

*In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the offered Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1954, as amended, and Title XIII of the Tax Reform Act of 1986. Interest on the offered Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the offered Bonds and any profit on the sale of the offered Bonds are exempt from Massachusetts personal income taxes and the offered Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the offered Bonds. See "TAX EXEMPTION" herein.*



**\$131,200,000**  
**MASSACHUSETTS HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY**  
**REVENUE BONDS, HARVARD UNIVERSITY ISSUE, SERIES R**

**Dated: Date of Delivery**

**Due: November 1, 2049**

On November 1, 1999, the Authority issued \$51,395,000 principal amount of its Revenue Bonds, Harvard University Issue, Series R. On October 19, 2000, the Authority issued an additional \$19,615,000 principal amount of the Bonds of Series R. On November 20, 2001, the Authority issued an additional \$6,485,000 principal amount of the Bonds of Series R. On December 12, 2002, the Authority issued an additional \$13,270,000 principal amount of the Bonds of Series R. On January 15, 2004, the Authority issued an additional \$12,905,000 principal amount of the Bonds of Series R. On April 14, 2005, the Authority issued an additional \$13,490,000 principal amount of the Bonds of Series R. On or about April 3, 2006, the Authority will issue an additional \$14,040,000 principal amount of the Bonds of Series R (the "offered Bonds"). The Bonds issued on each date are in all respects identical (except for date of issue) and are treated as a single series of Bonds in the Agreement (as described herein) and in this Official Statement.

The offered 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, New York, New York. Purchases of the offered Bonds will be made in book-entry-only form. 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 offered Bonds.

**The Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority payable solely from the Revenues of the Authority paid to the Trustee for the account of the Authority by the President and Fellows of Harvard College in accordance with the provisions of the Loan and Trust Agreement, dated as of October 12, 1999, as supplemented and amended by the First Supplemental Agreement thereto, dated as of October 1, 2000, the Second Supplemental Agreement thereto, dated as of November 1, 2001, the Third Supplemental Agreement thereto, dated as of October 1, 2002, the Fourth Supplemental Agreement thereto, dated as of January 1, 2004, the Fifth Supplemental Agreement thereto, dated as of March 8, 2005, and the Sixth Supplemental Agreement thereto, dated as of March 1, 2006 (as so supplemented and amended, the "Agreement"), each among the Authority, the Institution and the Trustee. The payments pursuant to the Agreement are a general obligation of the Institution.**

The offered Bonds of Series R as initially issued will bear interest in the Daily Mode. The initial interest rate in the Daily Mode will be communicated by the Underwriter to the prospective purchasers of the offered Bonds of Series R. The rate of interest on the Bonds may be changed from time to time to the Daily, Flexible, Multiannual, Weekly or Auction Rate Modes upon notice as described herein and, under certain circumstances, the Bonds may be converted to bear interest at a Fixed Rate until maturity.

Bondowners will be required to tender their Bonds for purchase upon conversion of the Bonds from one interest rate Mode to a different interest rate Mode, upon any change in the term of the Rate Period when the Bonds are in the Multiannual Mode and at the end of each Rate Period when the Bonds are in the Flexible Mode. In certain interest rate Modes, Bondowners have the right to tender their Bonds for purchase at the time and subject to the conditions described herein. Bonds tendered for purchase will be purchased at the principal amount thereof, plus accrued interest, if any.

The offered Bonds will be issued in minimum denominations of \$5,000 and whole multiples thereof.

U.S. Bank National Association, as successor in interest to State Street Bank and Trust Company, will act as Trustee, Paying Agent and Tender Agent. Principal or redemption price of and interest on the Bonds will be payable in immediately available funds or clearinghouse funds as described herein.

**The Bonds are subject to redemption prior to maturity as described herein.**

THE BONDS 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 POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE AGREEMENT. NEITHER THE COMMONWEALTH OF MASSACHUSETTS NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON EXCEPT FROM SUCH REVENUES. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH 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.

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PRICE: 100%

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The offered Bonds of Series R are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Edwards Angell 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 LLP, Boston, Massachusetts, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the offered Bonds of Series R in definitive form will be available for delivery to DTC in New York, New York or its agent in Boston, Massachusetts on or about April 3, 2006.

**JPMorgan**

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

No dealer, broker, salesman or other person has been authorized by the Massachusetts Health and Educational Facilities Authority, the President and Fellows of Harvard College or the Underwriter to give any information or to make any 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 President and Fellows of Harvard College and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Massachusetts Health and Educational Facilities Authority or the Underwriter. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. 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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## DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the Loan and Trust Agreement and used in this Official Statement. For definitions relating to the Auction Rate Mode, see Appendix F hereto.

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

“Agreement” means the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of October 12, 1999, as amended and supplemented by the First Supplemental Agreement, the Second Supplemental Agreement, the Third Supplemental Agreement, the Fourth Supplemental Agreement, the Fifth Supplemental Agreement and the Sixth Supplemental Agreement and as may be further amended or supplemented as provided therein.

“Auction Agent” means (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of National Association of Securities Dealers having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Agreement and a member of or a participant in, the Securities Depository.

“Auction Procedures” means the procedures for conducting Auctions for Bonds in an Auction Rate Mode included as Appendix F hereto.

“Auction Rate” means for each Auction Period (other than the initial Auction Period), (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; provided, however, if all of such Bonds are the subject of Submitted Hold Orders, the Minimum Auction Rate with respect to such Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Bonds.

“Auction Rate Mode” means the Mode in which the interest rate on the Bonds is the Auction Rate.

“Authority” means the Massachusetts Health and Educational Facilities Authority and its successors, a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts.

“Authorized Officer” means: (i) in the case of the Authority, the Chairman, Vice Chairman, 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, Director of the Office of Financial Systems, the Treasurer or any Assistant Treasurer and when used with reference to an act or document of the Institution, also means any other person or persons 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.

“Bonds” means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series R, dated the date of original delivery thereof, and any Bond or Bonds duly issued in exchange or replacement therefor. The “offered Bonds” means the \$14,040,000 Bonds of Series R delivered on or about April 3, 2006 pursuant to the Sixth Supplemental Agreement. The “initial

Bonds” or the “prior Bonds” means the \$51,395,000 Bonds of Series R delivered on November 1, 1999, the \$19,615,000 Bonds of Series R delivered on October 19, 2000, the \$6,485,000 Bonds of Series R delivered on November 20, 2001, the \$13,270,000 Bonds of Series R delivered on December 12, 2002, the \$12,905,000 Bonds of Series R delivered on January 15, 2004 and the \$13,490,000 Bonds of Series R delivered on April 14, 2005. The “remaining Bonds” means the Bonds which may be issued by the Authority from time to time, in one or more tranches pursuant to the Agreement.

“Bondowners” means the registered owners of the 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 office 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 offered 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 Bonds is fixed for periods of one day.

“Debt Service Fund” means the fund established and so designated by the Agreement.

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

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

“Fifth Supplemental Agreement” means the Fifth Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of March 8, 2005, as it may be amended or supplemented.

“First Supplemental Agreement” means the First Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of October 1, 2000, as it may be amended or supplemented.

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

“Fixed Rate Conversion Date” means, with respect to the Bonds, the date upon which the Fixed Rate first becomes effective for the Bonds.

“Fixed Rate Mode” means the Mode in which the interest rate on the Bonds is the Fixed Rate.

“Flexible Mode” means the Mode in which the interest rate on the 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.

“Fourth Supplemental Agreement” means the Fourth Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of January 1, 2004, as it may be amended or supplemented.

“Government or Equivalent Obligations” means (i) obligations issued or guaranteed by the United States; or (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.

“Interest Payment Date” means (i) initially, May 1, 2006; (ii) when the Bonds are in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month; (iii) when the Bonds are in the Multiannual Mode, the first day of any May or November of each year commencing with a May 1 or November 1 which is at least two but not less than ten months after the Bonds have been converted to the Multiannual Mode; (iv) when the Bonds are in the Flexible Mode, the first Business Day following each Rate Period during which a Flexible Rate is in effect; (v) when the Bonds are in the Fixed Rate Mode, May 1 and November 1 of each year; (vi) when the Bonds are in the Auction Rate Mode (a) upon the conversion to the Auction Rate Mode, the date communicated by the Auction Agent, (b) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (c) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; and (d) when used with respect to a Special Auction Period of (i) seven (7) or more but fewer than ninety-two (92) days, the Business Day immediately following such Special Auction Period, or (ii) ninety-two (92) or more days, each thirteenth Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period; and (vii) the maturity date of the Bonds.

“Institution” means the nonprofit institution for higher education, duly incorporated and existing under the laws of The Commonwealth of Massachusetts, located in the City of Cambridge, Massachusetts, the corporate name of which is President and Fellows of Harvard College.

“IRC” means the Internal Revenue Code of 1986, as it may be amended from time to time.

“Mode” means the period for and the manner in which the interest rates on the Bonds are set and includes the Auction Rate Mode, 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 or any successor rating agency.

“Multiannual Mode” means the Mode in which the interest rate on the 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 will not have an adverse impact on the tax-exempt status of the Bonds for federal income tax purposes.

“Outstanding” when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against

a principal payment or a sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) 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, without reinvestment, to pay or redeem them; provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

“Paying Agent” means, with respect to the Bonds, U.S. Bank National Association, as successor in interest to State Street Bank and Trust Company, or any other Paying Agent designated from time to time pursuant to the Agreement.

“Project” means with respect to the offered Bonds, the refinancing of those projects financed and refinanced with proceeds of the Series P Bonds, Series Z Bonds and Series AA Bonds.

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

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

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

“Record Date” means (i) when the Bonds are in the Auction Mode, the Daily Mode, the Weekly Mode or the Flexible Mode, the Business Day immediately preceding each Interest Payment Date; and (ii) when the 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.

“Refunded Bonds” means the \$1,260,000 principal amount of Series P Bonds, \$8,210,000 principal amount of Series Z Bonds and \$4,570,000 principal amount of Series AA Bonds, previously retired with the proceeds of commercial paper issued by the Institution.

“Remarketing Agent” means the corporation, association, partnership or firm appointed to act as Remarketing Agent by the Institution as provided in the Agreement, which may be the Institution, and any successor Remarketing Agent appointed from time to time pursuant to the Agreement. The initial Remarketing Agent will be J.P. Morgan Securities Inc.

“Revenues” means all rates, payments, rents, fees, charges and other income and receipts, including proceeds of insurance, eminent domain and sale, payable to the Authority or the Trustee under the 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 Services or any successor rating agency.

“Second Supplemental Agreement” means the Second Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of November 1, 2001, as it may be amended or supplemented.

“Series P Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series P dated June 1, 1995 issued in the original principal amount of \$113,930,000.

“Series Z Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series Z dated October 1, 2000 issued in the original principal amount of \$131,345,000.

“Series AA Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series AA dated January 4, 2001 issued in the original principal amount of \$36,915,000.

“Sixth Supplemental Agreement” means the Sixth Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of March 1, 2006, as it may be amended or supplemented.

“Supplemental Agreement” means a Supplemental Agreement among the Authority, the Trustee and the Institution pursuant to which the remaining Bonds are issued, as provided in the Agreement.

“Tender Agent” means, with respect to the Bonds, the Trustee or any other Tender Agent designated from time to time pursuant to the Agreement.

“Third Supplemental Agreement” means the Third Supplemental Agreement to the Loan and Trust Agreement executed by and among the Authority, the Institution and the Trustee, dated as of October 1, 2002, as it may be amended or supplemented.

“Trustee” means, with respect to the Bonds, U.S. Bank National Association, as successor in interest to State Street Bank and Trust Company, or any other bank, trust company or national banking association appointed by or pursuant to the Agreement to act as Trustee.

“UCC” means the Massachusetts Uniform Commercial Code.

“Variable Rate” means the rate of interest on the 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 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.

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**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY**

99 SUMMER STREET, BOSTON, MASSACHUSETTS 02110

DAVID T. HANNAN, *Chairman*  
JOHN E. KAVANAGH, III, *Vice Chairman*  
MARVIN A. GORDON, *Secretary*  
ALLEN R. LARSON

GAYL A. MILESZKO  
TIMOTHY O'CONNOR  
ROBERT M. PLATT  
CHRISTINE C. SCHUSTER

BENSON T. CASWELL, Executive Director

**OFFICIAL STATEMENT**

**Relating to**

**\$131,200,000**

**Massachusetts Health and Educational Facilities Authority  
Revenue Bonds, Harvard University Issue, Series R**

**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 Revenue Bonds, Harvard University Issue, Series R (the "Bonds"), authorized by the Agreement. The Bonds are secured in accordance with the provisions of the Agreement and the Act. Certain defined terms used herein are defined under "DEFINITION OF CERTAIN TERMS" herein.

The Agreement provides for the issuance of Bonds in one or more tranches in an aggregate principal amount of up to \$725,000,000. On November 1, 1999, the Authority issued \$51,395,000 principal amount of its Revenue Bonds, Harvard University Issue, Series R. On October 19, 2000, the Authority issued \$19,615,000 principal amount of the Bonds. On November 20, 2001, the Authority issued \$6,485,000 principal amount of the Bonds. On December 12, 2002, the Authority issued \$13,270,000 principal amount of the Bonds. On January 15, 2004, the Authority issued an additional \$12,905,000 principal amount of the Bonds. On April 14, 2005, the Authority issued an additional \$13,490,000 principal amount of the Bonds. On or about April 3, 2006, the Authority will issue an additional \$14,040,000 principal amount of the Bonds. The Bonds issued on each date are in all respects identical (except for date of issue) and are treated as a single issue of Bonds in the Agreement (as described herein) and in this Official Statement.

The information contained in this Official Statement is provided for use in connection with the sale of the offered Bonds in the principal amount of \$14,040,000 which has been authorized by the Sixth Supplemental Agreement (the "offered Bonds").

*Use of Proceeds.* The Bonds will be issued from time to time to effect the current refunding of outstanding tax-exempt indebtedness of the Institution. The net proceeds from the sale of the offered Bonds, together with other available funds, will be used to refund, or to repay commercial paper issued by the Institution to retire, the Refunded Bonds. See "PLAN OF FINANCING" herein.

## SECURITY FOR THE BONDS

The Agreement provides that, to the extent permitted by law, the obligation of the Institution to make the 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 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 Bonds and certain other payments required by the Agreement. The obligation of the Institution to make payments under the Agreement is unsecured. The principal of donor-restricted assets and income from certain of such assets are not expected to be available to pay debt service with respect to the Bonds.

The Bonds shall be 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 Agreement, the moneys received by the Trustee for the account of the Authority pursuant to the Agreement.

**THE BONDS 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 POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE AGREEMENT. NEITHER THE COMMONWEALTH OF MASSACHUSETTS NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON EXCEPT FROM SUCH REVENUES. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF 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.**

## 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 Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (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, 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:

DAVID T. HANNAN, Chairman; term as Member expires July 1, 2006.

Mr. Hannan, a resident of Hingham, is Chief Executive Officer Emeritus and Senior Consultant to South Shore Health and Educational Corporation and South Shore Hospital of South Weymouth, Massachusetts. South Shore Health and Educational Corporation is a not-for-profit, tax-exempt organization and the parent of South Shore Hospital. Mr. Hannan is a member of the American College of Healthcare Executives and the American Hospital Association.

JOHN E. KAVANAGH, III, Vice Chairman; term as Member expires July 1, 2011.

Mr. Kavanagh, a resident of Ipswich, is President and Chairman of William A. Berry & Son, Inc., one of the oldest construction companies in the country. During his 19 years as President, he has redirected the company's focus from restoration specialties to a full-service building and construction management organization, with emphasis on meeting the full range of customer needs: planning, design, construction, operation and maintenance services. Mr. Kavanagh is a Trustee and the former Chairman of the Board of the North Shore Music Theater, Corporator of Brigham and Women's Hospital and Partners HealthCare System, Trustee and member of the Board of Directors of Massachusetts Eye and Ear Infirmary, Corporator of Danvers Savings Bank and a former member of Tufts University Board of Overseers.

MARVIN A. GORDON, Secretary; term as Member expires July 1, 2010.

Mr. Gordon, a resident of Milton, is Chairman of the Board, Chief Executive Officer of Gordon Logistics, L.L.C. in Mansfield, Massachusetts. From 1974 to 2001, Mr. Gordon was Chief Executive Officer and Chairman of Whitehall Co. Ltd. of Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors to 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 present affiliations include Board Member and Chairman of the Audit and Compliance Committee of The Milton Hospital Foundation, Inc. and Board Member of Milton Hospital, Inc., and President of Milton Fuller Housing Corporation. Mr. Gordon has been elected to and appointed to a number of public boards including serving as a Milton Selectman from 1986 to 1993 and belongs to several civic associations. Mr. Gordon holds a degree from Harvard College and Harvard Business School.

ALLEN R. LARSON; term as Member expires July 1, 2007.

Mr. Larson, a resident of Yarmouth Port, is the founding principal of a law firm and a separate consulting firm, the Enterprise Management Group, that advise business and non-profit clients on matters of government regulation, business competition, market entry, and economic development. Prior to establishing his law firm in 1984, Mr. Larson worked as an antitrust attorney for the Federal Trade Commission in Washington, D.C. Currently, he is a Trustee of Cape Cod Community College, President of the Cape Cod Center for Sustainability, a Director of the YMCA-Cape Cod, and a Member of the Yarmouth Town Finance Committee. Mr. Larson graduated from Dartmouth College and earned a J.D. from Albany Law School and an M.B.A. from the University of Minnesota.

GAYL A. MILESZKO; term as Member expires July 1, 2012.

Ms. Mileszko, a native of Amherst and current resident of Boston, is the Chief of Staff at the Massachusetts Department of Labor. She was associated with the investment banking firm Tucker Anthony Incorporated in Boston and New York from 1990 to 2002, serving as a Vice President in public finance and later as a Senior Vice President in the fixed income capital markets division. For the past two years, Ms. Mileszko served in the Office of the Massachusetts Governor as the Chief of Staff for Legislative and Intergovernmental Relations, and as the Director of External Relations. She was a member of the staff of the Committee on Appropriations for the U.S. House of Representatives from 1983 to 1988, and previously served as a staff assistant to Massachusetts Congressman Silvio O. Conte. Ms. Mileszko holds a B.A. from Yale College.

TIMOTHY O'CONNOR; term as Member expires July 1, 2009.

Mr. O'Connor, a resident of Salem, is Executive Vice President, Chief Financial Officer and Treasurer of Lahey Clinic Foundation, Inc.; Lahey Clinic Hospital, Inc.; Lahey Clinic, Inc.; Lahey Clinic Affiliated Services, Inc. and Lahey Clinic Canadian Foundation. In addition Mr. O'Connor is also President, Chief Financial Officer and Treasurer of Lahey Clinic Insurance Company Limited. His memberships and affiliations include the American Medical Group Association, the Healthcare Financial Management Association, the Healthcare Information and Management Systems Society and the Massachusetts Hospital Association's Committee on Finance.

ROBERT M. PLATT; term as Member expires July 1, 2009.

Mr. Platt, a resident of Newton, is President of National Consulting Inc., a business development and marketing strategy organization which assists clients in achieving their true market potential. Mr. Platt works in conjunction with both state and federal government to facilitate the exchange of ideas and opportunities for clients. His board memberships include Past President of the Newton Athletic Association, Past Board of Director of the Newton Youth Soccer for Boys and Girls, and Past Board Member of Youth Commission for the City of Newton. Mr. Platt's current board memberships include Commissioner of Parks and Recreation of his ward in Newton, Advisory Board Member for Second Step which aids women who have suffered domestic violence and abuse, and Member of the Board of Trustees for Curry College. Mr. Platt holds a B.A. from Curry College.

CHRISTINE C. SCHUSTER; term as Member expires July 1, 2006.

Ms. Schuster, a resident of Sudbury, is President and Chief Executive Officer of Emerson Health System located in Concord. Ms. Schuster formerly held the position of President and Chief Executive Officer of Quincy Medical Center. She is a Member of the Board of Trustees of the South Shore Chamber of Commerce where she serves as Vice Chairman of Government Affairs; and is a Member of the Board of Trustees of the Massachusetts Hospital Association ("MHA") where she serves as the MHA Chair of the Clinical Issues Advisory Council which provides advice and counsel to the MHA on key medical, clinical, and public policy issues. She also serves on the American Hospital Association Regional Policy Board. Ms. Schuster was recognized by Modern Healthcare magazine and Witt Kieffer Associates as one of the Year 2000 "Up and Comers Award" recipients. She is a frequent speaker both locally and nationally on a wide variety of healthcare topics. Ms. Schuster received an M.B.A. with Honors from the University of Chicago Graduate School of Business and a B.S. in Nursing from Boston University.

There are nine Board Members of the Authority. Currently, there is one vacancy and a successor has not been appointed.

## **Staff and Advisors**

Benson T. Caswell, a resident of North Andover, was appointed Executive Director of the Authority on April 9, 2002, and is responsible for the management of the Authority's affairs. From 1992 through 2002, Mr. Caswell worked for Ponder & Co. in Chicago where he was a Senior Vice President. From 1987 through 1992, he was Vice President of Ziegler Securities, Chicago, Illinois. From 1983 through 1986, he was an attorney with Gardner, Carton & Douglas. Mr. Caswell holds a Juris Doctor from the University of Chicago, an MBA from Lehigh University and a B.S. from the University of Maine.

Edwards Angell 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 the Bonds as provided by the Agreement in substantially the form attached hereto as Appendix D.

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 cultural institution or a participating nursing home 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.

## **Indebtedness of the Authority**

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 is payable

only from revenues provided by the institution for such series, and the general funds of the Authority are not pledged to any bonds or notes.

## **THE BONDS**

### **Pledge of Revenues Under the Agreement**

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the 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 is valid and binding from the time when such pledge is made and the 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 of the Agreement 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 Agreement to enforce the provisions thereof.

### **Description of the Bonds**

The offered Bonds will be issued in the aggregate principal amount set forth on the cover page hereof and initially will bear interest in the Daily Mode. The Bonds will mature on November 1, 2049, subject to prior scheduled sinking fund installments, and are subject to redemption and optional and mandatory tender for purchase prior to maturity as set forth below and in Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT.” The principal, purchase price or redemption price of the Bonds is payable at the principal office of the Paying Agent in Boston, Massachusetts.

