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the Series Y Agreement, be applied (in the order such Funds are named in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to this section, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Series Y Bond, the Trustee may require presentation of the Series Y Bond for endorsement of the payment. (Section 307)

Payments by the Institution

Not later than the opening of business on the Business Day next preceding the date on which a payment of principal or interest on the Series Y Bonds is due, the Institution shall pay or cause to be paid to the Trustee for deposit in the Debt Service Fund an amount equal to such payment less the amount, if any, in the Debt Service Fund and available therefor; provided, however, that with respect to Series Y Bonds in the Flexible Mode, interest payments thereon may be paid directly to the Paying Agent with notice to the Trustee.

At any time when any principal of the Series Y Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required under this section shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund or to the Paying Agent, as appropriate, under the Series Y Agreement shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Series Y Agreement and a loss results therefrom so that there are insufficient funds to pay principal of and redemption premium, if any, and interest on the Series Y Bonds when due, the Institution shall supply the deficiency. (Section 308)

Investments

(a) Pending their use under the Series Y Agreement, moneys in the Debt Service Fund, and Redemption Fund may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee. Moneys in the Expense Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder not later than the time when such moneys are expected to be needed. Moneys in the Construction Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder within two (2) years and not later than the times when such moneys are expected to be needed. Notwithstanding the foregoing, any amount of Series Y Bond proceeds deposited in the Construction Fund pursuant to the Series Y Agreement which has not been expended by June 1, 2003 shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Series Y Bonds, or in Permitted Investments described in Clause (c)(B) without regard to yield.

(b) Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings (which for this purpose include net profit and are after deduction of net loss), on accrued interest deposited in the Debt Service Fund and on the Expense Fund shall be transferred to the Construction Fund not less often than quarterly. Earnings on the Redemption Fund shall be transferred to the Debt Service Fund and credited against payments otherwise required to be made thereto not less often than quarterly.

(c) The term "Permitted Investments" means (A) Government or Equivalent Obligations or shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to Government or Equivalent Obligations and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority or United States government agency securities, (B) "tax exempt bonds" as defined in IRC §150(a)(6), other than "specified private activity bonds" as defined in IRC §57(a)(5)(C), rated at least AA or Aa by S&P and Moody's, respectively, or the equivalent by any other nationally recognized rating agency, at the time of acquisition thereof or shares of a so-called money market or mutual fund that do not constitute "investment property" within the meaning of IRC §148(b)(2), provided either that the fund has all of its assets invested in obligations of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated AAm or AAm-G if rated by S&P, (C) certificates of deposit of, banker's acceptances drawn on and accepted by, and interest bearing deposit accounts of, a bank or trust company which has a capital and surplus of not less than $50,000,000, (D) Repurchase Agreements, (E) money market funds rated at least AAm or AAm-G by S&P and (F) investment agreements with provider rated at least AA- or Aa3 by S&P or Moody's. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than $50,000,000 or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from the Authority or the Trustee obligations issued or guaranteed by the United States; provided that the market value of such obligations is at the time of entering into the agreement at least one hundred and three percent (103%) of the repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee.

The Trustee may hold undivided interests in Permitted Investments for more than one Fund (for which they are eligible) and may make interfund transfers in kind. (Section 316)

<u>Indemnification as to the Project</u>

Pursuant to the Series Y Agreement, the Institution shall indemnify the Authority and the Trustee against (a) the claims of any person arising out of any condition of the Project, the construction, use, occupancy or management thereof, or any accident, injury or damage to any person occurring in or about the Project; and (b) any and all costs, counsel fees, expenses or liabilities reasonably incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding is brought against the Authority or the Trustee by reason of any such claim, the Institution upon notice from the affected party shall defend the same and the Authority and the Trustee shall cooperate with the Institution at the expense of the Institution in connection therewith. (Section 405)

<u>Default by the Institution</u>

"Event of Default" in the Series Y Agreement means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

(i) <u>Debt Service on Series Y Bonds; Required Purchase</u>. Any principal of, premium, if any, or interest on any Series Y Bond shall not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise or any Purchase Price for Series Y Bonds shall not be paid as provided in the Series Y Agreement.