Prior to conversion to a Fixed Rate, the 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 or at Auction Rates pursuant to the Agreement. The rate of interest to be borne by the 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 Bonds Prior to Fixed Rate Conversion Date.” The rate of interest to be borne by the Bonds during any particular Auction Rate Period will be determined as set forth in Appendix F hereto. The Bonds may bear interest as follows:

#### ***Variable Rate Modes***

The Bonds may bear interest at a Variable Rate computed on a daily, weekly or multiannual basis.

*Daily Mode.* While the 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 Bonds bear interest in the Weekly Mode, the interest rate will be determined each Business Day immediately preceding the day the interest rate is effective 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 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 Mode***

While the Bonds bear interest at Flexible Rates, the interest rate for each particular 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 Bond as described under “—Determination of Interest Rate on the Bonds Prior to Fixed Rate Conversion Date.” While the Bonds are in the Flexible Rate Mode, each Bond may bear interest at a rate and for a period different from any other Bond.

#### ***Auction Rate Mode***

While the Bonds bear interest at an Auction Rate, the interest rate will be determined by the Auction Agent according to the Auction Procedures (as described in Appendix F hereto) and will remain in effect through the day preceding the end of the Auction Period (the length of which will be daily, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period, as determined by the Institution).

#### ***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 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 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 Bonds bear interest in the Multiannual Mode or at a Fixed Rate. Interest on the Bonds in the Auction Rate Mode with an Auction Period of 180 days or less will be calculated on the basis of a 360-day year for the actual number of days elapsed to the Interest Payment Date. Interest on the Bonds in the Auction Rate Mode with an Auction Period of over 180 days shall be calculated on the basis of twelve 30-day months. Principal and interest on a 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 Bonds at the principal office of the Tender Agent. While the Bonds are in the Auction Rate Mode, 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 Bonds, by wire or bank transfer within the continental United States, in immediately available funds. While the 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 Bonds will be paid on the dates indicated below under “—Summary of Certain Provisions of the Bonds.”

The Bonds will be issued in minimum denominations of \$5,000 and whole multiples thereof while bearing interest in the Variable, Flexible or Fixed Rate Modes. The Bonds will be issued in minimum denominations of \$25,000 and whole multiples thereof while bearing interest in the Auction Rate Mode.

### ***Exchange, Transfer and Replacement of Bonds***

Unless 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 Bonds shall be issued pursuant to applicable law as a result of the destruction, loss, or mutilation of 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***

J.P. Morgan Securities Inc. has been appointed to serve as the initial Remarketing Agent (the “Remarketing Agent”) for the Bonds. The Remarketing Agent may be removed and a successor Remarketing Agent, which may be the Institution, may be appointed in accordance with the Agreement.

### **Book-Entry-Only System**

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

DTC is a limited-purpose trust company organized under the New York Banking Laws, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

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

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

Redemption notices shall be sent to 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. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an omnibus proxy (the “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 and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its nominee), the Underwriter, the Paying Agent, the Trustee, the Institution 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 Cede & Co. (or such other nominee as may be requested by an authorized representative of

DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority, the Trustee and the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. See "— Certificated Bonds" below.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. See "— Certificated Bonds" below.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources (including DTC) that the Authority, the Institution and the Underwriter believe to be reliable, but the Authority, the Institution and the Underwriter take no responsibility for the accuracy thereof.

*Responsibility of Authority, Institution, Trustee and Paying Agent.* NONE OF THE AUTHORITY, THE INSTITUTION, THE TRUSTEE OR THE PAYING AGENT 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 and of the same maturity, 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.

### **Determination of Interest Rate on the Bonds Prior to Fixed Rate Conversion Date**

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

During each Variable Rate Period, the rate of interest on the Bonds shall be that rate which, in the determination of the Remarketing Agent, is the lowest rate which would permit the sale of such 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 Bonds shall be that rate which, in the determination of the Remarketing Agent, is the lowest rate which is necessary to remarket such 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 Bonds shall be conclusive and binding on the registered owners of the 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 Bond shall be deemed to be a Flexible Rate Period of one day and the Flexible Rate shall be equal to 100% of the Prime Commercial Paper A-1/P-1 (30 days) rate shown in the table captioned “Short-Term Tax-Exempt Yields” in the edition of The Bond Buyer published on the day on which such rate is determined or, if The Bond Buyer is not published on that day, in the most recent published edition.

While the Bonds bear interest in the Auction Rate Mode, the interest rate for each Auction Period will, subject to certain exceptions, be equal to the Auction Rate that the Auction Agent advises has resulted on the Auction Date from the implementation of the Auction Procedures in which persons determine to hold or offer to sell or, based on the rates bid by them, offer to purchase or sell such Auction Rate Bonds. In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended one week to the same day of the week on which Auctions are held and the Auction Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended.

### **Optional Tender for Purchase**

While the Bonds bear interest at Variable Rates, the registered owners of the Bonds may tender their 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 Bonds” below and as described in Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT—Optional Tender.”

Payment of the purchase price of 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 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 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 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 Bonds are in the Multiannual Mode. In the Flexible Mode, the Bonds are also subject to mandatory tender for purchase on the Effective Date. The Bondowners, by acceptance of the Bonds, agree to sell the Bonds to any purchaser determined in accordance with the provisions of the Agreement in the event of such mandatory tender for purchase and, on the Purchase Date, to surrender the bonds to the Paying Agent upon payment of the Purchase Price.

Payment of the Purchase Price of 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 Bonds are in the Flexible Mode or, if requested by the registered owner of not less than \$1,000,000 principal amount of Bonds, while the Bonds bear interest in the Auction Rate Mode, Daily Mode or the Weekly Mode; otherwise, payment will be made by check or draft in immediately available funds.

### **Failure to Deliver Tendered 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 Bonds who has elected or is required to tender Bonds for purchase.

### **Conversion Provisions**

At the option of the Institution and upon certain conditions, as set forth in the Agreement, the 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, (iii) converted or reconverted from time to time to or from the Auction Rate Mode and (iv) converted to the Fixed Rate Mode. While the 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 Bond being converted on the day notice of the proposed conversion is given. While the Bonds are in the Multiannual Mode, any such conversion or reconversion may take place on not less than 30 days’ notice to the Bondowners from the Paying Agent only on a day which would have been an Effective Date for the Mode from which the Bonds are being converted or the first Business Day thereafter. While the 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 Bondowners by the Paying Agent. Upon such conversion or reconversion, such Bonds are subject to mandatory tender for purchase. See APPENDIX F – “AUCTION RATE MODE PROVISIONS - Changes in Auction Period, Auction Date and Conversions from Auction Rate Modes” attached hereto.

While the Bonds are in the Auction Rate Mode, any such conversion to another Mode may take place on any Interest Payment Date pursuant to current market conditions determined by the Remarketing Agent. On such conversion date, the Bonds to be converted will be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Bonds on a mandatory tender date, the Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. In addition, the Bonds may be converted on any Interest Payment Date from one Auction Period to another Auction Period, pursuant to current market conditions determined by the Broker-Dealers. On such conversion date, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, all the applicable Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate.

The interest rate on the Bonds may be converted to a Fixed Rate, at the sole option of the Institution, provided that no default exists under the Agreement as certified to the Trustee by an Authorized Officer of the Institution. See Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT — Conversion to a Fixed Rate.”

The 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, the Flexible Mode or to the Fixed Rate Mode. If the conditions for conversion set forth in the Agreement are not met, such conversion shall not occur, the Bonds will remain in the Mode then in effect and, unless the Bonds are in the Daily Mode or the Weekly Mode, such Bonds shall nevertheless be subject to mandatory tender for purchase on the proposed conversion date. If the Bonds are in the Daily Mode or the Weekly Mode and if such conversion shall not occur, the Paying Agent shall immediately notify each 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 Bonds to be converted to the new Mode for any reason be deemed to be a default or an Event of Default under the Agreement, so long as the purchase price of all Bonds required to be purchased is made available as provided in the Agreement.

### **Partial Conversion**

The Bonds may be converted in whole or in part to or from the Flexible Mode, the Auction Rate Mode, any of the Variable Rate Modes or to the Fixed Rate Mode upon compliance with the conditions set forth in the Agreement. In the event the Bonds are in more than one Mode the provisions of the Bonds and the Agreement as described herein shall refer to Bonds in each of such Modes. See Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT—Partial Conversions.”

### **Remarketing and Purchase**

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

The Purchase Price of Bonds tendered for purchase shall be paid by the Paying Agent from moneys derived from the remarketing of such 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 Bonds tendered for purchase to the extent such Bonds have not been remarketed is a general obligation of the Institution.

## Summary of Certain Provisions of the Bonds

While the 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 Bonds for purchase to the Paying Agent and the notice requirements therefor, the requirements for physical delivery of tendered 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 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 Bonds are to be initially issued in the Weekly Mode. The following table does not describe the provisions of the Bonds when they bear interest at a Fixed Rate or an Auction Rate, and does not purport to be comprehensive. See Appendix F for a description of the Auction Procedures. See Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT” for a further summary of the provisions of the Agreement.

	<b>Daily Mode</b>	<b>Weekly Mode</b>	<b>Multiannual Mode</b>	<b>Flexible Mode</b>
<b>Interest Payment Date</b>	First Business Day of the calendar month.	First Business day of the calendar month.	The first days of any May or November of each year commencing with a May 1 or November 1 which is at least 2 but less than 10 months after conversion to the Multiannual Mode.	First Business Day following any Rate Period.
<b>Interest Rate Determination Date</b>	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.
<b>Effective Date of New Interest Rate</b>	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.
<b>Variable/Flexible Rate Period</b>	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.
<b>Notification of Interest Rate</b>	Paying Agent receives notice from Remarketing Agent.	Paying Agent receives notice from Remarketing Agent.	Paying Agent to mail Bondowner notice of interest rate on date interest rate is determined.	Paying Agent receives notice from Remarketing Agent.
<b>Optional Tender Dates; Bondowner Notice of Optional Tender</b>	Any Business Day; telephonic and facsimile notice by Bondowner to Paying Agent by 11:00 a.m.	Any Business Day; written notice by 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 Bondowner to Paying Agent on a Business Day not less than 7 calendar days prior to optional tender date.	Optional tender not permitted.

	<b>Daily Mode</b>	<b>Weekly Mode</b>	<b>Multiannual Mode</b>	<b>Flexible Mode</b>
<b>Physical Delivery of and Payment for Bonds Subject to Optional and Mandatory Tender</b>	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 Bond; payment same day.
<b>Written Notice of Mode Change or Rate Period Change in Multiannual Mode</b>	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.
<b>Mandatory Tender Date Upon Mode Change, Rate Period Change in Multiannual Mode or Rate Period Change in Flexible Mode</b>	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.

## Redemption Provisions

The Bonds are subject to redemption in accordance with the optional and mandatory redemption provisions described below.

**Optional Redemption.** Prior to the Fixed Rate Conversion Date, and except while the Bonds are in the Fixed Rate or Multiannual Mode, the 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 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, in such order of sinking fund installments as directed by the Institution, plus accrued interest to the redemption date; provided, however, that the Bonds shall not be redeemable during the No-Call Period, if any, as defined in and established in accordance with the Agreement.

**Sinking Fund Installments and Mandatory Redemption.** The Bonds, including the offered Bonds, are subject to mandatory redemption prior to maturity from sinking fund installments, beginning on November 1, 2021 and on November 1 thereafter in the years and in the principal amounts set forth below at a redemption price equal to 100% of the principal amount being redeemed, plus accrued interest to the redemption date:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>	<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2021	\$16,450,000	2027	\$16,115,000
2022	16,450,000	2028	9,925,000
2023	16,450,000	2029	5,100,000
2024	16,450,000	2030	1,240,000
2025	16,450,000	2031	120,000
2026	16,450,000		

Notwithstanding the foregoing, while the Bonds bear interest at an Auction Rate, if such November 1 is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date

immediately preceding such November 1. Bonds in a Special Auction Period may be redeemed prior to the end of the Special Auction Period pursuant to the sinking fund redemption schedule.

**Selection of Bonds.** If fewer than all the Bonds are to be redeemed, the particular Bonds to be called for redemption shall be selected by the Trustee as provided in the Agreement. 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 mandatory or optional redemption. Bonds in the Variable Rate Mode, the Auction Rate Mode or the Fixed Rate Mode shall be selected by the Trustee by lot or in any customary manner as determined by the Trustee. However, 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 Bonds.

**Notice of Redemption and Other Notices.** Notice of redemption of Bonds shall be mailed to the registered owners of any Bonds which are to be redeemed, at the address 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 Bonds to be redeemed, identify the CUSIP number of such Bonds, state the date fixed for redemption and state that such 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 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 Bond called for redemption shall cease to accrue from and after the date fixed for redemption. Failure to mail notice to a particular Bondowner, or any defect in the notice to such Bondowner, shall not affect the redemption of any other 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 for such redemption in accordance with the provisions of the Agreement, notwithstanding that any Bonds called for redemption have not been surrendered, no further interest will accrue on any Bonds called for redemption.

### **Acceleration**

In addition to the foregoing redemption provisions, it should be noted that under the Agreement the Trustee may by written notice to the Authority and the Institution declare all of the Bonds due and payable at par and with accrued interest thereon prior to maturity upon an Event of Default as defined in the Agreement. See Appendix C — “SUMMARY OF THE LOAN AND TRUST AGREEMENT— Events of Default.”

## **PLAN OF FINANCING**

The Agreement creates a program for the issuance of the Bonds in one or more tranches from time to time in order to effect the current refunding of outstanding indebtedness of the Institution. The offered Bonds are the seventh such tranche of the Bonds.

A portion of the proceeds of the prior Bonds, together with the investment earnings thereon and other moneys available for the purpose, were sufficient to redeem certain other bonds, and to repay commercial paper issued for the retirement thereof, in the aggregate principal amounts of \$51,395,000 through January 3, 2000, \$19,615,000 through December 1, 2000, \$6,485,000 through December 3, 2001, \$13,270,000 through December 18, 2002, \$12,905,000 through January 20, 2004 and \$13,490,000 through April 14, 2005.

Upon receipt of the proceeds of the offered Bonds, the Authority will deposit in the Bond Payment Fund established under the Agreement an amount specified in the Sixth Supplemental Agreement which will be invested as directed by the Institution. Such amount, together with the investment earnings thereon and other moneys available for the purpose, is expected to be sufficient to redeem the Refunded Bonds, or repay commercial paper issued for the retirement thereof, on or about April 5, 2006. The Institution will contribute sufficient additional moneys to provide for the payment of expenses related to the issuance of the offered Bonds, including the Underwriter's fee and expenses.

Upon the receipt of the proceeds of any subsequent Bonds, the Authority will deposit in the Bond Payment Fund the amount specified by the Supplemental Agreement providing for the issuance of such subsequent Bonds. Such amount will be used to retire other bonds issued by the Authority on behalf of the Institution, all as provided in such Supplemental Agreement.

### **RATINGS**

Moody's has assigned a short-term rating of "VMIG 1" and a long-term rating of "Aaa" to the offered Bonds and S&P has assigned a short-term rating of "A-1+" and a long-term rating of "AAA" to the offered Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained only 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 investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the offered Bonds. Neither the Authority nor the Institution assumes any responsibility either to notify the Bondowners of any proposed change in or withdrawal of such ratings subsequent to the date hereof or to contest any such revision or withdrawal. None of the Authority, the Institution or the Underwriter has the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

### **UNDERWRITING**

The offered Bonds are being purchased by the Underwriter, J.P. Morgan Securities Inc. In connection with its purchase of the offered Bonds, the Underwriter will be paid a fee equal to \$17,550, plus expenses. The Underwriter may offer and sell the offered Bonds to certain dealers (including dealers depositing offered 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 offered Bonds by the Underwriter is subject to certain conditions and provides that the Underwriter will purchase all the offered Bonds if any are purchased and requires the Institution to deliver to the Underwriter and the Authority on the date the offered 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 this Official Statement pertaining to the Institution and other specified matters. The public offering price set forth on the cover page hereof may be changed after the initial offering by the Underwriter.

### **CONTINUING DISCLOSURE**

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or 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 owners of the Bonds as described below, and the Authority shall have no liability to the owners of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12.

The Institution has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Institution (the "Annual Report") by not later than March 1 of each year and to provide notices of the occurrence of certain enumerated events, if material. The Institution began filing such Annual Reports on March 1, 1997. The Annual Report and the notices of material events will be filed by the Institution, or by the Trustee on behalf of the Institution, with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Institution has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

On the date of delivery of the offered Bonds, the Institution and the Trustee will enter into the Continuing Disclosure Agreement substantially in the form attached hereto as Appendix E - "FORM OF CONTINUING DISCLOSURE AGREEMENT."

#### **TAX EXEMPTION**

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the offered Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended (the "Code"), and Title XIII of the Tax Reform Act of 1986. Bond Counsel is of the further opinion that interest on the offered Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the offered Bonds and any profit on the sale of the offered Bonds are exempt from Massachusetts personal income taxes and that the offered Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the offered Bonds. Prospective purchasers of the offered Bonds should be aware, however, that the offered Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the offered Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the offered Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto "PROPOSED FORM OF BOND COUNSEL OPINION."

Title XIII of the Tax Reform Act of 1986 and Section 103 of the Code impose various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the offered Bonds. Failure to comply with these requirements may result in interest on the offered Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the offered Bonds. The Authority and the Institution have covenanted to comply with such requirements designed to insure that interest on the offered Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants. Certain requirements and procedures contained or referred to in the Agreement and other relevant

documents may be changed and certain actions (including, without limitation, defeasance of the offered Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the offered Bonds may adversely affect the value of, or the tax status of interest on, the offered Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the offered Bonds. Prospective purchasers of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the offered Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the offered Bonds may otherwise affect a Bondowner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondowner or the Bondowner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondowners should consult with their own tax advisors with respect to such consequences.

#### **LEGALITY OF 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, co-operative 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. Under the Act, the Bonds are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer of 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.

#### **COMMONWEALTH OF MASSACHUSETTS NOT LIABLE ON BONDS**

The Bonds 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 political subdivision thereof, but shall be payable solely from the Revenues provided under the Agreement. Neither the Commonwealth of Massachusetts nor the Authority shall be obligated to pay the Bonds or the interest thereon except from such Revenues. Neither the faith and credit nor the taxing power of the Commonwealth 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.

#### **LEGAL MATTERS**

All legal matters incidental to the authorization and issuance of the offered Bonds by the Authority are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the offered Bonds. Certain legal matters will be passed on for the Institution by its counsel, Ropes & Gray LLP, Boston, Massachusetts, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

There is not now pending any litigation seeking to restrain or enjoin the issuance or delivery of the offered 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. There is no litigation pending which in any manner questions the right of the Authority to make a loan to the Institution to finance the Project in accordance with the provisions of the Act and the Agreement.

### **INDEPENDENT ACCOUNTANTS**

The financial statements as of June 30, 2005 and for the year then ended, included in Appendix B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B hereto.

### **MISCELLANEOUS**

The references to the Act and the 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 Agreement for full and complete statements of such provisions. The agreements of the Authority with the Bondowners are fully set forth in the Agreement, and neither any advertisement of the offered 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 the Trustee.

Appendix A to this Official Statement sets forth certain operating and financial information of the Institution. Appendix B to this Official Statement sets forth the “Financial Report to the Board of Overseers of Harvard College for the Fiscal Year 2004-2005,” which includes the audited financial statements of the Institution for the fiscal year ended June 30, 2005. While the information contained in such Report is believed to be reliable, neither the Authority nor the Underwriter make any representations or warranties whatsoever with respect to such information. The Authority has relied on the information contained in Appendix A and in Appendix B.

Appendix C – “SUMMARY OF THE LOAN AND TRUST AGREEMENT” and Appendix D – “PROPOSED FORM OF BOND COUNSEL OPINION,” attached hereto, have been prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority.

APPENDIX F – “AUCTION RATE MODE PROVISIONS” attached hereto, has been prepared by Edwards Angell Palmer & Dodge LLP.

All Appendices hereto are incorporated herein as an integral part of this Official Statement.

The Institution has reviewed the portions of this Official Statement describing the Institution, “Plan of Financing,” the second paragraph of “Continuing Disclosure,” Appendix A and Appendix B. At the closing, the Institution will certify that such portions of this Official Statement do not contain an untrue statement of a material fact or omit a statement of material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.



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**APPENDIX A**

**CERTAIN INFORMATION CONCERNING THE INSTITUTION**

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# HARVARD UNIVERSITY

ANN E. BERMAN  
VICE PRESIDENT FOR FINANCE

MASSACHUSETTS HALL  
CAMBRIDGE, MASSACHUSETTS 02138

## APPENDIX A

March 29, 2006

The following is 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”). There are currently four Fellows. In December 2005, Patricia A. King, the Carmack Waterhouse Professor of Law, Medicine, Ethics and Public Policy at the Georgetown University Law Center, was elected as a fifth Fellow of Harvard College, effective May 1, 2006. The Corporation supervises the management of the financial affairs of the University without need of consent by the Board to specific transactions. The members of the Corporation are:

**President and Fellows of Harvard College<sup>1</sup>**

**Lawrence H. Summers<sup>2</sup>**

President  
Harvard University

**James F. Rothenberg**

President, Capital Research and Management Company  
Treasurer of Harvard College

**James R. Houghton**

Chairman of the Board and Chief Executive Officer  
Corning Incorporated

**Nannerl O. Keohane**

Former President  
Duke University and Wellesley College

**Robert D. Reischauer**

President  
The Urban Institute

**Robert E. Rubin**

Director and Chairman of the Executive Committee  
Citigroup Inc.

<sup>1</sup> In December 2005, Patricia A. King, the Carmack Waterhouse Professor of Law, Medicine, Ethics and Public Policy at the Georgetown University Law Center, was elected a Fellow of Harvard College, effective May 1, 2006.

<sup>2</sup> On February 21, 2006, Lawrence H. Summers announced that he will resign as President of the University as of June 30, 2006. The search for his successor will begin as soon as possible. Derek Bok, former President of the University from 1971 through 1991, will act as interim President beginning on July 1, 2006.

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 (including the President and the Treasurer) 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:

Lawrence H. Summers	President
Steven Hyman	Provost
James F. Rothenberg	Treasurer
Donella M. Rapier	Vice President for Alumni Affairs and Development
Robert W. Iuliano	Vice President and General Counsel
Ann E. Berman	Vice President for Finance*
Alan Stone	Vice President for Government, Community and Public Affairs
Sally H. Zeckhauser	Vice President for Administration
Clayton Spencer	Vice President for Policy
Marilyn Hausammann	Vice President for Human Resources

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\* In October 2005, Ann E. Berman announced that she would step down as Vice President for Finance on April 1, 2006. On March 8, 2006, the University announced that Elizabeth Mora, currently the Associate Vice President for Sponsored Programs, would serve as Acting Vice President for Finance while the search for a permanent successor to Ms. Berman proceeds.

## 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
2001-02	18,932	2,028	1,563	10.7%	77.1%
2002-03	19,527	1,985	1,549	10.2	78.0
2003-04	20,906	2,014	1,554	9.6	77.2
2004-05	19,690	2,054	1,582	10.4	77.0
2005-06	22,769	2,102	1,640	9.2	78.0

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	Undergraduate	Graduate	Total
2001-02	6,650	11,642	18,292
2002-03	6,645	11,635	18,280
2003-04	6,594	11,767	18,361
2004-05	6,562	11,963	18,525
2005-06	6,613	11,974	18,587

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 and Board

Shown below are undergraduate charges for fiscal years 2002 through 2006.

Fiscal Year	Tuition and Fees	Average Room and Board	Total
2002	\$26,019	\$8,250	\$34,269
2003	27,448	8,502	35,950
2004	29,060	8,868	37,928
2005	30,620	9,260	39,880
2006	32,097	9,578	41,675

### Student Financial Aid

The University's undergraduate admissions policy includes the tenet that admission is need-blind. As of June 30, 2005, approximately 70% of undergraduate students received some form of financial aid, with close to 50% qualifying for need-based scholarship assistance. The average undergraduate aid package consists of grants, loans, and employment, and represents 70% of the total cost of attendance. Harvard participates in the Federal Direct Student Loan Program and remains an eligible lender under the Federal Family Education Loan Program. Total loans to students and parents as of June 30, 2005, included \$8.0 million of loans issued by Harvard under federally guaranteed programs, \$60.6 million of loans made under federally funded revolving loan programs, and \$60.0 million of loans funded by donors or by unrestricted funds of the faculties. At the close of fiscal years 2001 through 2005, student loans (in millions of dollars, net of reserve for bad debt) from all University sources amounted to:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Student Loans Outstanding	\$159.0	\$151.3	\$136.7	\$128.6	\$128.6

## **Faculty and Staff**

Harvard employs approximately 2,400 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 has approximately 15,000 employees as of December 31, 2005 (not including post-doctoral degree candidates, visiting scholars, research associates, research fellows and temporary or less than half-time workers). The University considers its relations with its employees to be good. Approximately 5,900 of its employees are covered under eight collective bargaining agreements, represented by 10 labor unions. Bargaining units consist of clerical and technical workers; dining service workers; custodians; arborists and gardeners; maintenance tradespersons; police officers; museum, parking and security guards and print production employees. The employees in these units are covered by one of eight collective bargaining agreements, which have varying expiration dates between calendar years 2006 and 2011.

## **Future Facilities**

The University continues to move forward in planning for future development in Allston, Massachusetts. The expansion into Allston will be material to the future operations of the University. It is anticipated that the University will continue to access both tax-exempt and taxable debt capital markets to help finance future capital plans, including those relating to Allston.

## **Management Change at Harvard Management Company**

On October 14, 2005, Mohamed El-Erian was announced as the new President and Chief Executive Officer of Harvard Management Company (“HMC”). Mr. El-Erian assumed his new position in February 2006, succeeding Jack R. Meyer, who concluded his service as President and Chief Executive Officer of HMC on September 30, 2005. Mr. El-Erian was previously a Managing Director at Pacific Investment Management Company (PIMCO).

## **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, 2005 and 2004, 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 2004 – 2005.”

Subsequent to June 30, 2005, the Massachusetts Health and Educational Facilities Authority (“HEFA”) issued one series of revenue bonds in the principal amount of \$100,545,000 to refund a portion of its outstanding tax-exempt bonds issued on behalf of the University and one series of revenue bonds in the principal amount of \$125,915,000 to refund a portion of the University’s tax-exempt commercial

paper. On March 9, 2006, HEFA increased the authorized amount of the University's tax-exempt commercial paper program to \$1,000,000,000. As of March 28, 2006, the outstanding balance of the University's tax-exempt commercial paper program was \$323,982,000. As of March 28, 2006, the outstanding balance of the University's previously issued taxable commercial paper program was \$476,446,000.

\* \* \*

This Appendix A and the accompanying "Financial Report to the Board of Overseers of Harvard College for the Fiscal Year 2004-2005" appended as Appendix B are submitted for inclusion in the Official Statement relating to the Massachusetts Health and Educational Facilities Authority, Revenue Bonds, Harvard University Issue, Series R.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By: /s/ Ann E. Berman  
Ann E. Berman  
Vice President for Finance

**APPENDIX B**

**FINANCIAL REPORT TO THE BOARD OF OVERSEERS OF HARVARD COLLEGE  
FOR THE FISCAL YEAR 2004 – 2005**

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FINANCIAL REPORT  
TO THE BOARD OF OVERSEERS OF  
HARVARD COLLEGE

FISCAL YEAR 2004–2005

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8	ANALYSIS OF FINANCIAL RESULTS
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#### RENOVATIONS AT SCHLESINGER LIBRARY

The Radcliffe Institute for Advanced Studies celebrated the sixtieth anniversary of the Arthur and Elizabeth Schlesinger Library on the History of Women in America. During this landmark year, renovations took place at the library, restoring and updating the building while preserving its holdings for future research. The Schlesinger Library collects manuscripts, books, and other materials essential for understanding women's lives and activities, including the papers of many famous women such as Dorothy West and Amelia Earhart, the records of groups like the National Organization for Women, a world-renowned collection of over 15,000 culinary books, and the Radcliffe College Archives.



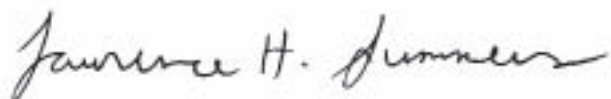
# To the Members and Friends of the Harvard Community:

I am pleased to present Harvard University's financial report for fiscal 2005. It was a strong year financially. The University realized an operating surplus, a reflection of the efforts across Harvard to budget and spend with care. The market value of the endowment rose to a record \$25.9 billion as of June 30, 2005, primarily as a result of the impressive investment returns achieved by Harvard Management Company. Fundraising receipts were the second highest in the University's history, thanks to the generosity of alumni and friends. All of this has contributed to the current vitality of our academic programs and our capacity to realize our ambitious aspirations for the years ahead.

The 2004-05 academic year featured continuing progress in the comprehensive review of the undergraduate academic experience, as well as major steps forward in both growing the faculty and ensuring strong financial aid programs for our students. A new generation of intriguing interdisciplinary science initiatives is taking shape, and we are also pursuing important opportunities to broaden and deepen our enduring institutional commitment to the humanities and the arts. We have benefited from the intensive work of two faculty task forces that have brought forth a series of strong recommendations on how we can enhance opportunities for women and minorities in the sciences and in academic life generally. And we have taken significant strides in planning for the eventual use of our properties in Allston, which represent a historic opportunity not only to expand our campus, but also to enhance our academic enterprise and the quality of life at the University for decades to come.

In short, thanks to the hard work and support of people across the Harvard community, we have the benefit of strong foundations on which to build. I look forward to a productive year ahead, one full of energy and collaborative effort, as we work together to secure the future excellence of an institution whose traditions and innovations continue to engage and inspire us all.

Sincerely,

A handwritten signature in black ink that reads "Lawrence H. Summers". The signature is written in a cursive, flowing style.

Lawrence H. Summers  
PRESIDENT

*October 11, 2005*

# To the Board of Overseers of Harvard College:

Fiscal 2005 has been a financially successful year for Harvard University. The University's third straight year of outstanding positive investment results boosted the endowment to a record \$25.9 billion. This endowment growth will help support several important priorities in the coming years, including the development of an Allston campus, exciting new interdisciplinary scientific endeavors, continued expansion of the faculty, and increased support of students through financial aid and graduate student housing.

The past year has also been one of change. Jack Meyer, President and CEO of Harvard Management Company (HMC) since 1990, and several of his colleagues departed on October 1, 2005 to establish their own hedge fund. Mohamed A. El-Erian, currently a Managing Director at Pacific Investment Management Company (PIMCO), has been appointed President and Chief Executive Officer of HMC, commencing early in 2006. Peter Nadosy, a member of the HMC Board and former President of Morgan Stanley Asset Management, is serving as Interim Chief Investment Officer until Mr. El-Erian assumes his post.

## FINANCIAL HIGHLIGHTS

- ❖ The University ended the year with an operating surplus of \$44 million on \$2.8 billion of expenses. This surplus included a \$9 million unrestricted surplus and a \$35 million surplus in restricted funds (funds whose use is limited to the purposes designated by the donors or sponsors).
- ❖ Harvard Management Company achieved a 19.2% total return for fiscal 2005, resulting in a five-year annualized return of 9.5%. The total market value of the endowment rose from \$22.6 billion to \$25.9 billion, and total net assets grew from \$26.9 billion to \$30.6 billion.

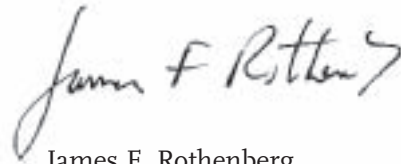
- ❖ Total revenue rose 8%, due to substantial increases in current use gifts and other income, as well as steady growth in other revenue categories.
- ❖ Student income, net of scholarships applied to tuition and fees, rose 5%, while total scholarships and other student awards grew 8%, outpacing tuition growth for the seventh consecutive year. This relatively higher percentage increase underscores the continued focus on financial aid as one of the University's highest priorities.
- ❖ Sponsored funding for research and training increased 6%, primarily due to growth in federal funding of 8%. The increase in federal sponsored research support included 14% greater funding from the NIH as well as additional research support from other federal sponsors, including other Department of Health and Human Services agencies and the Department of Defense.
- ❖ Thanks to the generosity of alumni and friends, gifts totaled an impressive \$639 million, an 8% increase over fiscal 2004. Endowment gifts totaled \$286 million, current use gifts were \$188 million, and grants for non-federal research as well as gifts for loans, facilities, and life income funds comprised the remaining \$165 million.
- ❖ Endowment income distributed for operations increased 6% to \$855 million, the result of a 4% increase in the distribution rate as well as distributions on additions to the endowment. The fiscal 2005 spending rate was 4.5%, within the targeted range of 4.5% to 5.0%.
- ❖ Endowment income distributed for operations remained the University's largest source of income in fiscal 2005, representing 31% of total operating income compared with 21% ten years ago. This growth reflects both the generous support of our alumni and friends as well as the continued strong performance of the Harvard Management Company.
- ❖ Total expenses increased 8%, primarily driven by significant growth in space and occupancy costs as new buildings came on line and energy costs increased nationwide.

- ❖ The University spent \$1.4 billion on compensation, an increase of 5% over fiscal 2004. Compensation growth included an increase in total salary and wage costs of 6%, and of 3% in benefits expenses after several years of more significant increases.
- ❖ Space and occupancy expenses increased 11%, primarily due to higher maintenance, interest, and utilities costs. In addition, the University spent a total of \$470 million on physical renewal, new facilities, and acquisitions. Significant expenditures were incurred for construction of the Center for Government and International Studies, the Biology Research Infrastructure building, the Northwest Science Building, the Oxford Street garage, and the Laboratory for Integrated Science and Engineering, as well as for renovations at Baker Library, Aldrich Hall, Dumbarton Oaks, and the Biological Laboratories.
- ❖ Other expenses increased 12%, largely due to higher purchased services costs. These services were primarily associated with Allston development planning as well as with certain legal settlement costs.

Looking forward, we must understand that realizing the University's objectives will require continued fiscal prudence and significant new resources. The past few years of financial strength will enable the University to actively pursue its goals. Faculty, staff, alumni, friends, and students each hold an important role in helping to build on this financial success and sustain the University's future.



Ann E. Berman  
VICE PRESIDENT FOR FINANCE



James F. Rothenberg  
TREASURER

*October 11, 2005*



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**RESEARCH IN GENOMICS AND MOLECULAR BIOLOGY  
LABORATORIES**

Of the female undergraduates who matriculate at Harvard College, over 50% declare an interest in concentrating in the sciences; only 42% of this group actually does so. Two task forces recently issued reports on women in the sciences and faculty diversity. The University has committed \$50 million over the next ten years towards implementing the recommendations of the task forces, including ways of encouraging female students in their pursuits of scientific study and research.

# Analysis of financial results

*Fiscal 2005 was a financially successful year for the University, with an operating surplus, strong endowment growth, and total net assets of \$30.6 billion.*

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## OVERVIEW

The University realized unrestricted and restricted operating surpluses in fiscal 2005, the first time in three years that both the unrestricted and restricted operating results were positive. The unrestricted operating surplus was \$8.7 million, rebounding from an \$11.7 million unrestricted operating deficit in fiscal 2004. The restricted operating surplus was

\$34.9 million, compared with \$48.5 million in fiscal 2004. At year-end, the University's total assets were \$55.5 billion, and total liabilities were \$25.0 billion. Net assets of \$30.6 billion included \$25.9 billion of endowment funds.

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## FINANCIAL RESULTS

This section of the report analyzes revenue and expenses for fiscal 2005.

**REVENUE** The University's operating revenue totaled \$2.8 billion in fiscal 2005, an 8% increase over the prior year. Most revenue categories experienced steady growth, with substantial increases in gifts for current use and other income.

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Harvard University's many achievements over the past fiscal year extended from the areas of teaching and research to administration and public service. The highlights that follow provide a sampling of the accomplishments of each School and of the University as a whole.

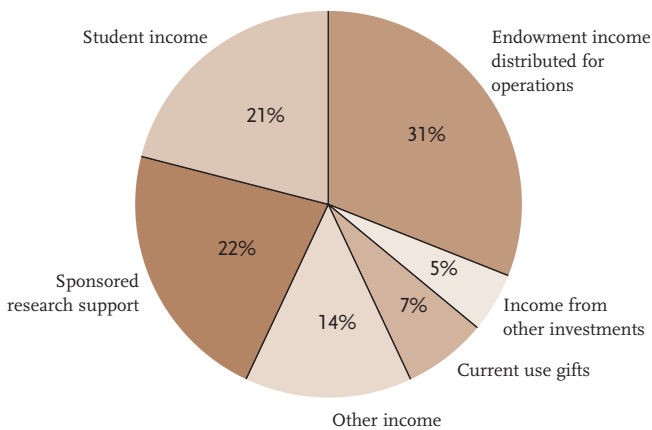
**STUDENT INCOME** Student income increased 5% from fiscal 2004, totaling \$586.5 million in fiscal 2005. Revenue from undergraduate tuition rose 5%, consistent with the change in the College's tuition rate. Graduate tuition revenue increased 7%, reflecting 6% average graduate tuition rate growth and additional graduate students in certain programs. Total student room and board income grew 6%, primarily due to a 4% increase in the undergraduate room and board rate as well as additional housing of graduate students at One Western Avenue, 29 Garden Street, and Peabody Terrace. Continuing and executive education revenue rose 7%, largely

a result of increased enrollment in programs at the Business School and the Graduate School of Education (GSE), as well as new programs at the Kennedy School of Government (KSG) and the Medical School (HMS). Scholarships applied to student income continued to outpace tuition growth, with a 9% increase in fiscal 2005 following a 10% increase in fiscal 2004.

**SPONSORED RESEARCH SUPPORT** Support for sponsored research grew 6% in fiscal 2005 to \$626.4 million, primarily due to an 8% increase in federal support. Total non-federal sponsored support remained flat in fiscal 2005. The University received 82% of its sponsored research funding from the federal government, 12% from foundations, and 6% from other sources, including corporations, foreign, state, and local governments, as well as research institutes.

Various agencies of the Department of Health and Human Services, including most notably the National Institutes of Health, funded \$401.2 million or 79% of the University's federal sponsored research in fiscal 2005, growing from \$367.9 million or 78% of federal funding in fiscal 2004. The National Science Foundation supplied 7% of fiscal 2005 federal support, with the remainder awarded by other federal entities including the Departments of Defense, Energy, and Education, as well as the National Aeronautics and Space

**FISCAL YEAR 2005 OPERATING REVENUE**



**FACULTY OF ARTS AND SCIENCES**

In the past year, the Faculty of Arts and Sciences has been intensely focused on creating a new undergraduate curriculum. The Faculty will soon review the products of two years' work and approve a new range of curricular requirements. Some innovation in this area has already

occurred: increasing numbers of students are engaged in study, research, or work abroad; a new foundational life sciences course began this fall; and the freshman seminar program continues to expand. New building for the sciences is underway, with the Laboratory for

Integrated Science and Engineering, the Northwest Science Building, and the Biology Research Infrastructure building all under construction. Beyond the sciences, the Center for Government and International Studies opened in September 2005. The faculty now

numbers 700, with approximately 100 new faculty members added in the past ten years. This growth will fuel the new undergraduate curriculum and fortify both FAS's and the University's interdisciplinary efforts in the sciences. Faculty, staff, and student diversity

continue to be areas of major effort, intensified by the reports of the University's task forces on diversity and women in the sciences. Student financial aid, both for graduate students and undergraduates, remains an important challenge and continuing investment.

Administration. Approximately 95% of fiscal 2005 federal sponsored funding was received by three Schools: HMS, 40%; the School of Public Health (HSPH), 30%; and the Faculty of Arts and Sciences (FAS), 25%.

In fiscal 2005, HSPH received the largest award ever granted to one of the University's individual principal investigators: \$94.4 million for the care and treatment of people living with HIV-AIDS in Nigeria, Tanzania, and Botswana. This five-year federal award, of which \$17.4 million was received in fiscal 2005, is funded by the President's Emerging Plan for AIDS Relief (PEPFAR). The project team aspires to train Nigerian, Tanzanian, and Botswanan

doctors, nurses, and other health care providers to treat 75,000 patients over the next five years, with the ultimate goal of empowering these African countries with capacity for self-sustenance after the project's end.

The indirect costs of sponsored programs include facilities operations and maintenance, depreciation, debt service, library use, and administrative expenses. These costs are allocated as overhead to the direct costs of sponsored projects, enabling their partial recovery from sponsors. Other University resources finance the unrecovered overhead costs associated with sponsored programs.

## SUMMARY OF FINANCIAL RESULTS

Dollar amounts in millions

	2005	2004	2003	2002	2001
Total revenue	\$ 2,800.9	\$ 2,597.7	\$ 2,472.7	\$ 2,349.0 <sup>1</sup>	\$ 2,228.2
Total expenses	2,757.4	2,560.9	2,432.9	2,261.6 <sup>1</sup>	2,063.3
Total gifts	639.0	591.8	562.4	477.5	707.1
Student notes receivable	128.6	128.6	136.7	151.3	159.0
Fixed assets, net	3,797.8	3,468.9	3,168.4	2,774.4	2,382.8
Bonds and notes payable	2,849.1	2,604.7	2,246.9	1,839.5	1,622.2
Net assets—General Operating Account	4,197.6	3,935.5	3,439.4	3,419.9	3,279.9
Net assets—endowment	25,853.0	22,587.3	19,294.7	17,518.0	18,259.2
Total return on general investments	19.2%	21.1%	12.5%	(0.5%)	(2.7%)
Degree student enrollment	19,731	19,638	19,536	19,539	18,847

<sup>1</sup>These numbers are restated to conform with fiscal 2003 presentation.



### BUSINESS SCHOOL

HBS completed an \$85 million renovation of Baker Library, restoring its historic reading room, lobby, and north facade, creating a south-facing entrance that further opens the campus to Boston's Allston-Brighton neighborhood, and designing spaces to bring together faculty, students, and other

academics. Renovations to Aldrich Hall were also completed. Technology plays a central role in both buildings, providing students and faculty with state-of-the-art research tools as well as enhanced classroom interactivity.

The MBA Class of 2007 comprises 914 students, 33% of whom are international, 22%

minorities, and 38% women.

The India Research Center opened in Mumbai, joining centers in Asia, Latin America, Europe, and California. These centers facilitate faculty research and foster ties with academic and business communities around the world.



### SCHOOL OF DENTAL MEDICINE

In December 2004, the new HSDM Research and Education Building hosted its opening reception. The 67,000-square-foot building, whose design has received much recognition, houses state-of-the-art laboratories, classrooms, an auditorium, and common areas. The new building

devotes half of its space to education, technology, and faculty offices, with the remainder housing basic science laboratories.

In fiscal 2005, indirect cost reimbursements totaled \$155.6 million. Federal indirect cost recovery rose 9% to \$143.5 million, representing 28% of total federal support. Predetermined federal indirect cost recovery rates have been established across the University through fiscal 2006. The subsequent federal indirect cost rates will be proposed and negotiated in the coming year for use with grants and contracts beginning in fiscal 2007.

Among non-federal sponsors, indirect cost recovery rates are agreed upon independently with each sponsor, are typically much lower than federal rates, and can vary widely from 0% to over 60%. Non-federal indirect cost recovery increased \$3.1 million to \$12.2 million, with non-federal sponsored direct support declining 3%. Individual non-federal projects can substantially impact non-federal sponsored revenue and related indirect cost recovery trends for the University in any given year.

Two research centers formed in fiscal 2004 continued to evolve in fiscal 2005: the Harvard Stem Cell Institute (HSCI) and the Eli and Edythe L. Broad Institute (the Broad Institute) joint venture with the Massachusetts Institute of Technology (MIT), the Whitehead Institute, and the Harvard-affiliated teaching hospitals. HSCI received \$10.8 million in private gifts during fiscal 2005 and in turn funded stem cell projects at the University and in the Harvard-affiliated teaching hospitals' research laboratories. The Broad Institute made steady progress in genomic

research during its first full year of operation and looks forward to occupying a new state-of-the-art building near MIT in April 2006. Both the Broad Institute and HSCI are expected to achieve major scientific advances and discoveries with additional sponsored research funding.

**GIFTS FOR CURRENT USE** Gifts from alumni and friends provide crucial funding for the University's ongoing operations and priorities such as undergraduate and graduate student financial aid. Current use gifts surpassed fiscal 2004 by 22%, totaling \$187.8 million in fiscal 2005. HMS and HSCI received significant incremental gifts during fiscal 2005.