(ii) <u>Other Obligations</u>. The Institution shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Authority or the Trustee to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Series Y Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.

(iii) <u>Warranties</u>. There shall be a material breach of warranty made in the Series Y Agreement by the Institution as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.

(iv) <u>Voluntary Bankruptcy</u>. The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

(v) Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

(vi) Involuntary Bankruptcy. The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

(vii) Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of other indebtedness of the Institution for borrowed money with respect to loans exceeding $10,000,000, or with respect to the performance of any agreement securing such other indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (vii) if (A) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (B) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Institution shall notify the Authority and the Trustee of any such breach or event immediately upon the Institution's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (vii) has occurred and whether such acceleration continues to be in effect.

If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Series Y Bonds. (Section 501)

Remedies for Events of Default

If an Event of Default occurs and is continuing:

The Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal amount of the Outstanding Series Y Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Debt Service Fund and the Redemption Fund, including the right to sell or redeem such securities and the right to retain such securities in satisfaction of the obligations of the Institution under the Series Y Agreement. (Section 502)

Action by Bondowners

Any request, authorization, direction, notice, consent, waiver or other action provided by the Series Y Agreement to be given or taken by Bondowners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondowners or their attorneys duly appointed in writing. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, shall be sufficient for any purpose of the Series Y Agreement (except as otherwise expressly provided in the Series Y Agreement) if made in the following manner, but the Authority or the Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

The ownership of Series Y Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

Any request, consent or vote of the owner of any Series Y Bond shall bind all future owners of such Series Y Bond. Series Y Bonds owned or held by or for the account of the Authority or the Institution shall not be deemed Outstanding Series Y Bonds for the purpose of any consent or other action by Bondowners. (Section 801)

Proceedings by Bondowners

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Series Y Agreement or any applicable remedy under the Series Y Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in the Series Y Agreement and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the obligations of the Authority under the Series Y Agreement or any applicable remedy under the Series Y Agreement, unless the Bondowners have directed the Trustee to act and furnished the Trustee indemnity as provided in the Series Y Agreement and have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter fail or refuse to take such action.

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Series Y Agreement and under the laws of The Commonwealth of Massachusetts. (Section 802)

Tax Status

In the Series Y Agreement the Institution represents and warrants that (i) it is an organization described in Section 501(c)(3) of the IRC and it is not a "private foundation" as defined in Section 509 of the IRC; (ii) it has received letters from the Internal Revenue Service to that effect; (iii) such letters have not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letters; (v) the facts and circumstances which form the basis of such letters continue substantially to exist as represented to the Internal Revenue Service; and (vi) it is exempt from federal income taxes under Section 501(a) of the IRC. To the extent consistent with its status as a nonprofit educational institution, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution.

Pursuant to the Series Y Agreement, the Institution shall not take or omit to take any action if such action or omission (i) would cause the Series Y Bonds to be "arbitrage bonds" under Section 148 of the IRC, (ii) would cause the Series Y Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Series Y Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. The Institution represents and warrants that no more than five percent (5%) of the Project Costs were incurred prior to September 1997. (Section 902)

Maintenance of Corporate Existence

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve or dispose of all or substantially all of its assets, or spin off a substantial amount of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Series Y Agreement, (b) the transaction does not result in a conflict, breach or default referred to in the Series Y Agreement, (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Series Y Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Institution, and (iii) executes, delivers, registers, records and files such other instruments as the Authority or the Trustee may reasonably require to confirm, perfect or maintain the security granted under the Series Y Agreement. (Section 906)

Amendment

The Series Y Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of the Series Y Agreement, (b) to provide for the establishment or amendment of a book entry system of registration for the Series Y Bonds through a securities depository (which may or may not be DTC), (c) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, (d) to accommodate the requirements of Moody's or S&P to enable the Series Y Bonds to receive ratings acceptable to the Institution, (e) effective upon any Conversion Date to a new Mode, to make any amendment, (f) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Series Y Agreement and which do not impair the security for the Series Y Bonds or (g) to add provisions relating to the partial conversion of Series Y Bonds to a new Mode or providing for credit enhancement or liquidity support for the Series Y Bonds which do not impair the security for the Series Y Bonds. Any amendment permitted by clause (e) or (g) above shall be accompanied by an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series Y Bonds.