**INVESTMENT INCOME** Total investment income increased 6% to \$984.6 million in fiscal 2005. The largest component of investment income, endowment income distributed for operations, also increased 6% to \$854.8 million. This growth was due to a 4% increase in the distribution rate as well as the impact of new gifts and other additions to the endowment. The distribution rate as a percentage of endowment market value was 4.5%, within the targeted spending rate of 4.5% to 5.0%. The University's endowment and related spending policies may be found in the section of this report beginning on page 16.



**GRADUATE SCHOOL OF DESIGN**

Professor Alan Altshuler became Dean of the faculty in February 2005 after seven months as Acting Dean. His initiatives have included thorough reviews of the School's research centers and the creation of advisory faculty committees on instruction, faculty norms, and external relations.

Progress was made towards the goal of increasing the size and diversity of the senior faculty. The School's financial performance also continued to improve, resulting in the second straight year with an unrestricted surplus.



**DIVINITY SCHOOL**

Academic year 2004-05 witnessed a record number of professorial searches at HDS, resulting in the hiring of five new faculty members. The multi-year curriculum redesign continued, with changes implemented in the Master of Divinity program and ongoing discussion on the Master of

Theological Studies curriculum, towards the goal of graduating this century's leaders in ministry and service and helping to prepare the next generation of scholars in religion. Fiscal 2005 was a very successful year for the School's revitalized fundraising effort, with approximately \$10

million raised, including endowment of a new professorship in science and religion. Additionally, the Harvard Divinity Bulletin was successfully redesigned as a general-interest magazine covering critical concerns surrounding religion and public life, religion and the arts, and theological education.

**OTHER INCOME** Other income consists primarily of rental and parking fees, publication revenue, royalties, health and clinic fees, and revenue from other auxiliary enterprises whose activities are consistent with the University's mission. In fiscal 2005, other income rose 12% to \$415.7 million, largely due to incremental rental and royalty income.

**EXPENSES** The University's operating expenses totaled \$2.8 billion in fiscal 2005, an 8% increase over the prior year. Expense categories that rose significantly during the year included space and occupancy costs as well as other expenses. The University continues to pursue cost savings across all expense categories.

**COMPENSATION** As one of the foremost institutions of higher education in the world, the University strives to hire and retain outstanding faculty and staff. Accordingly, the University offers an attractive and competitive compensation and benefits package, which includes pension plans, health benefits for active and retired employees, dental plans, life insurance, tuition assistance, child and elder care resource services, mortgage and educational loan programs, tax-deferred annuity programs, and free admission to the University's museums and libraries.

Compensation costs totaled \$1.4 billion in fiscal 2005, an increase of 5% over fiscal 2004. Compensation represented 51% of the University's total expenses in fiscal 2005 and 52% in fiscal 2004.

Salaries and wages rose 6%, while benefits costs increased 3%. Salary expense growth reflects faculty hiring initiatives and additional personnel to support both the University's science initiatives and greater sponsored research activity, as well as pay increases and adjustments.

Benefits costs were impacted by several offsetting changes. Pension expenses increased 13% and health costs rose a modest 5%, while postretirement health costs decreased 28%. Despite continued increases in American health costs, the University was able to contain growth in this area by implementing a self-insurance program in January 2005. This program is expected to result in administrative cost savings. The decline in post-retirement health costs was largely due to the impact of anticipated future subsidies resulting from new Medicare legislation (the Medicare Prescription Drug Improvement and Modernization Act of 2003). Postretirement health costs are also affected by actuarial assumptions including interest rates, which may cause significant changes in these costs from year to year.

In addition to the standard benefits package, the Schools may offer educational and subsidized mortgage loans to their faculty members. The mortgage program helps faculty members cope with the high cost of housing in the Boston area. Total loans outstanding to faculty and staff increased 9% to \$118.8 million in fiscal 2005, reflecting new loans associated with faculty growth.



**GRADUATE SCHOOL OF EDUCATION**

In June 2005, Professor Kathleen McCartney, a leading expert on early childhood education, assumed the role of Acting Dean. The work to build a core curriculum continued: the initial course, *Thinking Like an Educator*, was expanded to include 225 students; a new course focusing on education reform was developed; and a seminar for first-year Doctoral students was created. Progress continued in reviewing the Master's degree programs, in particular the School's Teacher Education program. Faculty have also led the creation of a unified doctoral program experience.



**JOHN F. KENNEDY SCHOOL OF GOVERNMENT**

During his first year as Dean, David Ellwood focused the School's activities on three central themes: partnership, excellence, and impact. JSG is collaborating across the University through several new fellowships intended to encourage students to pursue joint degrees and participate in social entrepreneurship. In addition, the School recently endowed the Center for Business and Government, recognizing that collaboration between business and government is central to the solution of public problems. With the assistance of a \$10 million gift, JSG has been able to enhance its efforts towards excellence in teaching and research. This gift provides funds for hiring and retaining superb faculty, strengthening teaching programs, upgrading facilities, and enhancing the student loan repayment program.

**FINANCIAL AID** The University strives to enable all admitted students to attend its Schools, regardless of their financial circumstances. Enhancing the financial aid programs for both undergraduate and graduate students continues to be one of the University's top priorities.

Scholarships and student awards, including amounts applied against student income, increased 8% to \$283.1 million in fiscal 2005. In addition, the University spent \$56.7 million on student employment, loaned \$26.2 million to students, and acted as agent on behalf of specific student recipients for \$13.7 million in aid from outside sponsors. Approximately 65% of scholarships and student awards is funded through gifts from generous alumni and friends, endowment income, and sponsored support, with the remaining 35% supported by other University operating funds.

Over the past ten years, the cost of attending Harvard College has increased 51%, from \$28,150 to \$42,450 per year. During that same ten-year period, the average annual scholarship award has grown 85%, from \$14,170 to \$26,240. The College provides need-based financial aid, while admitting students on a need-blind basis. Almost 70% of undergraduate students receive financial aid, with close to 50% qualifying for need-based scholarship assistance. The average undergraduate aid package consists of grants, loans, and employment, and represents 70% of the total cost of attendance. In the past five years,

financial aid enhancements have generated a 61% decline in the median indebtedness among graduating seniors, from \$16,400 for the Class of 2000 to \$6,400 for the Class of 2005.

A major new financial aid initiative was implemented in fiscal 2005, designed to encourage talented students from families of low and moderate income to apply to and attend the College. Parents of families with annual income of less than \$40,000 are no longer expected to contribute to the cost of their child's undergraduate education. In addition, the University has reduced the contributions expected of families with income between \$40,000 and \$60,000. This initiative is the latest step in a progressive expansion of undergraduate financial aid that has led to the largest applicant pool and the most competitive admission rate (9.1%) in the history of the College. The Class of 2009 is also the College's most economically diverse to date, with a 22% increase in the number of students from lower income backgrounds as compared with the Class of 2008. This new initiative and other improvements have made Harvard College's financial aid program an exemplar among institutions of higher education.

Financial aid is also vital in attracting students to the graduate and professional Schools. Between 50% and 93% of each School's students received financial support in fiscal 2005. The University expanded financial aid for graduate and professional



#### LAW SCHOOL

HLS completed the first comprehensive renovation of Harkness Commons, the student and dining center, resulting in increased formal and informal use of the space. HLS also made significant progress in developing a student information system, which will be implemented in fiscal 2006.

The Law School introduced elective reading groups for first-year students, small informal sessions convening groups of students and faculty members to read and discuss materials on a specific topic. Over 90% of the first-year class elected to participate in nearly 50 offerings.



#### MEDICAL SCHOOL

HMS launched four new advanced degree programs in collaboration with other areas of the University. An MD-MBA program was begun with Harvard Business School, and a new MD-PhD program in social sciences and two new PhD programs, in systems biology and chemical biology, were

developed in conjunction with FAS.

Planning for extensive reform of the medical education program made major strides through pilot projects and agreement on five core areas for reform. A target date for implementation of the year-one curriculum reform has been set

for the fall of 2006.

In fiscal 2005, HMS faculty at the Quadrangle and the affiliated hospitals continued to receive major federal grants, including funding for HIV vaccine research, bioinformatics, and biosecurity.

students during the past year, utilizing funds reallocated from cost-cutting initiatives in the University's core central administration. These funds are intended to provide \$9.0 million of incremental financial aid to eight of the graduate and professional Schools through fiscal 2007. The Schools are deploying these funds in a variety of ways, ranging from additional support for HSPH Presidential Scholars to Leadership in Education merit awards for Master's degree students at GSE and funding for KSG Presidential Public Service Fellowships.

In fiscal 2005, the University continued its partnership with a major financial institution to provide commercially funded loans to graduate and professional students through the Harvard Educational Loan Program (HELP). Graduate students rely on educational loans or other financing to cover the costs of attending the University. The HELP program is particularly important for international students, who are ineligible for federally subsidized education loans. The program assisted more than 2,100 graduate students by providing over \$39.1 million of below-market-rate loans in fiscal 2005. In the coming year, approximately \$42.0 million is expected to be loaned to 2,200 students.

The University also maintains its own student loan programs, which are funded through federal support, University capital resources, and donations. Outstanding loans from University funds to current and former students remained constant at \$128.6 million in fiscal 2005.

**SUPPLIES AND EQUIPMENT** In fiscal 2005, supplies and equipment expenses increased 10% to \$206.7 million. This growth was primarily related to general equipment purchases and upgrades.

University-wide contracts with vendor partners together with cost-conscious purchasing practices contained further expense growth. During fiscal 2005, the University completed contract renegotiations with its primary office supplies vendor, resulting in additional savings. A new contract was also negotiated with a convenience copier vendor. Other vendor partnerships continued in the areas of office furniture; scientific supplies; personal computers; watermark and recycled paper; facilities maintenance, repair, and operating supplies; and audiovisual equipment. The University will continue to evaluate additional vendor savings opportunities in the coming year, while also encouraging increased use of preferred vendors to generate and leverage further savings for the University.



#### SCHOOL OF PUBLIC HEALTH

HSPH received funding from the National Cancer Institute to create a professional network for reducing cancer deaths and illness in minority and underserved populations in Massachusetts. The network will develop cancer prevention programs and early detection interventions. Other research

at HSPH identified the importance of combining treatment and prevention efforts to combat the HIV epidemic in Africa; found a link between obesity and Type 2 diabetes; and determined through computer modeling that rapid vaccination could avert a future pandemic caused by bird flu.



#### RADCLIFFE INSTITUTE FOR ADVANCED STUDY

In fiscal 2005, the Radcliffe Institute marked five years since the 1999 merger of Radcliffe College and the University with a strong sense of progress and accomplishment. In that short time, fellowship applications have increased 280% as the Institute's reputation has spread, and support

from alumnae/alumni and friends has grown an extraordinary 103% since fiscal 2004. The Radcliffe Institute reopened Schlesinger Library after an extensive renovation aimed at securing and preserving its increasingly valuable collections. The Institute finalized preparations for the next

phase of its space plan: renovation of the Radcliffe Gym into a spacious lecture hall for fellows' presentations and other events, as well as much needed office space for Institute staff.

**SPACE AND OCCUPANCY** Space and occupancy costs totaled \$296.1 million in fiscal 2005, an 11% increase over the prior year. Facilities improvement and maintenance costs rose 19%, largely due to non-capitalizable laboratory and other renovations at HSPH, HMS, and FAS. Interest on bonds and notes payable related to capital projects increased 18% as a result of new debt issuances and higher interest rates on variable-rate debt. Utility costs grew 10% due to higher market rates. The University is actively identifying and implementing strategies to mitigate the effects of volatility in the energy markets.

Vendor partnerships helped to reduce expenditures in the areas of temporary employment, express mail, travel, and offset printing. A renegotiated contract with the University's major express mail vendor is expected to generate future cost savings. The University continues to seek additional cost savings by consolidating vendors, negotiating contracts, and leveraging purchasing activity.

**OTHER EXPENSES** Other expenses consist primarily of purchased services; expenses subcontracted to other institutions for sponsored projects; travel, publishing, and telephone costs. In fiscal 2005, other expenses increased 12% to \$556.9 million. Expense growth occurred in legal and settlement costs primarily associated with the Harvard Institute for International Development, as well as consulting fees for development in Allston and interest costs associated with the University's working capital.



#### THE UNIVERSITY

In July 2005, Professor Evelyn Hammonds was appointed as Senior Vice Provost for Faculty Development and Diversity. Her office will implement the recommendations made by the Task Forces on Women Faculty and Women in Science and Engineering, including collecting quality data on faculty appointments and

diversity, establishing mentoring programs for junior faculty, enhancing work-family benefits, and improving the faculty appointment process to ensure both diversity and excellence.

The Task Force on Science and Technology issued a report in April 2005 focusing on opportunities for interdiscipli-

nary ventures, highlighting those that would benefit from co-location in the developing Allston campus. Several key fields were identified: chemical biology, innovative computing, stem cells, systems biology, and certain areas of engineering. The proposed co-location of these programs, while

logistically challenging, promises to foster dynamic synergies and connections.

The Office of Technology Development (OTD) has been restructured and is in the process of defining a new technology development strategy, including a University-wide technology transfer program.

OTD is responsible for all activities pertaining to intellectual property, licensing, and technology transfer, aiming to translate new knowledge and innovations into practical advances beneficial to society, while providing further support for the University's goals and mission.

# Review of endowment results

*The University's endowment, the legacy of generous alumni and friends, achieved a record market value of \$25.9 billion in fiscal 2005. The University relies upon the endowment to provide support in perpetuity for its teaching and research mission.*

## A STRONG ENDOWMENT

The endowment is the financial cornerstone of the University, providing long-term funding for student financial aid, the faculty, and academic programs.

The endowment contains approximately 10,840 separate funds, the majority of which are restricted for specific purposes. The endowment's growth and the resulting income stream depend upon gifts from generous alumni and friends as well as prudent investment management.

In fiscal 2005, endowment gifts totaled \$285.7 million, an increase of 11% over the prior year. This increase reflects incremental endowment gifts at the Business School (HBS) and the Radcliffe Institute for Advanced Study (RIAS). HBS's endowment gifts increased by 70% to \$102.3 million, as its capital campaign entered its final phase. RIAS more than doubled its endowment gifts to \$8.8 million.

## REAL ENDOWMENT GROWTH

	Compound annual rate of growth			
	1974-84	1985-95	1996-05	1974-05
Total general investment return	10.4%	12.7%	14.8%	<b>13.4%</b>
Average per unit income distributed as a percent of unit value	(5.1)	(4.1)	(4.2)	<b>(4.5)</b>
Total return reinvested	5.3	8.6	10.6	<b>8.9</b>
Capital additions	3.3	1.5	2.0	<b>2.2</b>
Total growth in endowment	8.6	10.1	12.6	<b>11.1</b>
Inflation rate	(7.8)	(3.5)	(2.4)	<b>(4.5)</b>
<b>REAL ENDOWMENT GROWTH</b>	<b>0.8%</b>	<b>6.6%</b>	<b>10.2%</b>	<b>6.6%</b>

**PERFORMANCE OVERVIEW**

Harvard Management Company (HMC) is responsible for managing the endowment’s investments. The unaudited *Annual Report of the Harvard Management Company*, beginning on page 23, discusses the University’s investment philosophy and analyzes the endowment’s fiscal 2005 performance.

In fiscal 2005, total return of the endowment’s general investments was 19.2% versus 21.1% in fiscal 2004. The market value of the endowment increased from \$22.6 billion to \$25.9 billion during fiscal 2005, exceeding annual performance benchmarks by 5%. The change in market value includes all endowment activity: investment appreciation and depreciation; funds distributed to the Schools and departments for operations; new gifts and pledges; departmental additions to the endowment from

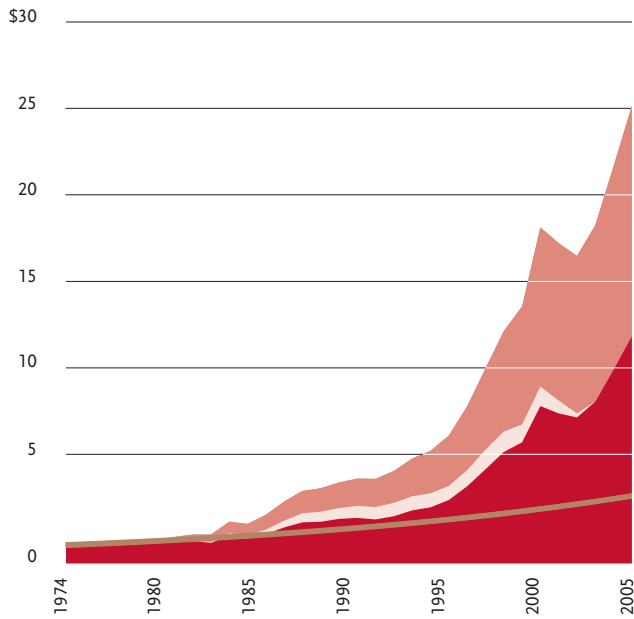
unrestricted fund and gift balances; and the use of endowment appreciation for specific purposes approved by the Corporation.

The University’s endowment spending policy strives to sustain the purchasing power of the endowment while providing a reliable stream of income for operations. Accordingly, the University aims to distribute between 4.5% and 5.0% of the endowment’s market value annually. In fiscal 2005, endowment distributions resulted in a spending rate of 4.5%.

Continuing donor support, strong investment management, and fiscal moderation will be required to ensure the endowment’s future strength.

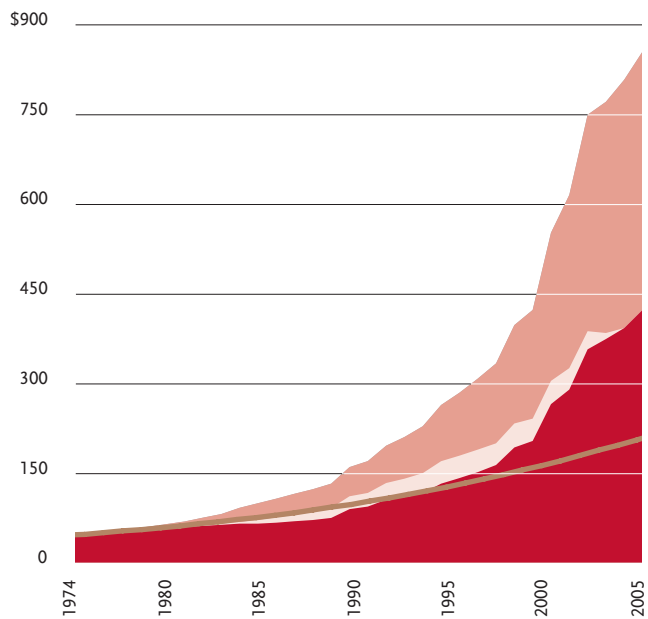
**ENDOWMENT GROWTH\***

*In billions of dollars*



**ENDOWMENT INCOME DISTRIBUTED**

*In millions of dollars*



■ 1974 Principal and appreciation    ■ Capitalized income    ■ Gifts and other changes    — CPI growth

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

# Review of capital activities

*In fiscal 2005, the University was engaged in 329 construction and renovation projects.*

*The University's property holdings include 23.2 million square feet of space in more than 600 buildings, as well as over 200 acres of land intended for long-term development.*

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## APPROACH TO CAPITAL ISSUES

The University employs a comprehensive planning strategy to assess current and future space requirements while considering the impact of growth on the neighboring communities. Within this planning strategy, the University continues to pursue property development and acquisition in Cambridge and Boston.

The planning process for the University's new and existing space in Allston continued throughout fiscal 2005. The University collaborated with the Boston Redevelopment Authority to finalize a North Allston Neighborhood Strategic Plan, the product of a multi-year, community-centered planning process. Negotiations around critical issues involving the University's ability to use the land in Allston for the creation of a new teaching, research, and residential campus concluded favorably with the completed plan, which will form the basis for proposed institutional uses in the future. In June 2005, an external planning firm prepared an interim report proposing preliminary ideas and options for a basic campus and urban framework in Allston. The report has been distributed broadly to facilitate discussion among the University community, the City of Boston, the Allston neighborhood, and other regional groups.

In an effort to further demonstrate its commitment toward the Allston community, the University has pledged \$1.2 million to fund landscape improvements and business development in Allston, including the creation of a city-run career and business resource center. This center will support local business operations and assist Allston residents with career planning.

The University intends to continue collaborating with the Allston community, the City of Boston, the faculty, students, and others across the University

as planning for the Allston campus progresses. In the coming year, the University will organize structured opportunities for all interested parties to hear about emerging ideas and options, contribute their thoughts, and help to ensure that the decisions made best reflect the long-term interests of both the University and its neighbors.

Strategic developments and planning also occurred in Cambridge during fiscal 2005. Discussions continued regarding planned construction in the area north of the main Cambridge campus for Faculty of Arts and Sciences (FAS) and Law School (HLS) facilities projects. The University secured building permits and commenced construction on two FAS buildings: the Northwest Science Building and the Laboratory for Integrated Science and Engineering. At HLS, planning for a major new building containing added academic and student-related space is underway. In addition, the University completed a comprehensive Cambridge campus transportation study to assess the cumulative impacts of the proposed developments and provide guidelines for future capital projects.

During fiscal 2005, the University made progress toward its goal of providing housing to 50% of its graduate students. In Boston, the University continued its participation in the Fenway mixed-use project, which will include affiliate apartments. The University received permits for two new construction projects in the Riverside area of Cambridge that will provide more than 300 units of new housing, primarily to graduate students. As a part of these Cambridge projects, the University will also be developing more than 34 units of affordable housing and creating nearly three quarters of an acre of new public open space in the Riverside area.

## THE PHYSICAL PLANT

The University's property holdings comprised 23.2 million square feet of space at the end of fiscal 2005. The University's physical plant must meet diverse needs and requirements, including security, energy efficiency, accessibility, and 24-hour use. Student housing occupies 6.7 million square feet; offices and classrooms, 4.7 million square feet; laboratories, 4.4 million square feet; libraries, 1.6 million square feet; and other facilities including athletic, health care, and administrative facilities, as well as museums and commercial space, 5.8 million square feet.