Except as provided in the foregoing paragraph, the Series Y Agreement may be amended only with the written consent of the owners of at least two-thirds (2/3) in principal amount of the Outstanding Series Y Bonds; provided, however, that no amendment of the Series Y Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Series Y Bond, (ii) to reduce the principal amount or interest rate of any Series Y Bond, (iii) to make any Series Y Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Series Y Bond or Series Y Bonds over any other Series Y Bond or Series Y Bonds, or (v) to reduce the percentage of the Series Y Bonds required to be represented by the Bondowners giving their consent to any amendment. (Section 1001)

Defeasance

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Series Y Bonds in full, and when all the rights under the Series Y Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Series Y Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Series Y Agreement, the security interests created by the Series Y Agreement (except in such funds and investments) shall terminate, the Series Y Bonds shall be deemed paid, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Series Y Agreement; provided, however, that if any such Series Y Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Series Y Bonds and notice of such redemption shall have been duly mailed in accordance with the Series Y Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Series Y Bonds in full shall be irrevocably set aside for that purpose, subject, however, to the Series Y Agreement, and moneys held for defeasance shall be invested only as provided above in this section. Any funds or property held by the Trustee and not required for payment or redemption of the Series Y Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for payment or rebate to the United States, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require. (Section 203)

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TELEPHONE: (617) 573-0100 FACSIMILE: (617) 227-4420

[Palmer & Dodge LLP letterhead]

PROPOSED FORM OF OPINION OF BOND COUNSEL
WITH RESPECT TO THE SERIES W BONDS

[Closing Date]

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the following bonds (the "Bonds"):

$120,080,000
Revenue Bonds, Harvard University Issue,
Series W dated May 1, 2000

We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion, including the Loan and Trust Agreement (the "Agreement") dated as of February 8, 2000, among the Authority, the President and Fellows of Harvard College (the "Institution") and State Street Bank and Trust Company, as trustee (the "Trustee").

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. Under the Agreement the Institution has agreed to make payments sufficient to pay when due the principal of, and premium (if any) and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

APPENDIX E

Reference is made to an opinion of even date of Ropes & Gray, counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to carry out the Project (as defined in the Agreement) being financed in part by the Bonds, the power of the Institution to enter into and perform the Agreement, the authorization, execution and delivery of the Agreement by the Institution and the extent to which the Agreement is binding and enforceable upon the Institution.

We express no opinion with respect to compliance by the Institution with applicable legal requirements in connection with the construction, equipping or operation of the Project.

Based on our examination, we are of opinion, as of the date hereof and under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable upon the Authority. As provided in Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues.

4. Under existing law, interest on the Bonds (including any original issue discount properly allocable to the owners thereof) is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986 (the "IRC") on individuals and corporations. However, we call your attention to the fact that interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). We also call your attention to the fact that failure by the Authority or the Institution to comply subsequent to the issuance of the Bonds with certain requirements of the IRC may cause interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to take all lawful action necessary under the IRC to ensure that interest on the Bonds will remain excluded from the gross income of the owners of the Bonds for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Under existing law, interest on the Bonds (including any original issue discount properly allocable to the owners thereof) and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

Yours faithfully,

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APPENDIX F

TELEPHONE: (617) 573-0100

FACSIMILE: (617) 227-4420

[Palmer & Dodge LLP letterhead]

PROPOSED FORM OF OPINION OF BOND COUNSEL
WITH RESPECT TO THE SERIES Y BONDS

[Closing Date]

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the following bonds (the "Bonds"):

$117,905,000
Revenue Bonds, Harvard University Issue,
Series R, dated the date of original delivery thereof

We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion, including the Loan and Trust Agreement (the "Agreement") dated as of February 8, 2000 among the Authority, the President and Fellows of Harvard College (the "Institution") and State Street Bank and Trust Company, as trustee (the "Trustee"). As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. Under the Agreement the Institution has agreed to make payments sufficient to pay when due the principal of and premium (if any) and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds provided from any security derived thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

Reference is made to an opinion of even date of Ropes & Gray, counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to carry out the Project (as defined in the Agreement) being financed in part by the

Bonds, the power of the Institution enter into and perform the Agreement, the authorization, execution and delivery of the Agreement by the Institution, and the extent to which the Agreement is binding and enforceable upon the Institution.

We express no opinion with respect to compliance by the Institution with applicable legal requirements in connection with the construction, equipping or operation of the Project.

Based on our examination, we are of opinion, as of the date hereof and under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable upon the Authority. As provided in Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues.

4. Under existing law, interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986 (the "IRC") on individuals and corporations. However, we call your attention to the fact that interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). We also call your attention to the fact that failure by the Authority or the Institution to comply subsequent to the issuance of the Bonds with certain requirements of the IRC may cause interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to take all lawful action necessary under the IRC to ensure that interest on the Bonds will remain excluded from the gross income of the owners of the Bonds for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Under existing law, interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

Yours faithfully,

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the President and Fellows of Harvard College (the "Institution") and State Street Bank and Trust Company, as Trustee (the "Trustee") in connection with the issuance of \$120,080,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series W (the "Series W Bonds") and the \$117,905,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series Y (the "Series Y Bonds" and together with the Series W Bonds, the "Bonds"). The Series W Bonds are being issued pursuant to a Loan and Trust Agreement dated as of February 8, 2000 (the "Series W Agreement") among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the Trustee and the Institution and the Series Y Bonds are being issued pursuant to a separate Loan and Trust Agreement dated as of February 8, 2000 (the "Series Y Agreement" and together with the Series W Agreement, the "Agreements") among the Authority, the Trustee and the Institution, and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the respective Agreements. The Institution and the Trustee covenant and agree as follows:

SECTION 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Agreement is being executed and delivered by the Institution and the Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Institution and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures. The Trustee, except as provided in Section 3(c), has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures except for its negligent failure to comply with its obligations under Section 3(c).

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Agreements, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Institution pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bondowner" or "Owner of the Bond" shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or Institution.

"Dissemination Agent" shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Institution and which has filed with the Institution, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be the Trustee. In the absence of a third-party Dissemination Agent, the Institution shall serve as the Dissemination Agent.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories as of the date of execution of this Disclosure Agreement are listed in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts as a state repository for the purpose of the Rule.

SECTION 3. Provision of Annual Reports.

(a) Not later than March 1 of each year, commencing March 1, 2001 (the "Filing Deadline") the Dissemination Agent shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Institution (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institution may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the Institution at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Institution shall submit the audited financial statements to the Dissemination Agent and the Trustee as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to each Repository as soon as practicable thereafter. The Institution shall provide a copy of the Annual Report to the Authority and the Trustee.

(b) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days of the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination

Agent or the Institution, as applicable, may rely conclusively on the list of National Repositories maintained by the United States Securities and Exchange Commission); and

(ii) file a report with the Institution, the Authority and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided (the "Compliance Certificate"); such report shall include a certification from the Institution that the Annual Report complies with the requirements of this Disclosure Agreement.

(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send, and the Institution hereby authorizes and directs the Trustee to submit on its behalf, a notice to each Repository in substantially the form attached as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the Repositories by the Filing Deadline, the Institution shall send, or cause the Dissemination Agent to send, a notice substantially in the form of Exhibit A irrespective of whether the Trustee submits such notice.