The University invested \$469.9 million in 329 active capital projects and acquisitions in fiscal 2005, compared with \$409.9 million and 356 active projects in fiscal 2004. Investments in new construction and renovations included: 46% for laboratories, classrooms, and offices; 22% for libraries, museums, and assembly spaces; 3% for housing; and 29% for

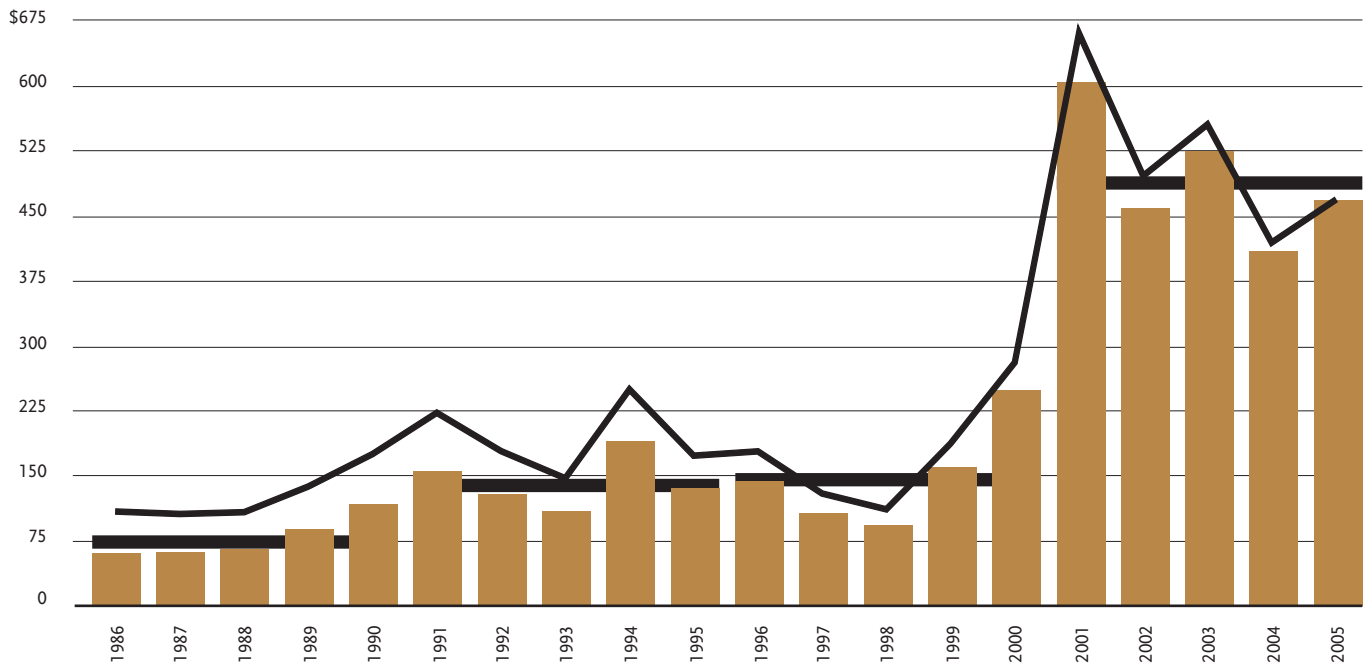
athletic and other facilities. Strategic acquisitions in Allston and Cambridge also added to the University's plant.

Capital projects were funded by \$40.8 million of gifts, \$23.5 million of unrestricted balances, and \$19.0 million of endowment, with the remainder financed by debt. For more than 20 years, the University has employed a strategy of financing capital projects with bonds. This strategy has enabled new construction as well as renewal and improvement of existing facilities, while allowing payments for the projects to occur over time. The University's outstanding debt totaled \$2.8 billion at the end of fiscal 2005, a 9% increase over the prior year balance.

### ANNUAL FACILITY EXPENDITURES

*In millions of dollars*

■ Capital expenditures ■ Five-year average — 2005 dollars



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## NEW CONSTRUCTION AND ACQUISITIONS

New construction and acquisitions accounted for 39% and 19%, respectively, of the University's capital expenditures during fiscal 2005. In Cambridge, construction was completed on the Oxford Street underground garage. In the Longwood Medical Area, the School of Dental Medicine opened its new Research and Education Building in December 2004. The facility contains three floors of research laboratories focused on bone biology and pathology as well as two floors dedicated to education. This new structure has enabled five formerly off-site research programs to come together in a single building. In addition, the University purchased six properties in Allston and two in Cambridge, adding 382,000 and 13,500 square feet, respectively, to existing holdings.

Significant progress on two FAS construction projects in the north campus continued: the Laboratory for Integrated Science and Engineering (LISE) and the Biology Research Infrastructure (BRI) building. The LISE facility will enable interaction among faculty and students in the areas of physics, chemistry, biology, engineering, and materials science. The LISE will also include laboratory space for the Center for Nanoscale Science Structures, as well as clean-room and vibration-free underground research space for work in materials science and nanotechnology. The BRI building, located under the Biological Laboratories courtyard, will house a multiscientist support facility for FAS research.

Construction commenced in the northwest campus on the new 520,000 square-foot FAS laboratory building, which will house the Center for Brain Science and the department of Systems Biology, as well as other multidisciplinary scientific efforts. The Northwest Science Building will include offices, classrooms, teaching and research laboratories, a chilled-water plant, and an electrical substation.

The new building will be used by neuroscientists, biologists, bioengineers, and astrophysics researchers, among others, and is slated for completion in fiscal 2008.

The FAS Center for Government and International Studies (CGIS) project was completed in September 2005. CGIS will co-locate the Government department and various centers for regional and international studies while also accommodating a range of academic and administrative uses, including faculty offices, graduate student workspace, lecture halls, various seminar rooms, a library, the Harvard-MIT Data Center (a research center for quantitative social science data), and a cafe.

Work on a new building located on Mount Auburn Street in Cambridge continued as well. The building is intended to house strategic programs of the University Library, which provides essential services to the over 90 units of the library system. These programs include: the Weissman Preservation Center, with a specially equipped laboratory for the conservation of the University's rarest and most valuable manuscripts, images, and bound volumes; the Office for Information Systems and its Library Digital Initiative; the Harvard Depository administrators; and the global Open Collections Program, among other initiatives.

At the Dumbarton Oaks complex in Washington, D.C., significant progress was made in the construction of a new library that will provide much needed program space and allow for the relocation and consolidation of the library collection. The library, the recently completed central plant, a service and maintenance building, and the ongoing renovations to other existing buildings comprise a comprehensive multi-year capital construction and renewal program currently underway at Dumbarton Oaks.

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## RENOVATION AND RENEWAL

With a physical plant whose history spans nearly four centuries, the University is committed to renovation and renewal as a means of preserving its architectural assets and creatively adapting space to meet evolving needs. Investment in the existing physical plant represented 42% of total capital expenditures in fiscal 2005.

Renovations completed in September 2005 at Memorial Church included replacement of the slate roof and installation of a new heating, ventilation, and air conditioning system, among other necessary repairs and safety improvements to maintain this historic building. Major renovations to Loeb House began late in the fiscal year, striving to preserve yet modernize the building in a manner appropriate for its use by the Office of the Governing Boards.

The Radcliffe Institute for Advanced Study completed renovations at Schlesinger Library in January 2005. In addition to reviving some of its historic spaces and adding systems to ensure the long-term preservation of the library's collections, the project included installation of many modern amenities for students and researchers. The Institute also began renovating the Radcliffe Gym. The Gym will be converted into a spacious lecture hall for fellows' presentations and other events, as well as office space for Institute staff. This project is the second phase of the Radcliffe capital plan and is an important step in co-locating central meeting spaces and the core of the fellowship intellectual activities, as well as the overall consolidation of Institute staff, fellows, and programs into Radcliffe Yard.

University Operations Services (UOS) began work on two significant projects at Blackstone Station, the primary source of power for over 200 Harvard buildings on both the Cambridge and Allston campuses. An office renovation project will refurbish the existing service building space and consolidate UOS operations at the Blackstone location. A second Blackstone project will replace the 1930-vintage steam plant boiler and associated support equipment to ensure reliable, efficient, and environmentally responsible steam production to support campus power demands.

At Harvard Business School (HBS), Baker Library renovations were completed in September 2005. The historic lobby, reading room, and north facade were restored, and a new space was constructed to accommodate faculty, library, and research offices as well as book stacks, seminar rooms, and informal student gathering spaces. Aldrich Hall renovations were also completed, updating a total of 16 classrooms over two years with state-of-the-art technology while refurbishing the adjacent hallways and study alcoves. The renovation of Hamilton Hall, which began in fiscal 2005, will convert the existing space to 72 single rooms with private baths, several small kitchenettes, and group study rooms.

At the Law School, renovations concluded at Harkness Commons, resulting in improved dining facilities and social gathering spaces. Also at HLS, the Hemenway Gymnasium project, a joint effort of HLS, FAS, and the Athletic Department, was completed. The renovation included rebuilding three squash courts to international size, consolidating and upgrading the locker rooms, and creating an expanded state-of-the-art fitness facility.

Several projects aimed to improve the overall undergraduate student experience at the University. Work on the Malkin Athletic Center (MAC) was completed prior to the beginning of the 2004-05 academic year, and the Quadrangle Recreational Athletic Center (QRAC) renovations concluded in September 2005. The MAC now has an expanded exercise space and new athletic equipment. Changes to the QRAC combined improvements to the athletic facility with renovation of space for a dance studio and performance center. One of the QRAC's basketball courts was converted into a two-level dance space, including a practice studio, green room, changing room, and costume storage space. Additionally, the building's cardiovascular exercise area was reconfigured and refurbished.

Renovations also occurred at Hilles Library, Widener Library, and Sever Hall. Hilles Library was consolidated to one floor, freeing space for student organization offices and meeting areas. The library project was completed in October 2005. Other Hilles renovations are expected to resume later in fiscal 2006.

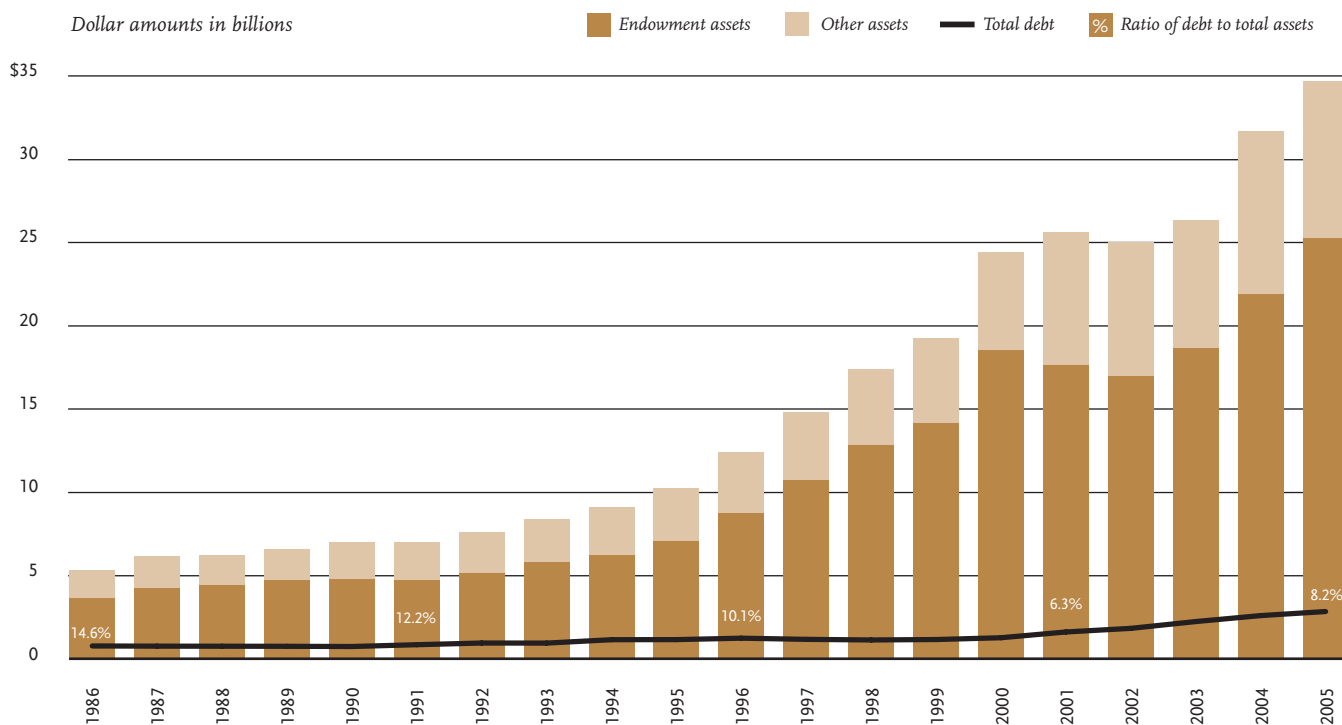
The Widener Library project was completed, resulting in reconfigured administrative spaces and two new reading rooms. Original architectural features and finishes were restored throughout Widener. The periodicals and reading rooms on the first floor were renovated, a microform reading room adjacent to the periodicals room was created, and the second floor reading room was restored to its original configuration. Sever Hall improvements were completed in September 2005 and included work on both the exterior and interior of the historic building. The fourth floor of Sever is now dedicated to the Visual and Environmental Studies department and includes three new screening rooms, two studio classrooms, and faculty and staff offices, in addition to video-viewing stations and a new library.

Other renovation projects included Loker Commons, the Dunster and Mather dining halls, and the new College Theater, formerly known as the Hasty Pudding building. The reconfiguration of Loker Commons concluded at the beginning of the 2004-05 academic year, adding a late night grill and

providing space for undergraduate student gatherings and functions. Finalized in September 2005, the Dunster and Mather improvements mark the last of the University's multi-year series of dining hall renovations. The kitchen shared by both Dunster and Mather Houses was outfitted with the latest energy-efficient technologies. Also, the dining halls were redesigned, providing students with improved traffic-flow serving areas, modernized facilities, and beautified eating spaces. Late in fiscal 2005, renovation plans for the new College Theater were finalized. Three quarters of the structure will be razed, and the historic front facade will be preserved and restored. In addition to a comprehensive renovation, this project will create a high quality theater for undergraduates with improved support space, rehearsal rooms, and student offices. The renovated new College Theater building will enable students to stage public performances and learn theater craft in a contemporary facility, while also helping to satisfy the high demand for student performance space.

### COMPARISON OF DEBT TO TOTAL ASSETS\*

Dollar amounts in billions



\* Assets are net of pledges, interests in perpetual trusts, and securities pledged to counterparties.

# 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.*

*As of June 30, 2005, HMC managed \$31.4 billion, of which \$29.4 billion resided in the General Investment Account (GIA), a pooled fund that consists primarily of endowment assets. The information presented in this report relates to the GIA.*

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## 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 at the end of fiscal 2005 are shown below:

Domestic equities	15%
Foreign equities	10
Emerging markets	5
Private equities	13
Absolute return funds	12
High-yield securities	5
Commodities	13
Real estate	10
Domestic bonds	11
Foreign bonds	5
Inflation-indexed bonds	6
Cash	(5)
<b>TOTAL</b>	<b>100%</b>

Several points about the Policy Portfolio are worth noting. First, it is a 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 12% in domestic equities compared with the 15% 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 Lehman 5+ year Treasury Index for the domestic bond sector), the actual portfolio will outperform the Policy Portfolio. The Policy Portfolio is regularly reviewed and modifications are made periodically in light of experience and changing circumstances.

## FISCAL 2005 INVESTMENT RESULTS

Total return on the GIA for the year ended June 30, 2005 was 19.2%, calculated on a time-weighted basis. This return is net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers, and compares with a 14.2% return on the Policy Portfolio.

The table below shows total return on the GIA for each of the past ten years. The Policy Portfolio is shown for comparison, as is the Trust

Universe Comparison Service (TUCS) Median, a universe of more than 100 funds with assets of over \$1.0 billion. As the numbers indicate, endowment returns on average have exceeded returns on the Policy Portfolio and the TUCS Median by a substantial margin.

### TOTAL RETURN

Fiscal year	Harvard GIA*	Policy portfolio	TUCS median
1996	26.0%	22.3%	17.6%
1997	25.8	20.0	20.3
1998	20.5	17.1	17.9
1999	12.2	18.9	11.2
2000	32.2	18.6	10.4
<b>FIVE-YEAR ANNUAL RATE</b>	<b>23.2</b>	<b>19.4</b>	<b>15.4</b>
2001	(2.7)	(9.8)	(5.7)
2002	(0.5)	(4.5)	(5.9)
2003	12.5	8.3	4.0
2004	21.1	16.4	16.2
2005	19.2	14.2	10.5
<b>FIVE-YEAR ANNUAL RATE</b>	<b>9.5</b>	<b>4.4</b>	<b>3.6</b>
<b>TEN-YEAR ANNUAL RATE</b>	<b>16.1%</b>	<b>11.6%</b>	<b>9.4%</b>

\*Net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers.

### ASSET ALLOCATION

The table below shows the breakdown by asset category of the General Investment Account as of June 30, 2005 and 2004 (dollar amounts in millions):

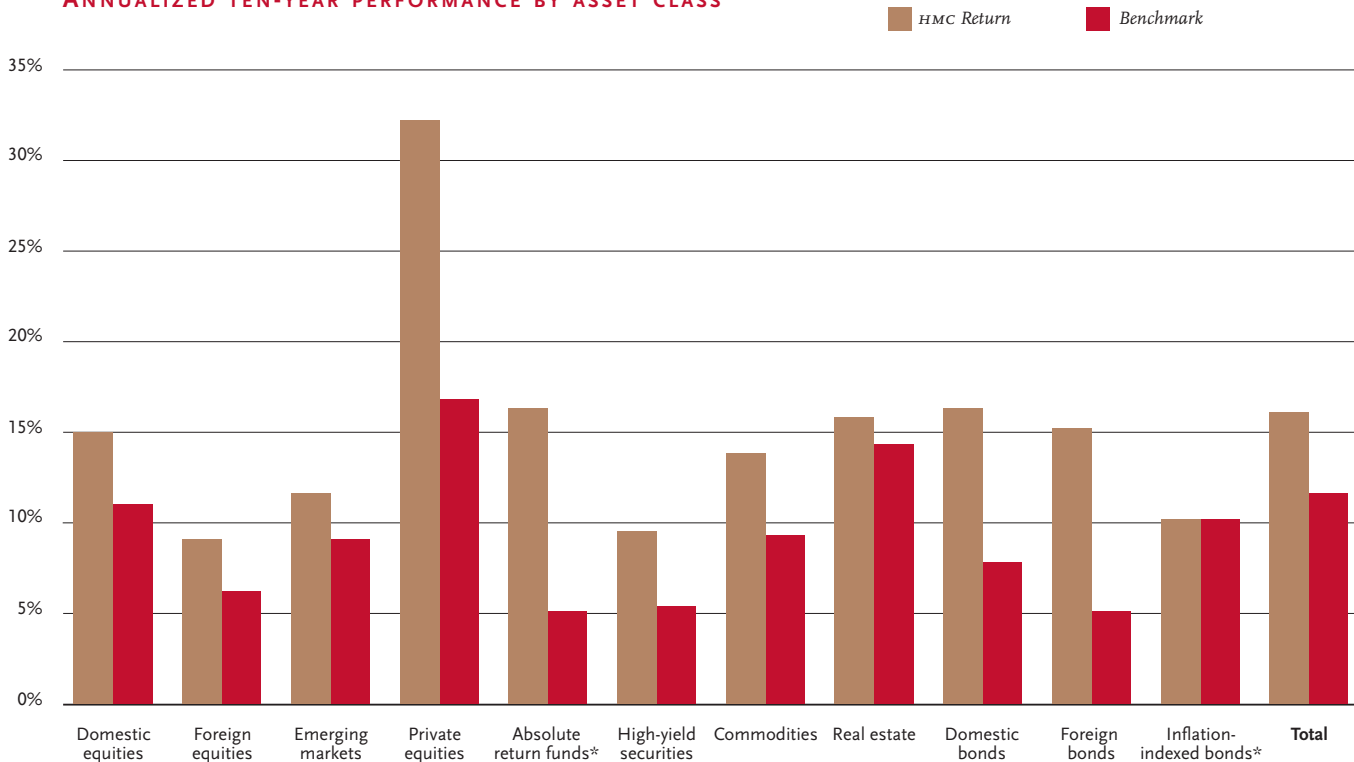
	2005		2004	
Domestic equities	\$ 5,332	18.2%	\$ 4,779	18.8%
Foreign equities	3,848	13.1	3,447	13.6
Emerging markets	1,782	6.0	1,829	7.2
Private equities	2,358	8.0	1,968	7.7
<b>Subtotal</b>	<b>13,320</b>	<b>45.3</b>	<b>12,023</b>	<b>47.3</b>
Absolute return funds	3,837	13.1	2,907	11.4
High-yield securities	1,831	6.2	1,497	5.9
Commodities	3,675	12.5	2,986	11.8
Real estate	1,940	6.6	1,420	5.6
<b>Subtotal</b>	<b>11,283</b>	<b>38.4</b>	<b>8,810</b>	<b>34.7</b>
Domestic bonds	2,411	8.2	1,708	6.7
Foreign bonds	1,192	4.1	826	3.3
Inflation-indexed bonds	1,589	5.4	1,446	5.7
Cash	(417)	(1.4)	595	2.3
<b>Subtotal</b>	<b>4,775</b>	<b>16.3</b>	<b>4,575</b>	<b>18.0</b>
<b>TOTAL</b>	<b>\$ 29,378</b>	<b>100.0%</b>	<b>\$ 25,408</b>	<b>100.0%</b>

## RESULTS BY ASSET CLASS

Annualized ten-year performance by asset class is shown in the graph below. The graph provides the University's annualized returns, net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers, as well as the performance of the relevant benchmark. All

returns are calculated on a time-weighted basis with the exception of private equities, real estate, and commodities, which are calculated on a dollar-weighted basis. Individual benchmarks are representative of each asset class and are approved by the Board of Directors.

### ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS



\* Absolute return funds and inflation-indexed bonds have been held for less than ten years. For these asset classes, the HMC return and the benchmark reflect annualized performance of 6.75 years and 6.00 years, respectively.

## RISK MANAGEMENT

The active management of a diverse portfolio involves inherent risks essential to meeting the long-term return objectives of the endowment. The primary risk factors include market risk, credit risk, liquidity risk, and operational risk. The management of these risks is the responsibility of the Board of Directors, its subcommittees, and senior management, who determine the objectives and policies that guide the management of the endowment. Subcommittees include the Corporate Governance and Nomination Committee, the Finance Committee, the Valuation Committee, the Compliance Committee, and the Compensation Committee.

Collectively, HMC has implemented a series of risk management processes to identify and quantify the risks to which the University is exposed, establish the proper mitigating controls, and monitor compliance with risk mitigation strategies. Risk management techniques are structured around fundamental principles including clearly defined policies and procedures; segregation of duties with clear reporting lines; strong management information systems, measurement, and analytical tools; disciplined relationship management; and independent review.