SECTION 4. Content of Annual Reports. The Institution's Annual Report shall contain or incorporate by reference the following:

(a) Quantitative information for the preceding five fiscal years of the type presented under the heading "Student Applications and Enrollment" in Appendix A to the Authority's Official Statement dated May 11, 2000.

(b) Quantitative information for the preceding fiscal year of the type presented in the tables captioned "Summary of Financial Results," and general information with respect to endowment assets, and income and expenses as found in Appendix B to the Authority's Official Statement dated May 11, 2000.

The financial statements provided pursuant to Section 3 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Institution is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institution shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

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 Bonds.

7. Modifications to rights of the Owners of the Bonds.

8. Bond calls.

9. Defeasances.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

Items 3, 4, 5 and 10 are inapplicable to the Bonds.

(b) Whenever the Institution obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material, the Institution shall, in a timely manner, direct the Dissemination Agent to file a notice of such occurrence with the Repositories. The Institution shall provide a copy of each such notice to the Authority and the Trustee. The Dissemination Agent, if other than the Institution, shall have no duty to file a notice of an event described hereunder unless it is directed in writing to do so by the Institution, and shall have no responsibility for verifying any of the information in any such notice or determining the materiality of the event described in such notice.

SECTION 6. Termination of Reporting Obligation. The Institution's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Institution and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the Institution's obligations under the Agreements are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Institution and the original Institution shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Institution may, from time to time with notice to the Trustee and the Authority appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Authority, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Institution) may resign upon 30 days' written notice to the Institution, the Trustee and the Authority.

SECTION 8. Amendment, Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Institution) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Institution and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the Institution and the Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the respective Agreements pursuant to Section 1101 of the Series W Agreement and Section 1001 of the Series Y Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Institution from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institution chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Institution shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Institution or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institution or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, each of Article VII of the Series W Agreement and Article VI of the Series Y Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the respective Agreements. The Dissemination Agent (if other than the Institution) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Institution agrees to indemnify and save the Dissemination Agent (if other than the Institution), its officers, director, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Institution under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Institution covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

The Trustee shall have no obligation under this Disclosure Agreement to report any information to any Repository or any Bondowner. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 5 hereunder, whether or not such event is material, the Trustee shall timely notify the Institution of such occurrence, provided, however, that any failure by the Trustee to give such notice to the Institution shall not affect the Institution's obligations under this Disclosure Agreement or give rise to any liability by the Trustee for such failure.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Institution, the Trustee, the Dissemination Agent, the Participating Underwriter and the Bondowners, and shall create no rights in any other person or entity.

SECTION 13. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of the Institution under this Disclosure Agreement shall obligate the Institution to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Institution or raise any inference that no other material events have occurred with respect to the Institution or the Bonds or that all material information regarding the Institution or the Bonds has been disclosed. The Institution shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Date: June 1, 2000

PRESIDENT AND FELLOWS OF
HARVARD COLLEGE

By______________________________
Authorized Officer

STATE STREET BANK AND TRUST
COMPANY, as Trustee

By______________________________
Title:

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Massachusetts Health and Educational Facilities Authority
Name of Bond Issue:	Revenue Bonds, Harvard University Issue, Series W and Series Y
Name of Obligated Person:	President and Fellows of Harvard College
Date of Issuance:	June 1, 2000

NOTICE IS HEREBY GIVEN that the President and Fellows of Harvard College (the "Institution") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated June 1, 2000 between the Institution and State Street Bank and Trust Company, as Trustee.

Dated: ____________________

STATE STREET BANK AND TRUST COMPANY,
on behalf of the PRESIDENT AND FELLOWS OF
HARVARD COLLEGE

cc: President and Fellows of Harvard College

EXHIBIT B
NATIONAL REPOSITORIES

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, N.J. 08542 -0840
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