1) Market risk is defined as the sensitivity of income and capital to variations in interest rates, foreign exchange rates, equity prices, commodity prices, and other market-driven rates and prices. Market risk also considers the correlation risk among investments and the liquidity of the underlying positions. Market risk is measured as the potential gain or loss resulting from a price change at a given probability over a specific time period; this is also described as value at risk. Value at risk is monitored and reviewed frequently by the Board of Directors and senior management to ensure that exposures are consistent with approved limits and guidelines. Stress tests are also conducted to determine how potential changes in market conditions could impact the market risk of the portfolio.

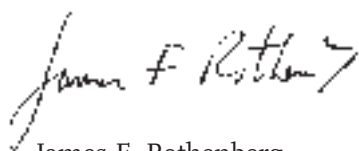
2) Credit risk is defined as the risk of loss arising from a counterparty's failure or inability to meet payment or performance terms of a contract. HMC manages credit risk by establishing strict credit policies, setting concentration limits and approval procedures, and monitoring exposure continuously. HMC enters into arrangements with counterparties believed to be creditworthy and requires collateral to the maximum extent possible. Limits are established for each counterparty based on their creditworthiness.

3) Liquidity risk considers the risk of loss arising from the inability to meet funding commitments. The objective of liquidity risk management is to ensure the ability to meet the endowment's financial obligations. Effective management of liquidity risk requires the ability to project and understand all

cash flows and potential future commitments. It also involves the identification and prioritization of sources of liquidity. Cash is managed actively by a centralized staff responsible for understanding funding requirements and evaluating sources of liquidity. Liquidity measures are employed to ensure that the University maintains adequate liquidity and is prepared for periods of stress.

4) Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, or external events. The management of these risks is primarily the responsibility of the business line managers in each functional area. HMC manages operational risk by identifying areas of risk, monitoring compliance, promoting best practices, and implementing internal controls and robust systems. The results of these activities are reviewed frequently by senior management.

Jack Meyer, President and CEO of HMC since 1990, and the fixed income management team departed October 1, 2005 to form their own firm. Mohamed A. El-Erian, currently a Managing Director at Pacific Investment Management Company (PIMCO), has been appointed President and Chief Executive Officer of HMC, commencing early in 2006. Peter Nadosy, an HMC Board member and former President of Morgan Stanley Asset Management, is serving as Interim Chief Investment Officer until Mr. El-Erian assumes his post.



James F. Rothenberg

CHAIR

HMC BOARD OF DIRECTORS

## FINANCIAL STATEMENTS

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### RENOVATIONS AT BAKER LIBRARY

Renovations were completed at Baker Library, the physical and intellectual center of Harvard Business School (HBS). Baker Library provides a range of facilities, activities, and services that support the exchange of knowledge and information among members of the HBS community, while also serving as a resource for scholars worldwide. Numerous technological resources were added during the renovations, including advanced research tools and “The Exchange,” a gathering place where students, faculty, and staff can view and discuss the latest business and financial news from around the globe.

## Balance sheets

with summarized financial information as of June 30, 2004

<i>In thousands of dollars</i>	June 30	
	2005	2004
<b>ASSETS:</b>		
Cash and cash equivalents ( <i>Notes 3 and 4</i> )	\$ 1,565,629	\$ 1,404,626
Working capital investments, at market ( <i>Notes 3 and 4</i> )	2,383,781	1,866,964
Receivables, net ( <i>Note 5</i> )	171,616	159,112
Prepayments and deferred charges	77,810	64,686
Notes receivable, net ( <i>Note 6</i> )	269,544	257,161
Pledges receivable, net ( <i>Note 7</i> )	644,843	721,803
Fixed assets, net ( <i>Note 8</i> )	3,797,838	3,468,897
Interests in perpetual trusts held by others ( <i>Note 9</i> )	251,917	245,277
Investment portfolio, at market ( <i>Notes 3 and 4</i> )	26,418,985	24,472,444
Market value of securities pledged to counterparties ( <i>Notes 3 and 4</i> )	19,947,959	27,401,077
<b>TOTAL ASSETS</b>	<b>55,529,922</b>	<b>60,062,047</b>
<b>LIABILITIES:</b>		
Accounts payable	401,049	437,348
Deposits and other liabilities	356,256	293,753
Securities lending and other liabilities associated with investment portfolio ( <i>Notes 3 and 4</i> )	20,343,700	28,897,526
Liabilities due under life income fund agreements ( <i>Note 10</i> )	568,112	492,138
Bonds and notes payable ( <i>Note 11</i> )	2,849,129	2,604,714
Pension and other accrued retirement obligations ( <i>Note 12</i> )	396,399	343,282
Government loan advances ( <i>Note 6</i> )	56,856	56,045
<b>TOTAL LIABILITIES</b>	<b>24,971,501</b>	<b>33,124,806</b>
<b>NET ASSETS</b>	<b>\$ 30,558,421</b>	<b>\$ 26,937,241</b>

	Unrestricted	Temporarily restricted	Permanently restricted	June 30	
				2005	2004
<b>NET ASSETS:</b>					
General Operating Account ( <i>Note 13</i> )	\$ 3,061,167	\$ 1,054,561	\$ 81,866	\$ 4,197,594	\$ 3,935,474
Endowment ( <i>Note 9</i> )	4,032,215	17,899,424	3,921,409	25,853,048	22,587,305
Life income funds ( <i>Note 10</i> )	0	164,355	343,424	507,779	414,462
<b>TOTAL NET ASSETS</b>	<b>\$ 7,093,382</b>	<b>\$ 19,118,340</b>	<b>\$ 4,346,699</b>	<b>\$ 30,558,421</b>	<b>\$ 26,937,241</b>

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, 2004

<i>In thousands of dollars</i>	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended	
				June 30	
				2005	2004
<b>REVENUE:</b>					
Student income:					
Undergraduate program	\$ 200,047			\$ 200,047	\$ 190,619
Graduate programs	307,695			307,695	287,102
Board and lodging	112,609			112,609	106,736
Continuing education and executive programs	155,113			155,113	145,281
Scholarships applied to student income (Note 14)	(189,000)			(189,000)	(173,437)
<b>Total student income</b>	<b>586,464</b>	<b>0</b>	<b>0</b>	<b>586,464</b>	<b>556,301</b>
Sponsored research support (Notes 15 and 16):					
Federal government—direct costs	367,600			367,600	342,026
Federal government—indirect costs	143,457			143,457	131,474
Non-federal sponsors—direct costs	31,306	71,926		103,232	106,621
Non-federal sponsors—indirect costs	6,606	5,545		12,151	9,048
<b>Total sponsored research support</b>	<b>548,969</b>	<b>77,471</b>	<b>0</b>	<b>626,440</b>	<b>589,169</b>
Gifts for current use (Note 16)	97,993	89,779		187,772	153,518
Investment income:					
Endowment income distributed for operations (Note 9)	134,895	719,862		854,757	807,645
Income on working capital investments distributed for operations	115,648	7,929		123,577	111,833
Interest received on student, faculty, and staff loans	6,232			6,232	6,544
<b>Total investment income</b>	<b>256,775</b>	<b>727,791</b>	<b>0</b>	<b>984,566</b>	<b>926,022</b>
Other operating income (Note 17)	415,694			415,694	372,696
Net assets released from restrictions (Note 2)	860,135	(860,135)		0	0
<b>TOTAL REVENUE</b>	<b>2,766,030</b>	<b>34,906</b>	<b>0</b>	<b>2,800,936</b>	<b>2,597,706</b>
<b>EXPENSES:</b>					
Salaries and wages	1,093,179			1,093,179	1,036,028
Employee benefits (Note 12)	313,844			313,844	304,281
Scholarships and other student awards (Note 14)	94,116			94,116	89,414
Supplies and equipment	206,660			206,660	187,362
Space and occupancy	296,125			296,125	265,821
Depreciation (Note 8)	196,563			196,563	182,138
Other expenses (Note 18)	556,886			556,886	495,875
<b>TOTAL EXPENSES</b>	<b>2,757,373</b>	<b>0</b>	<b>0</b>	<b>2,757,373</b>	<b>2,560,919</b>
<b>NET REVENUE</b>	<b>8,657</b>	<b>34,906</b>	<b>0</b>	<b>43,563</b>	<b>36,787</b>
<b>OTHER PROVISIONS AND CREDITS:</b>					
Change in appreciation, net of operating distribution	20,196	8,808		29,004	449,699
Change in undistributed general investment income	82,144	126,203		208,347	(66,848)
<b>TOTAL OTHER PROVISIONS AND CREDITS</b>	<b>102,340</b>	<b>135,011</b>	<b>0</b>	<b>237,351</b>	<b>382,851</b>
<b>CAPITAL CHANGES:</b>					
Net change in pledge balances (Note 7)		(11,889)		(11,889)	(10,098)
Capital gifts for loan funds and facilities (Note 16)		10,401	836	11,237	29,790
Transfers between General Operating Account and endowment	73,949	(97,106)	(334)	(23,491)	51,135
Transfers between General Operating Account and life income funds (Note 10)		5,335	14	5,349	5,632
Non-operating net assets released from restrictions (Note 2)	51,846	(53,044)	1,198	0	0
<b>TOTAL CAPITAL CHANGES</b>	<b>125,795</b>	<b>(146,303)</b>	<b>1,714</b>	<b>(18,794)</b>	<b>76,459</b>
<b>GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR</b>	<b>236,792</b>	<b>23,614</b>	<b>1,714</b>	<b>262,120</b>	<b>496,097</b>
Endowment net change during the year	657,580	2,443,322	164,841	3,265,743	3,292,570
Life income funds net change during the year (Note 10)		24,107	69,210	93,317	52,318
<b>NET CHANGE DURING THE YEAR</b>	<b>894,372</b>	<b>2,491,043</b>	<b>235,765</b>	<b>3,621,180</b>	<b>3,840,985</b>
Net assets, beginning of year	6,199,010	16,627,297	4,110,934	26,937,241	23,096,256
<b>NET ASSETS, end of year</b>	<b>\$ 7,093,382</b>	<b>\$ 19,118,340</b>	<b>\$ 4,346,699</b>	<b>\$ 30,558,421</b>	<b>\$ 26,937,241</b>

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, 2004

<i>In thousands of dollars</i>	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30	
				2005	2004
Gifts for capital ( <i>Note 16</i> )	\$ 11,170	\$ 41,079	\$ 233,410	\$ 285,659	\$ 257,767
Investment return ( <i>Notes 3, 4, and 9</i> ):					
Endowment income from general investments	59,745	312,151		371,896	192,843
Change in realized and unrealized appreciation during year	643,763	3,029,301		3,673,064	3,607,677
Total investment return	703,508	3,341,452	0	4,044,960	3,800,520
Endowment income distributed for operations	(134,895)	(719,862)		(854,757)	(807,645)
Change in undistributed general investment income	(29,892)	(149,161)		(179,053)	59,681
Net investment return after distributions	538,721	2,472,429	0	3,011,150	3,052,556
Transfers between endowment and General Operating Account:					
Unexpended income capitalized/(decapitalized)	(2,575)	6,537	5,967	9,929	14,985
Gifts capitalized	4	12,508	399	12,911	3,699
Other	(71,378)	78,061	(6,032)	651	(69,819)
Total transfers	(73,949)	97,106	334	23,491	(51,135)
Capitalization of life income funds ( <i>Note 10</i> )		4,426	8,070	12,496	9,472
Net change in endowment pledge balances ( <i>Note 7</i> )		(7,404)	(56,925)	(64,329)	(1,588)
Net change in interests in perpetual trusts held by others ( <i>Note 9</i> )			6,640	6,640	29,960
Other changes	(6)	(9,101)	(257)	(9,364)	(4,462)
Net assets released from restrictions ( <i>Note 2</i> )	181,644	(155,213)	(26,431)	0	0
<b>NET CHANGE DURING THE YEAR</b>	<b>657,580</b>	<b>2,443,322</b>	<b>164,841</b>	<b>3,265,743</b>	<b>3,292,570</b>
Net assets of the endowment, beginning of year	3,374,635	15,456,102	3,756,568	22,587,305	19,294,735
<b>NET ASSETS OF THE ENDOWMENT, end of year</b>	<b>\$ 4,032,215</b>	<b>\$ 17,899,424</b>	<b>\$ 3,921,409</b>	<b>\$ 25,853,048</b>	<b>\$ 22,587,305</b>

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

## Statements of cash flows

<i>In thousands of dollars</i>	For the year ended	
	June 30	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,621,180	\$ 3,840,985
Adjustments to reconcile change in net assets to net cash provided by/(used by) operating activities:		
Provision for depreciation	196,563	182,138
Increase in pension and retirement obligations	53,117	65,029
Increase in interests in perpetual trusts held by others	(6,640)	(29,960)
Increase in liabilities due under life income fund agreements	75,974	72,723
Net gain on sale of investments	(2,980,921)	(2,157,674)
Net unrealized appreciation on investments	(1,417,186)	(2,069,157)
Gifts restricted for capital purposes	(372,830)	(352,870)
Changes in operating assets and liabilities:		
Working capital investments	(516,817)	(984,589)
Receivables, net	(12,504)	40,344
Prepayments and deferred charges	(13,124)	1,574
Pledges receivable, net	76,960	10,912
Accounts payable	(36,299)	22,467
Deposits and other liabilities	62,503	36,605
<b>NET CASH PROVIDED BY/(USED BY) OPERATING ACTIVITIES</b>	<b>(1,270,024)</b>	<b>(1,321,473)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans made to students, faculty, and staff	(52,184)	(51,425)
Payments received on student, faculty, and staff loans	42,406	53,498
Increase in other notes receivable	(2,605)	(296)
Proceeds from sale of investments	27,778,809	33,928,651
Purchase of investments	(17,741,834)	(26,116,555)
Additions to fixed assets	(525,504)	(482,609)
<b>NET CASH PROVIDED BY/(USED BY) INVESTING ACTIVITIES</b>	<b>9,499,088</b>	<b>7,331,264</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	629,901	371,913
Debt repayments	(385,486)	(14,109)
Gifts restricted for capital purposes	372,830	352,870
Advances under security lending agreements	5,897,964	15,708,183
Payments under security lending agreements	(14,584,081)	(22,771,455)
Increase in government loan advances	811	590
<b>NET CASH PROVIDED BY/(USED BY) FINANCING ACTIVITIES</b>	<b>(8,068,061)</b>	<b>(6,352,008)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>161,003</b>	<b>(342,217)</b>
Cash and cash equivalents, beginning of year	1,404,626	1,746,843
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 1,565,629</b>	<b>\$ 1,404,626</b>

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

# Notes to financial statements

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## 1. UNIVERSITY ORGANIZATION

Harvard University (the “University”) is a private, not-for-profit institution of higher education with approximately 6,950 undergraduate and 12,780 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, 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 substantial authority to the Schools and departments for the management of their individual resources and operations.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the activities of Harvard University as a whole, including all significant affiliated organizations.

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

**PERMANENTLY RESTRICTED** net assets are subject to donor-imposed stipulations that they be invested to provide a perpetual source of income to the University. Generally, donors of these assets require the University to maintain and invest the original contribution in perpetuity, 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 net assets in accordance with Massachusetts law.

**UNRESTRICTED** net assets are not subject to donor-imposed restrictions. Funds invested in fixed assets and funds functioning as endowment comprise 74% 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 9 and 13*).

Revenues earned, expenses incurred, and income distributed for operations for the purpose of conducting research and the programs and services of the University are presented as “Net revenue” in the *Statements of Changes in Net Assets with General Operating Account Detail*. Net revenue is the measure of operating activity of the University.

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

Unconditional pledges are reported as increases in the appropriate categories 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 stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted to unrestricted net assets and appear as “Net assets released from restrictions” and “Non-operating net assets released from restrictions” in the *Statements of Changes in Net Assets*. Funds transferred to the University on behalf of specific beneficiaries are reported as agency transactions in the *Balance Sheets* and are not included in the *Statements of Changes in Net Assets*.

The *Balance Sheets* display both the assets and corresponding liabilities generated by securities lending transactions. These transactions are executed to support the investment activities of Harvard Management Company. The University also separately reports the fair value of assets for which counterparties have the right to pledge or exchange the collateral they have received; assets of the investment portfolio that are unencumbered are reported as “Investment portfolio, at market” in the *Balance Sheets*.

The University’s vast array of museums and libraries houses priceless works of art, historical treasures, literary works 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 recorded or capitalized for financial statement purposes.

There are certain trusts, held by third parties, in which Harvard has an interest where the University has not been provided with sufficient documentation to record the interest. The University’s policy is to record such interest when it is estimable and adequate information is obtained.

The University, together with the Harvard-affiliated teaching hospitals, has formed a captive insurance company that arranges and provides professional liability, general liability, and medical malpractice insurance for its shareholders. Defined portions of claims paid by this company are self-insured. The University also maintains self-insurance programs for automobile liability, property, and workers’ compensation. All these programs are supplemented with commercial excess insurance above the University’s self-insured retention. In addition, the University is

self-insured for unemployment, life insurance, disability, the primary senior health plan, and, as of January 1, 2005, all health plans for active employees. The University’s claims liabilities are recognized as claims are incurred, including claims incurred but not reported, and are included in operating expenses.

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, 2004, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation.

### 3. POOLED GENERAL INVESTMENTS

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

A) Investments are presented at fair market value based on trade date positions as of June 30. Instruments listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Investments in publicly traded securities that 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. Non-exchange traded debt instruments are valued using independent pricing services or by broker/dealers who actively make markets in these securities. Options contracts, forward contracts, interest rate exchange agreements, and interest rate cap and floor agreements are valued using models with externally verifiable model inputs, or by using independent broker quotes. Private equity, real estate, commodities, and absolute return funds consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner. Direct investments are valued utilizing discounted cash flow and other industry standard methodologies. Where applicable, independent appraisers and engineers are utilized to assist in the valuation. These values are determined under the direction of, and subject to approval by, the Valuation Committee of the Harvard Management Company Board of Directors.

B) The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting policies considered potentially significant in this respect are the valuation of derivative instruments, absolute return funds, private equities, real estate, and certain commodities. Values for these instruments are often estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. Estimates developed using these methods are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of these instruments. Actual results could differ from these estimates and could have a material impact on the financial statements.

C) The University amortizes bond premiums and accretes bond discounts.

D) The University utilizes a number of subsidiary entities to support the investment activities of the endowment. The consolidated financial statements include all assets and liabilities associated with these entities.

E) The collateral advanced under security borrowing agreements is in the form of cash. The minimum collateral the University requires by contract on each stock loan and repurchase agreement is 100% of the market value of the security loaned. Collateral is moved as is required by fluctuations in the market value of the security loaned.

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. A core investment portfolio is structured to mirror the market exposures defined by the Policy Portfolio and is considered to be "unhedged" as represented by "Total investments" in the following table. The Policy Portfolio is 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. 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 that 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.

The following table delineates securities pledged to counterparties, where the counterparty has the right, by contract or custom, to sell or repledge the securities. The fair value of collateral pledged to counterparties that cannot be sold or repledged as of June 30, 2005 was \$967.9 million and as of June 30, 2004 was \$688.5 million. The fair value of collateral accepted by the University as of June 30, 2005 was \$4,468.6 million and as of June 30, 2004 was \$3,757.1 million. The portion of this collateral that was sold or repledged as of June 30, 2005 was \$3,007.7 million and as of June 30, 2004 was \$1,020.8 million.

The summarization of pooled general investment assets and liabilities as of June 30, 2005 and 2004 is as follows (in thousands of dollars):

	2005		2004	
<b>ASSETS:</b>				
Investments:				
Domestic equity and convertible securities	\$ 5,862,131		\$ 4,462,050	
Securities pledged to counterparties	<u>232,511</u>	<b>6,094,642</b>	<u>169,540</u>	4,631,590
Foreign equity and convertible securities	3,882,131		2,892,546	
Securities pledged to counterparties	<u>504,233</u>	<b>4,386,364</b>	<u>590,064</u>	3,482,610
Domestic fixed-income securities	209,902		75,442	
Securities pledged to counterparties	<u>2,269,130</u>	<b>2,479,032</b>	<u>2,349,446</u>	2,424,888
Foreign fixed-income securities	121,935		12,155	
Securities pledged to counterparties	<u>653,828</u>	<b>775,763</b>	<u>137,547</u>	149,702
Emerging markets equity and debt	1,194,241		1,636,487	
Securities pledged to counterparties	<u>26,110</u>	<b>1,220,351</b>	<u>17,449</u>	1,653,936
High-yield securities	1,235,380		814,259	
Securities pledged to counterparties	<u>287,559</u>	<b>1,522,939</b>	<u>361,971</u>	1,176,230
Absolute return funds		<b>3,209,874</b>		2,630,057
Private equities		<b>2,357,811</b>		1,980,619
Real estate		<b>1,891,734</b>		1,457,203
Commodities		<b>3,301,986</b>		2,197,088
Inflation-indexed bonds	537,182		353,654	
Securities pledged to counterparties	<u>1,000,138</u>	<b>1,537,320</b>	<u>973,030</u>	1,326,684
Total investments		<b>28,777,816</b>		23,110,607
Financial instruments purchased under hedge transactions:				
Equity and convertible securities	2,327,607		1,393,766	
Securities pledged to counterparties	<u>57,606</u>	<b>2,385,213</b>	<u>59,617</u>	1,453,383
Fixed-income securities	1,011,684		1,263,807	
Securities pledged to counterparties	<u>14,746,561</u>	<b>15,758,245</b>	<u>22,733,300</u>	23,997,107
Options		<b>1,273,354</b>		2,268,210
Commodities		<b>15,584</b>		336,965
Total financial instruments purchased under hedge transactions		<b>19,432,396</b>		28,055,665
Collateral advanced under security borrowing agreements <sup>1</sup>		<b>1,747,923</b>		1,195,850
Cash and short-term investments	999,190		1,085,357	
Securities pledged to counterparties	<u>170,283</u>	<b>1,169,473</b>	<u>9,113</u>	1,094,470
Accounts receivable/(payable), net <sup>2</sup>		<b>(1,405,956)</b>		848,595
<b>POOLED GENERAL INVESTMENT ASSETS</b>		<b>49,721,652</b>		<b>54,305,187</b>
<b>LIABILITIES:</b>				
Financial instruments sold, not yet purchased, under hedge transactions:				
Equity and convertible securities		<b>1,246,460</b>		697,407
Fixed-income securities		<b>468,383</b>		424,267
Options		<b>285,941</b>		746,820
Total financial instruments sold, not yet purchased, under hedge transactions		<b>2,000,784</b>		1,868,494
Cash collateral held under security lending agreements <sup>3</sup>		<b>18,342,916</b>		27,029,032
<b>POOLED GENERAL INVESTMENT LIABILITIES</b>		<b>20,343,700</b>		<b>28,897,526</b>
<b>POOLED GENERAL INVESTMENT NET ASSETS</b>		<b>\$ 29,377,952</b>		<b>\$ 25,407,661</b>

<sup>1</sup> The collateral advanced under security borrowing agreements is in the form of cash.

<sup>2</sup> As of June 30, 2005, accounts receivable and payable related to undistributed income and purchases and sales of securities were \$712,686 and \$2,118,642, respectively. The amounts at June 30, 2004 were \$1,547,256 and \$698,661, respectively. As of June 30, 2005, of the \$712,686 of accounts receivable, gross receivables relating to off-balance sheet instruments were \$112,603, and of the \$2,118,642 of accounts payable, gross payables relating to off-balance sheet instruments were \$1,231,324. As of June 30, 2004, of the \$1,547,256 of accounts receivable, gross receivables relating to off-balance sheet instruments were \$787,463, and of the \$698,661 of accounts payable, gross payables relating to off-balance sheet instruments were \$220,529.

<sup>3</sup> The minimum collateral the University requires by contract on each stock loan and repurchase agreement is 100% of the market value of the security loaned. Collateral is moved as is required by fluctuations in 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 executed over the counter. These instruments are primarily used in the arbitrage 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 following tables). 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 Sheets*. The University controls market risk through the use of industry standard analytical tools that 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 changing 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 as discussed on the following page), 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, 2005 (in thousands of dollars):

	Market exposure			Net ending fair value of off-balance sheet positions		Net average fair value	Credit exposure*
	Long unhedged	Long hedged	Short hedged	Unhedged	Hedged		
Equity futures	\$ 225,450	\$ 0	\$ (566,336)	\$ 0	\$ 1,148	\$ 1,071	\$ 40,026
Equity options	26,133	128,171	(159,872)	26,133	34,952	55,472	3,746
Equity exchange agreements	583,699	8,521	(809,079)	27,993	(18,302)	10,526	856
Total equity instruments	835,282	136,692	(1,535,287)	54,126	17,798	67,069	44,628
Fixed-income futures	0	0	(225,459)	0	321	253	321
Fixed-income options	0	473,098	(3,124,060)	0	379,164	572,964	274
Interest exchange agreements	124,678	1,901,762	(18,683,492)	1,079	(953,654)	(350,508)	0
Interest rate caps and floors	119,853	9,688,425	(1,848,720)	3,022	94,832	267,012	1,784
Total fixed-income instruments	244,531	12,063,285	(23,881,731)	4,101	(479,337)	489,721	2,379
Commodity futures	0	0	(77,613)	0	0	0	398
Commodity options	0	9	(10)	0	(60)	25,926	0
Commodity exchange agreements	1,168,997	0	(34,806)	0	183	9,125	80
Total commodity instruments	1,168,997	9	(112,429)	0	123	35,051	478
Currency forwards	1,028,901	973,103	(2,009,843)	(7)	(7,833)	(6,353)	974
Currency options	0	2,554,030	(509,310)	0	236,159	376,085	0
<b>TOTAL</b>	<b>\$ 3,277,711</b>	<b>\$ 15,727,119</b>	<b>\$ (28,048,600)</b>	<b>\$ 58,220</b>	<b>\$ (233,090)</b>	<b>\$ 961,573</b>	<b>\$ 48,459</b>

\* Credit exposures primarily represent cash or securities advanced by the University to meet legal margin requirements in connection with future, forward, and option contracts.

The following table summarizes the market exposure (expressed in cash market equivalents as discussed below), 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, 2004 (in thousands of dollars):

	Market exposure			Net ending fair value of off-balance sheet positions		Net average fair value	Credit exposure*
	Long unhedged	Long hedged	Short hedged	Unhedged	Hedged		
Equity futures	\$ 228,150	\$ 7,610	\$ (848,357)	\$ 0	\$ (188)	\$ 3,164	\$ 52,963
Equity options	11,857	87,014	(38,055)	11,857	26,524	43,943	1,026
Equity exchange agreements	333,440	31,492	(268,753)	(15,521)	17,544	8,954	377
Total equity instruments	573,447	126,116	(1,155,165)	(3,664)	43,880	56,061	54,366
Fixed-income futures	29,411	114,356	(320,653)	0	20	(416)	1,800
Fixed-income options	531	1,828,160	(5,809,972)	2,023	712,500	676,278	2,651
Interest exchange agreements	314,976	7,074,374	(33,870,004)	968	571,309	(628,713)	805
Interest rate caps and floors	7,894	17,843,634	(1,558,156)	20,684	328,015	481,597	3,301
Total fixed-income instruments	352,812	26,860,524	(41,558,785)	23,675	1,611,844	528,746	8,557
Commodity futures	0	0	(86,369)	0	0	0	1,661
Commodity options	0	122,694	(273,490)	0	84,818	29,206	13
Commodity exchange agreements	880,000	547,438	(490,189)	0	92,133	200	4,988
Total commodity instruments	880,000	670,132	(850,048)	0	176,951	29,406	6,662
Currency forwards	1,071,187	2,075,857	(3,127,351)	7,121	12,572	5,905	73
Currency options	0	5,210,907	(1,860,145)	0	448,477	580,751	1,071
Private put agreements related to real estate investments	5,000	0	0	0	0	0	0
<b>TOTAL</b>	<b>\$ 2,882,446</b>	<b>\$ 34,943,536</b>	<b>\$ (48,551,494)</b>	<b>\$ 27,132</b>	<b>\$ 2,293,724</b>	<b>\$ 1,200,869</b>	<b>\$ 70,729</b>

\* Credit exposures primarily represent cash or securities advanced by the University to meet legal margin requirements in connection with future, forward, and option contracts.

Financial instruments with off-balance sheet risk are recorded on the balance sheet at fair value. Fair value is a function of the characteristics of the individual financial instruments and their relationship to current market conditions, as well as the length of time each instrument has been held. For example, domestic futures contracts, which expire periodically, are subject to daily cash settlements and, as such, the end-of-day fair value of these contracts is zero. 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. The cash market equivalent of exposure represents the notional value of the off-balance sheet instrument adjusted for its correlation to its underlying index or asset. Market exposure is only meaningful when related to the corresponding positions recorded on the *Balance Sheets*. Fair value and market exposure do not accurately

measure risk. A more appropriate indicator of market risk is the net exposure of all positions (on- and off-balance sheet) expressed in market-risk equivalents, or value at risk.

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. Collateral is moved on a daily basis as is required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the U.S. Treasury. 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 agreements. The University enters into arrangements only with counterparties believed to be creditworthy.

Specific credit limits are established for counterparties, based on their individual credit ratings. Credit limits are monitored daily and are adjusted according to policy.

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 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 \$3,461.2 million through fiscal 2015.

For the year ended June 30, 2005, the total return on the pooled general investments was 19.2%, or \$4,777.6 million, net of all expenses and fees, and including the impact of revenue-sharing agreements with certain fund managers. This compares with 21.1%, or \$4,391.7 million, in fiscal 2004 (see Note 4).

Subsequent to June 30, 2005, the University entered into an agreement to sell a significant portion of timber assets in a single transaction.

#### 4. INVESTMENT HOLDINGS

The University's investment holdings as of June 30, 2005 and 2004 are summarized in the following tables (in thousands of dollars):

	2005			2004
	Pooled general investments	Other investments	Total	Total
Short-term investments*	\$ 3,408,911	\$ 540,499	\$ 3,949,410	\$ 3,271,590
Investment portfolio	26,364,782	54,203	26,418,985	24,472,444
Securities pledged to counterparties	19,947,959	0	19,947,959	27,401,077
Securities lending and other liabilities associated with the investment portfolio	(20,343,700)	0	(20,343,700)	(28,897,526)
<b>TOTAL INVESTMENT HOLDINGS</b>	<b>\$ 29,377,952</b>	<b>\$ 594,702</b>	<b>\$ 29,972,654</b>	<b>\$ 26,247,585</b>

Investment holdings are comprised of:

	2005			2004
	Pooled general investments	Other investments	Total	Total
Short-term investments*	\$ 3,408,911	\$ 540,499	\$ 3,949,410	\$ 3,271,590
Endowment investments	25,192,841	28,963	25,221,804	21,898,372
Life income fund investments	612,218	463,673	1,075,891	906,600
Pension investments, internally designated	24,574	0	24,574	26,772
Postretirement health investments, internally designated	125,997	0	125,997	97,913
Other investments, principally interest rate swaps	13,411	(438,433)	(425,022)	46,338
<b>TOTAL INVESTMENT HOLDINGS</b>	<b>\$ 29,377,952</b>	<b>\$ 594,702</b>	<b>\$ 29,972,654</b>	<b>\$ 26,247,585</b>

\* Short-term investments include working capital investments and cash and cash equivalents. Cash and cash equivalents of \$1,565,629 and \$1,404,626 as of June 30, 2005 and 2004, respectively, consist principally of funds deposited in cash management accounts with maturities when purchased of fewer than 90 days.

The University employs a unit method of accounting for pooled general investments. Each participating fund enters into 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 (see Note 3).

The changes in the market value and income of participating units for the years ended June 30, 2005 and 2004 were as follows:

	2005	2004
Unit value at end of year	\$ 1,425.68	\$ 1,215.68
Unit value at beginning of year	1,215.68	1,013.51
Change in realized and unrealized appreciation	210.00	202.17
Net income earned on general investments	21.16	10.79
<b>TOTAL UNIT RETURN ON POOLED GENERAL INVESTMENTS*</b>	<b>\$ 231.16</b>	<b>\$ 212.96</b>
<b>TOTAL UNIT RETURN PERCENTAGE USING MONTHLY COMPOUNDING*</b>	<b>19.2%</b>	<b>21.1%</b>

\* Net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers.

Other investments are managed separately from the pooled general investment account. These investments consist primarily of interest rate exchange agreements (interest rate swaps), 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 associated with life

income funds. Those investments that are not readily marketable are carried either at cost or a nominal value. Income on other investments is recorded and distributed when received.

A summary of the University's total return on investments is presented below (in thousands of dollars):

	2005	2004
Return on pooled general investments:		
Realized and unrealized gains	\$ 4,339,695	\$ 4,169,484
Investment income	437,903	222,224
Total return on pooled general investments	4,777,598	4,391,708
Other investment income and gains/(losses)	(363,711)	104,499
<b>TOTAL RETURN ON INVESTMENTS*</b>	<b>\$ 4,413,887</b>	<b>\$ 4,496,207</b>

\* Net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers.

## 5. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of \$3.7 million and \$2.5 million, as of June 30, 2005 and 2004, respectively, were as follows (in thousands of dollars):

	2005	2004
Investment income	\$ 8,953	\$ 0
U.S. Government, principally related to research	38,562	36,080
Non-federal sponsored research	6,343	5,044
Students	10,614	9,102
Other	107,144	108,886
<b>TOTAL RECEIVABLES, NET</b>	<b>\$ 171,616</b>	<b>\$ 159,112</b>

## 6. NOTES RECEIVABLE

Notes receivable as of June 30, 2005 and 2004 were as follows (in thousands of dollars):

	2005	2004
Student notes receivable:		
Government revolving loans	\$ 60,586	\$ 63,211
Institutional loans	59,984	52,251
Federally insured loans	8,019	13,149
Total student notes receivable	128,589	128,611
Faculty and staff notes receivable	118,794	108,994
Other notes receivable	22,161	19,556
<b>TOTAL NOTES RECEIVABLE, NET</b>	<b>\$ 269,544</b>	<b>\$ 257,161</b>

In addition to administering institutional loan programs, the University participates in various federal loan programs. Federally 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 \$56.9 million and \$56.0 million as of June 30, 2005 and 2004, 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 notes receivable.

Notes receivable from faculty and staff are comprised primarily of mortgages and educational loans. Mortgages include shared appreciation loans and loans that bear interest at the applicable federal rate. In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. The educational loans are primarily zero-interest loans.

## 7. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are recorded as pledges receivable in the years promised at the present value of expected cash flows, net of an allowance for uncollectible pledges. Pledges receivable included in the financial statements as of June 30, 2005 and 2004 are expected to be realized as follows (in thousands of dollars):

	2005	2004
Within one year	\$ 97,501	\$ 106,797
Between one and five years	390,002	427,187
More than five years	240,768	275,599
Less: discount and allowance for uncollectible pledges	(83,428)	(87,780)
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 644,843</b>	<b>\$ 721,803</b>

A discount of \$36.2 million and \$42.4 million for the years ended June 30, 2005 and 2004, respectively, was calculated using a discount factor based on the appropriate U.S. Treasury Note rate.

Pledges receivable have been designated for the following purposes (in thousands of dollars):

	2005	2004
Gifts for current use	\$ 130,250	\$ 134,723
Non-federal sponsored research	101,049	108,154
Loan funds and facilities	34,217	35,270
General Operating Account balances	265,516	278,147
Endowment	379,327	443,656
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 644,843</b>	<b>\$ 721,803</b>

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. FIXED ASSETS

Fixed assets are shown at cost or at fair value as of the date of the gift, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The major categories of fixed assets as of June 30, 2005 and 2004 are summarized as follows (in thousands of dollars):

	2005	2004	Estimated useful life (in years)
Housing facilities	\$ 811,923	\$ 798,881	35
Research facilities	1,244,856	1,198,698	*
Classroom and office facilities	926,520	751,653	35
Libraries	340,711	242,057	35
Museums and assembly facilities	210,840	205,579	35
Athletic facilities	109,133	106,274	35
Service facilities	267,911	200,593	35
Other facilities and land	880,943	795,677	**
Construction in progress	288,816	328,749	N/A
Equipment	401,242	334,999	***
Total fixed assets at cost	5,482,895	4,963,160	
Less: accumulated depreciation	(1,685,057)	(1,494,263)	
<b>TOTAL FIXED ASSETS, NET</b>	<b>\$ 3,797,838</b>	<b>\$ 3,468,897</b>	

\* Estimated useful lives of components range from 10 to 45 years.

\*\* The estimated useful life of other facilities is 35 years.

\*\*\* Estimated useful lives of equipment range from 3 to 8 years.

Fixed assets include both facilities and equipment. Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

Certain University facilities are subject to restrictions as to use, structural modifications, and ownership transfer.

The costs of research facilities are separated into the shell, roof, finishes, fixed equipment, and services. These components are separately depreciated. The average useful life for research facilities is 19 years.

## 9. ENDOWMENT FUNDS

Harvard's endowment consists of approximately 10,840 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 net assets, in accordance with donor specifications. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the market value equals or exceeds book value. Although funds functioning as endowment are not subject to permanent donor restrictions, decisions to spend their principal

require the approval of the Corporation. All but a small fraction of the endowment is invested in the pooled general investment account (see *Notes 3 and 4*).

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 revenue when the trusts are established.

Endowment funds as of June 30, 2005 and 2004 are summarized below (in thousands of dollars):

	2005				2004
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	\$ 0	\$ 15,581,397	\$ 3,366,898	\$ 18,948,295	\$ 16,593,304
Funds functioning as endowment:					
Departmental funds	3,065,149	2,123,010	0	5,188,159	4,400,661
University funds	967,066	118,284	0	1,085,350	904,407
Pledge balances	0	76,733	302,594	379,327	443,656
Interests in perpetual trusts held by others	0	0	251,917	251,917	245,277
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 4,032,215</b>	<b>\$ 17,899,424</b>	<b>\$ 3,921,409</b>	<b>\$ 25,853,048</b>	<b>\$ 22,587,305</b>

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 or by capital gains may vary significantly from year to year. Amounts withdrawn from endowment capital gains to fund the fiscal 2005 and 2004 distributions totaled \$767.7 million and \$644.9 million, respectively.

The portion of investment returns earned on endowment and distributed each year is based on a rate (stated in dollars per unit) that is approved by the Corporation. This rate is not 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 5.0% 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.

Fiscal year	Endowment investment returns (dollar amounts in thousands)				Distribution rate <sup>1,2</sup>	
	Interest and dividends	Net appreciation	Total return <sup>3</sup>	Total return % <sup>2,3</sup>	Per unit	As a % of market value
2005	\$ 371,896	\$ 3,673,064	\$ 4,044,960	19.2%	\$ 60.99	4.3%
2004	192,843	3,607,677	3,800,520	21.1	54.17	4.5
2003	252,524	1,807,171	2,059,695	12.5	49.70	4.9
2002	378,999	(474,416)	(95,417)	(0.5)	47.11	5.1
2001	354,368	(844,638)	(490,270)	(2.7)	45.32	4.8
<b>FIVE-YEAR TOTAL</b>	<b>\$ 1,550,630</b>	<b>\$ 7,768,858</b>	<b>\$ 9,319,488</b>			

<sup>1</sup> Since current year interest and dividends are used to fund the following year's distribution, these represent distribution rates for the following fiscal year.

<sup>2</sup> Total return %, distribution rate per unit, and distribution rate as a % of market value are calculated in relation to pooled general investments.

<sup>3</sup> Total return and total return % are net of all expenses and fees, and include the impact of revenue-sharing agreements with certain fund managers.

## 10. LIFE INCOME FUNDS

As of June 30, 2005, the University held life income funds—pooled funds, gift annuities, and charitable remainder trusts—for approximately 1,900 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 the University in accordance with donor intentions. When a trust is established, life income fund net 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.

As of June 30, 2005, life income fund assets totaled \$1,075.9 million, with corresponding liabilities for amounts due to beneficiaries of \$473.7 million and amounts due to other institutions of \$94.4 million. Gifts for capital to life income funds are presented at full value. The discounted present value of these gifts was \$27.6 million and \$23.1 million for fiscal 2005 and 2004, respectively. The changes in life income fund net assets for fiscal 2005 and 2004 were as follows (in thousands of dollars):

	2005			2004
	Temporarily restricted	Permanently restricted	Total	Total
Gifts for capital ( <i>Note 16</i> )	\$ 21,659	\$ 54,275	\$ 75,934	\$ 65,313
Investment return:				
Investment income	9,230	18,585	27,815	19,629
Change in realized and unrealized appreciation	44,375	89,359	133,734	98,771
Total investment return	53,605	107,944	161,549	118,400
Payments to annuitants	(16,706)	(33,641)	(50,347)	(43,568)
Life income funds converted to endowment	(4,426)	(8,070)	(12,496)	(9,472)
Life income funds transferred to General Operating Account	(5,335)	(14)	(5,349)	(5,632)
Change in liabilities due under life income agreements	(24,690)	(51,284)	(75,974)	(72,723)
<b>NET INCREASE DURING THE YEAR</b>	<b>24,107</b>	<b>69,210</b>	<b>93,317</b>	<b>52,318</b>
Total life income funds, beginning of year	140,248	274,214	414,462	362,144
<b>TOTAL LIFE INCOME FUNDS, end of year</b>	<b>\$ 164,355</b>	<b>\$ 343,424</b>	<b>\$ 507,779</b>	<b>\$ 414,462</b>

## 11. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2005 and 2004 are summarized as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One-year effective interest rate	Outstanding principal	
				2005	2004
<b>TAX-EXEMPT BONDS AND NOTES PAYABLE:</b>					
Variable-rate bonds and notes:					
Series L - Weekly	1990	19	4.6%	\$ 71,140	\$ 71,140
Series R - Weekly	2000-2005	45	1.7	117,160	103,670
Series Y - Weekly	2000	30	5.4	117,905	117,905
Series BB - Weekly	2001	29	1.7	196,700	196,700
Series HH - Weekly	2004	29	5.8	92,235	92,235
Series GG-1 - Weekly	2005	24	4.5	205,935	0
Commercial Paper (Series EE)	Various	Various	1.7	318,792	519,434
Total variable-rate bonds and notes			3.2	1,119,867	1,101,084
Fixed-rate bonds:					
Series N	1992	15	6.3	78,848*	78,771
Series P	1995	27	5.5	103,530	104,730
Series Z	2001	11	5.1	101,834*	110,194
Series AA	2001	4	5.5	20,025*	24,769
Series DD	2002	30	5.0	134,884*	134,852
Series FF	2003	32	5.1	275,973*	275,968
Series 2005A	2005	31	5.0	94,205*	0
Radcliffe College Series 1997	1998	1	4.7	175	575
Total fixed-rate bonds			5.2	809,474	729,859
<b>TOTAL TAX-EXEMPT BONDS AND NOTES PAYABLE</b>			<b>4.0</b>	<b>1,929,341</b>	<b>1,830,943</b>
<b>TAXABLE BONDS AND NOTES PAYABLE:</b>					
Commercial paper	Various	Various	5.0	413,031	336,977
Fixed-rate bonds	1992	2	8.1	115,000	115,000
Series CC	2001	26	7.0	247,000	247,000
Series GG-2	2005	8	4.5	58,465	0
<b>TOTAL TAXABLE BONDS AND NOTES PAYABLE</b>			<b>6.0</b>	<b>833,496</b>	<b>698,977</b>
<b>OTHER NOTES PAYABLE</b>	Various	Various	Various	<b>86,292</b>	<b>74,794</b>
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>4.6%</b>	<b>\$ 2,849,129</b>	<b>\$ 2,604,714</b>

\*Series N, DD, and FF principal are net of \$1.2 million, \$1.0 million, and \$0.2 million of discounts, respectively. Series Z, AA, and 2005A principal include premiums of \$1.7 million, \$0.7 million, and \$5.1 million, respectively.

Interest payments on a cash basis totaled \$94.6 million and \$77.1 million for fiscal 2005 and 2004, respectively. Interest expense was \$96.9 million and \$76.8 million for fiscal 2005 and 2004, respectively. Excluding maturity of commercial paper and other notes payable, as well as unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2006	\$ 13,960
2007	135,610
2008	20,680
2009	21,535
2010	19,460
Thereafter	1,814,645
<b>TOTAL PRINCIPAL PAYMENTS</b>	<b>\$ 2,025,890</b>

In fiscal 2005, the University issued \$205.9 million in tax-exempt weekly variable-rate Series GG-1 bonds and \$58.5 million in taxable weekly variable-rate Series GG-2 bonds to finance a new research facility. The Series GG-1 and Series GG-2 bonds mature in July 2029 and 2013, respectively. Also in fiscal 2005, the University issued \$94.2 million (including a premium of \$5.1 million) in tax-exempt fixed-rate bonds to finance a range of University capital projects. These Series 2005A bonds mature in 2036.

In fiscal 2005, the sixth tranche of Series R current refunding bonds was issued. This tranche totaled \$13.5 million and brought the total amount outstanding under this series to \$117.2 million. These bonds, which are in a weekly reset variable-rate mode, represent a current refunding of tax-exempt principal payments made throughout the calendar year.

In fiscal 2004, the University initiated its affiliate housing bond program with the issuance of \$92.2 million of Series HH tax-exempt weekly variable-rate bonds. Also in fiscal 2004, the University reauthorized its existing tax-exempt commercial paper program (Series EE). With this action, the authorized limit on the program was raised from \$300.0 million to \$650.0 million.

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was \$2,837.8 million and \$2,582.7 million as of June 30, 2005 and 2004, respectively.

In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered.

In August 2005, the University issued \$105.6 million (including a premium of \$5.1 million) of tax-exempt fixed-rate bonds. These Series 2005B bonds will mature in 2032. The bonds' proceeds are currently in escrow and will be used to refund the outstanding Series P bonds in November 2005.

**INTEREST RATE EXCHANGE AGREEMENTS** The University has entered into various interest rate exchange agreements in order to convert variable-rate borrowings to a fixed rate, thereby managing the interest cost and risk associated with its outstanding debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. Under the terms of these agreements, the University pays a fixed rate, determined at inception, and receives a variable rate on the respective notional principal amounts. Each of these exchanges is collateralized, as described in *Note 3*. The interest rates in the preceding schedule reflect any applicable exchange agreements.

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 dates of the *Balance Sheets*, taking into account the creditworthiness of the underlying counterparties. The notional amount and fair value of interest rate exchange agreements were \$3,723.8 million and \$(461.2) million, respectively, as of June 30, 2005 and \$1,376.6 million and \$(58.4) million, respectively, as of June 30, 2004. The substantial increase in the notional amount of agreements outstanding reflects that in December 2004, the University entered into a series of forward interest rate agreements relating to the funding of future University capital projects, including planned development in Allston.

The fair value of these agreements is included in the "Investment portfolio, at market" line in the *Balance Sheets*. The change in unrealized depreciation that was recognized for the interest rate exchange agreements was approximately \$402.8 million and \$61.7 million for fiscal 2005 and 2004, respectively. The loss realized from the monthly settling of these agreements was \$35.5 million and \$28.7 million for fiscal 2005 and 2004, respectively. All unrealized and realized gains and losses from interest rate exchange agreements are included in the "Change in appreciation, net of operating distribution" line in the *Statements of Changes in Net Assets with General Operating Account Detail*.

## 12. 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, the University has pension plans covering substantially all employees.

The University uses a measurement date of June 30 for its pension and postretirement health plans.

**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 a defined benefit component, a defined contribution component, or a combination of the two.

In accordance with ERISA requirements, the University has established a trust to hold plan assets for its defined benefit pension plans. The market value of the trust's assets

was \$709.6 million and \$640.0 million as of June 30, 2005 and 2004, respectively. In addition, the University had internally designated and invested \$24.6 million and \$26.8 million as of June 30, 2005 and 2004, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of \$76.8 million and \$61.6 million for fiscal 2005 and 2004, respectively.

**POSTRETIREMENT HEALTH BENEFITS** The University provides defined benefit postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2005, the University had internally designated and invested \$126.0 million to fund the postretirement health benefit accrued liability of \$371.8 million. As of June 30, 2004, the University had internally designated and invested \$97.9 million to fund an accrued liability of \$316.5 million.

<i>In thousands of dollars</i>	2005	2004	2005	2004
	Pension benefits		Other benefits	
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>				
Benefit obligation at beginning of year	\$ 580,457	\$ 583,588	\$ 504,965	\$ 491,656
Service cost	12,783	14,737	19,368	23,080
Interest cost	34,462	34,796	26,554	29,949
Plan participants' contributions	0	0	2,770	2,868
Actuarial (gain)/loss	38,537	(18,941)	(19,062)	(28,247)
Benefits paid	(33,877)	(33,723)	(13,849)	(14,341)
<b>PROJECTED BENEFIT OBLIGATION, end of year</b>	<b>\$ 632,362</b>	<b>\$ 580,457</b>	<b>\$ 520,746</b>	<b>\$ 504,965</b>

The accumulated benefit obligation for pension benefits at June 30, 2005 and 2004 was \$565.6 million and \$495.7 million, respectively.

<i>In thousands of dollars</i>	2005		2004	
	Pension benefits		Other benefits	
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets at beginning of year	\$ 639,952	\$ 575,366	\$ 0	\$ 0
Actual return on plan assets	103,564	98,309	0	0
Employer contributions	0	0	11,079	11,473
Plan participants' contributions	0	0	2,770	2,868
Benefits paid	(33,877)	(33,723)	(13,849)	(14,341)
<b>FAIR VALUE OF PLAN ASSETS, end of year</b>	<b>\$ 709,639</b>	<b>\$ 639,952</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>ACCRUED BENEFIT LIABILITY</b>				
Funded status	\$ 77,277	\$ 59,494	\$ (520,746)	\$ (504,965)
Unrecognized actuarial (gain)/loss	(72,635)	(51,632)	89,562	120,987
Unamortized unrecognized portion of net obligation at transition	0	0	48,497	54,560
Unamortized prior service cost/(credit)	(29,216)	(34,634)	10,862	12,908
<b>ACCRUED BENEFIT LIABILITY</b>	<b>\$ (24,574)</b>	<b>\$ (26,772)</b>	<b>\$ (371,825)</b>	<b>\$ (316,510)</b>

**WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AS OF JUNE 30:**

	2005	2004	2005	2004
Discount rate	5.25%	6.25%	5.25%	6.25%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered health care

benefits was assumed for 2006, decreasing gradually to a 5.0% annual rate in 2010 and all years thereafter.

<i>In thousands of dollars</i>	2005		2004	
	Pension benefits		Other benefits	
<b>COMPONENTS OF NET PERIODIC BENEFIT (INCOME)/COST</b>				
Service cost	\$ 12,783	\$ 14,737	\$ 19,369	\$ 23,080
Interest cost	34,462	34,796	26,554	29,949
Expected return on plan assets and reserves	(46,686)	(48,160)	(7,569)	(6,083)
Amortization of the:				
Unrecognized transition obligation	0	0	6,062	6,062
Recognized prior service (credit)/cost	(5,418)	(5,418)	2,046	2,046
Recognized actuarial (gain)/loss	(2,447)	(3,127)	980	6,620
Net periodic benefit (income)/cost	(7,306)	(7,172)	47,442	61,674
Investment return on invested reserves	5,108	6,068	18,951	15,932
<b>TOTAL PERIODIC (INCOME)/COST</b>	<b>\$ (2,198)</b>	<b>\$ (1,104)</b>	<b>\$ 66,393</b>	<b>\$ 77,606</b>

**WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE THE NET PERIODIC BENEFIT (INCOME)/COST FOR THE YEARS ENDED JUNE 30:**

	2005	2004	2005	2004
Discount rate	6.25%	6.00%	6.25%	6.00%
Expected return on plan assets for the year	8.00%	7.75%	8.00%	7.75%
Rate of compensation increase	4.00%	5.00%	4.00%	5.00%

<i>In thousands of dollars</i>	Expected benefit payments		Expected Medicare Part D subsidies
	Pension	Other	
2006	\$ 33,254	\$ 18,189	\$ 1,288
2007	33,555	19,717	2,773
2008	34,375	21,195	2,978
2009	35,442	22,675	3,175
2010	36,530	24,189	3,375
2011-2015	206,090	148,535	20,911

The expected return on plan assets is determined by utilizing Harvard Management Company's capital markets model, which takes into account the expected real return, before inflation, for each of the pension portfolio's asset classes, as well as the correlation of any one asset class to every other asset class. This model runs the real returns and correlations and derives an expected real return for the entire portfolio, given the percentage weighting allocated to each asset class.

After calculating the expected real return, an assessment is made to accommodate the expected inflation rate for the forthcoming period. The final expected return on assets is the aggregate of the expected real return plus the expected inflation rate.

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:

<i>In thousands of dollars</i>	2005		2004	
	One percentage point decrease	One percentage point increase	One percentage point decrease	One percentage point increase
Effect on total of service cost and interest cost components	\$ (8,051)	\$ 10,522	\$ (9,420)	\$ 12,332
Effect on the postretirement benefit obligation	(71,540)	89,878	(70,573)	88,900

	2006 Target	2005 Actual	2004 Actual
<b>ASSET ALLOCATION BY CATEGORY FOR THE PENSION PORTFOLIO:</b>			
Equity securities	50.0%	50.3%	49.3%
Debt securities	20.0	20.1	20.6
Real estate	9.0	8.6	8.8
Other	21.0	21.0	21.3
<b>TOTAL ALL ASSET CATEGORIES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The University's investment strategy for the pension portfolio is to manage the assets across a broad and diversified range of investment categories, both domestic and international. The objective is to achieve a risk-adjusted return that is in line with the long-term obligations that the University has to the pension plan beneficiaries. The investment program is also managed to comply with all ERISA regulations. The "Other" asset category consists of absolute return funds, commodities, and cash.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was signed into law in December 2003. The Act provides certain prescription drug-related benefits for retirees, as well as subsidies for employers providing actuarial equivalent subsidies to their retirees. In January 2004, the Financial Accounting Standards Board (the "FASB") issued a Staff Position permitting companies to defer accounting for the effects of the Act. The University elected this deferral for fiscal 2004. As such, the University's postretirement benefit obligation and net periodic postretirement benefit cost as of June 30, 2004 do not reflect the effects of the Act. The University believes that benefits provided to certain

participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the University will be entitled to the Medicare Part D subsidy.

In May 2004, the FASB issued Staff Position FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003" ("FSP 106-2"). FSP 106-2 requires that the effects of the federal subsidy be considered an actuarial gain that is recognized in the same manner as other actuarial gains and losses. It also requires that employers who sponsor postretirement health care plans that provide prescription drug benefits make certain disclosures.

The University adopted FSP 106-2 prospectively as of July 1, 2004. The expected subsidy reduced the accumulated postretirement benefit obligation at July 1, 2004 by \$68.2 million and the net periodic cost for fiscal 2005 by \$10.9 million.

### 13. 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 projects. It is used to manage, control, and execute all

University financial transactions, except for those related to investment activities conducted by the Harvard Management Company.

The major components of the GOA net asset balances as of June 30, 2005 and 2004 are summarized as follows (in thousands of dollars):

	2005			Total	2004
	Unrestricted	Temporarily restricted	Permanently restricted		Total
Departmental balances:					
Unexpended endowment income	\$ 113,990	\$ 505,769	\$ 0	\$ 619,759	\$ 450,509
Unexpended gift balances	67,854	206,331	0	274,185	339,311
Pledge balances	0	242,786	0	242,786	263,313
Loan funds	30,262	0	81,866	112,128	111,035
Funds for construction	0	18,486	0	18,486	48,382
Funds invested in fixed assets	1,248,158	0	0	1,248,158	1,189,028
Other departmental purposes	432,167	0	0	432,167	407,743
Total departmental balances	1,892,431	973,372	81,866	2,947,669	2,809,321
University balances	1,168,736	81,189	0	1,249,925	1,126,153
<b>TOTAL GOA NET ASSET BALANCES</b>	<b>\$ 3,061,167</b>	<b>\$ 1,054,561</b>	<b>\$ 81,866</b>	<b>\$ 4,197,594</b>	<b>\$ 3,935,474</b>

### 14. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2005 and 2004 is summarized as follows (in thousands of dollars):

	2005	2004
Scholarships applied to student income	\$ 189,000	\$ 173,437
Scholarships and other student awards paid directly to students	94,116	89,414
Total scholarships and other student awards	283,116	262,851
Student employment	56,722	51,866
Student loans	26,189	25,255
Agency financial aid*	13,740	12,999
<b>TOTAL STUDENT FINANCIAL AID</b>	<b>\$ 379,767</b>	<b>\$ 352,971</b>

\* Represents aid from sponsors for which the University acts as an agent for the recipient.

Approximately 65% and 68% of scholarships and other student awards for fiscal 2005 and 2004, respectively, were funded by gifts, endowment income, and sponsored support.

## 15. SPONSORED RESEARCH

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored research to the University were \$511.1 million and \$473.5 million in fiscal 2005 and 2004, respectively. Approximately 95% of federal research support for the years ended June 30, 2005 and 2004 was received by the Medical School, the School of Public Health, and the Faculty of Arts and Sciences. The University's principal source of federal research funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored support, including corporations, foundations, state and local governments, foreign governments, and research institutes.

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 federal indirect cost rates have been established for the University Area, the Medical School, and the School of Public Health through fiscal 2006. Funds received for federally sponsored research activity are subject to audit.

## 16. GIFTS

Gifts that are available for current purposes are classified as either "Gifts for current use" or "Non-federal sponsored research grants," as appropriate. Gifts that have been restricted by the donor or designated by the Corporation for construction, loan funds, endowment, or similar purposes are classified as "Gifts for capital." Gifts for current use, non-federal sponsored research grants, and gifts for capital are classified as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications.

Gifts for the years ended June 30, 2005 and 2004 are summarized as follows (in thousands of dollars):

	2005	2004
Gifts for current use	\$ 187,772	\$ 153,518
Non-federal sponsored research grants	78,442	85,445
Gifts for capital:		
Endowment funds	285,659	257,767
Life income funds*	75,934	65,313
Loan funds and facilities	11,237	29,790
Total gifts for capital	372,830	352,870
<b>TOTAL GIFTS</b>	<b>\$ 639,044</b>	<b>\$ 591,833</b>

\* Gifts for capital to life income funds are presented at full value. The discounted present value of these gifts was \$27,566 and \$23,062 for fiscal 2005 and 2004, respectively.

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## 17. OTHER OPERATING INCOME

The major components of other operating income for the years ended June 30, 2005 and 2004 were as follows (in thousands of dollars):

	2005	2004
Publications	\$ 75,445	\$ 76,901
Rental and parking	93,389	78,503
Royalties from patents, copyrights, and trademarks	57,818	50,697
Other student income	24,413	20,698
Nonstudent health and clinic fees	23,409	23,472
Other	141,220	122,425
<b>TOTAL OTHER OPERATING INCOME</b>	<b>\$ 415,694</b>	<b>\$ 372,696</b>

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## 18. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2005 and 2004 were as follows (in thousands of dollars):

	2005	2004
Services purchased	\$ 274,355	\$ 226,088
Subcontract expenses		
under sponsored projects	83,441	79,794
Travel	53,532	51,779
Publishing	39,392	40,702
Telephone	10,777	11,110
Other	95,389	86,402
<b>TOTAL OTHER EXPENSES</b>	<b>\$ 556,886</b>	<b>\$ 495,875</b>

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## 19. FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are allocated functionally on a direct basis. Interest, depreciation, and operations and maintenance expenses are allocated based on square footage.

Expenses by functional classification for the years ended June 30, 2005 and 2004 were as follows (in thousands of dollars):

	2005	2004
Instruction	\$ 754,267	\$ 709,869
Research	624,660	585,709
Libraries	173,977	162,781
Academic support	225,867	225,804
Scholarships and other student awards	94,116	89,414
Student services	110,179	101,686
Institutional support	451,367	378,449
Auxiliary services	322,940	307,207
<b>TOTAL EXPENSES</b>	<b>\$ 2,757,373</b>	<b>\$ 2,560,919</b>

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## 20. COMMITMENTS AND CONTINGENCIES

The University receives funding from federal government agencies and private entities for research and other sponsored activities conducted under grants and contracts. These grants and contracts provide for reimbursement of direct and indirect costs. The costs recovered by the University in support of sponsored research are subject to audit and adjustment.

In the spring of 2004, the University together with the Harvard-affiliated teaching hospitals, the Massachusetts Institute of Technology (MIT), and the Whitehead Institute for Biomedical Research established the Eli and Edythe L. Broad Institute (the “Broad Institute”). The Broad Institute is a collaborative biomedical research institute within MIT that is jointly governed by the University, MIT, and the Broad Foundation. The Institute is focused on applying knowledge of the human genome to clinical medicine and making such knowledge widely available to the scientific community.

In connection with the founding of the Broad Institute, the University and MIT agreed to strive to jointly raise \$20.0 million per year in gifts and non-federal grants and awards to support the Institute’s endeavors. In the event this fundraising goal is not reached, the University has agreed to provide MIT with a portion of the shortfall, subject to certain conditions. The University’s obligation for such payments will not exceed \$20.0 million over the initial five-year term, or \$30.0 million in total if the term is extended for a second five years. The University will make payments and record the corresponding expenses as these conditions are met. The University had a \$4.0 million commitment to MIT as of June 30, 2005, which was appropriately recorded as a liability in the financial statements. No such commitment existed as of June 30, 2004.

The University and MIT will equally share certain laboratory construction fit-out costs for the Broad Institute’s new building, which is expected to be completed in April 2006. The University’s portion of these costs is expected to be approximately \$13.0 million. If the University’s participation in the collaboration terminates under certain

circumstances, the University may also be obligated to pay MIT up to \$5.0 million to compensate MIT for expenses incurred in connection with the lease for the new building. In addition, the University expects to share with MIT in ongoing facilities improvement costs of approximately \$4.0 million per year for up to ten years. Some of the University’s contributions to the fit-out and on-going capital costs will be reimbursed in the future through indirect cost recoveries associated with the Institute’s grant funding.

In April 1997, the Harvard Institute for International Development (HIID) learned of an investigation by the Inspector General’s Office of the U.S. Agency for International Development (USAID). USAID had awarded amounts to HIID under two cooperative agreements to provide assistance to Russia in implementing economic and legal reforms. In September 2000, the United States filed an eleven-count civil complaint against the University and others. The district court has since dismissed or entered judgment for the University on all counts against it, except for one count alleging breach of contract. Regarding this breach of contract count, the University entered into an agreement during fiscal 2005 to pay the government \$26.5 million. This liability was appropriately recorded in the financial statements as of June 30, 2005. Payment was made in early fiscal 2006.

The University is a defendant in various other legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University’s financial position.

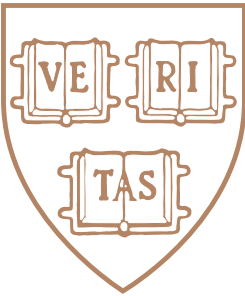


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To the Board of Overseers of Harvard College:

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 (the "University") at June 30, 2005, and the changes in its net assets of the general operating account and endowment funds and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 the University's fiscal 2004 financial statements, and in our report dated October 1, 2004, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 our opinion.

  
October 11, 2005



**SUPPLEMENTAL INFORMATION**

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**POTENTIAL LOCATIONS OF SCIENCE DEVELOPMENT IN ALLSTON**

## Pooled general investments

The “Asset allocation” for the General Investment Account is based on the Policy Portfolio as described in the unaudited *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 the University’s market risk profile, Harvard Management Company (HMC) undertakes a number of diversified arbitrage activities to enhance the returns without changing the portfolio’s risk profile. These trades are subtle and complex and tend to have a long volatility bias. 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 positions) and in off-balance sheet products (futures, options, over-the-counter exchange agreements, and forwards), as exhibited in *Note 3* to the University’s financial statements.

The accompanying table combines the balance sheet and the 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 3* to the University’s financial statements.
- B) The on-balance sheet and off-balance sheet positions, both long and short, net to the core market exposure of the portfolio, which approximates the market exposure of the Policy Portfolio.
- C) The off-balance sheet amounts represent the market exposure on the notional value of the forwards, futures, options, and exchange agreements included in *Note 3* to the University’s financial statements.
- D) From a market exposure standpoint, HMC uses on-balance sheet and off-balance sheet financial instruments interchangeably.

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, commodity, and fixed-income portfolios. The arbitrage accounts represent the positions taken in value-added 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, but which may be subject to credit risk. Included in this category are financial instruments such as cash, 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 sales in stock and bond positions, as well as investments in real estate, commodities, and private equities, either directly or through limited partnerships.

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 assets. 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.

The “Net market exposure” column aggregates long and short exposure across all types of instruments and may differ from the “Asset allocation” as reported in the unaudited *Annual Report of the Harvard Management Company*. The balance sheet cash positions and off-balance sheet amounts are reported in accordance with generally accepted accounting principles and do not necessarily reflect “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, a fully hedged strategy designed to capture shifts in the yield curve may reflect a mismatch in long and short market exposure due to the duration of the underlying instruments. In some instances, option strategies have been employed to take advantage of market volatility. While these strategies may appear to generate unhedged market exposure, the potential losses are limited to the option premium, which is comparatively small relative to the indicated exposure.

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 internal,

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 monitor value at risk, compliance with cash and margin requirements, and adherence to credit risk limits established by HMC for each counterparty. All positions other than private equity, certain commodities and real estate are marked to market on a daily basis, with applicable profit and loss statements generated for each strategy. Risk monitoring and control is described in greater detail in the unaudited *Annual Report of the Harvard Management Company*, beginning on page 23.

Year ended June 30, 2005 (in millions of dollars)

ASSET CLASS	BALANCE SHEET CASH POSITIONS		MARKET EXPOSURE OF OFF-BALANCE SHEET INSTRUMENTS								TOTAL MARKET EXPOSURE		Net market exposure	Asset allocation	
	Long	Short	FORWARDS		FUTURES		OPTIONS		EXCHANGE AGREEMENTS		Long	Short			
			Long	Short	Long	Short	Long	Short	Long	Short					
Equity:															
Domestic	6,095	-	-	-	225	-	-	-	-	-	6,320	-	6,320	5,332	
Absolute return	3,210	-	-	-	-	-	-	-	-	-	3,210	-	3,210	3,837	
Foreign	4,386	-	-	-	-	-	-	-	-	-	4,386	-	4,386	3,848	
Emerging markets	1,220	-	-	-	-	-	26	-	584	(34)	1,830	(34)	1,796	1,782	
Arbitrage accounts	2,385	(1,246)	-	-	(566)	128	(160)	9	(775)	2,522	(2,747)	(225)	-	-	
Total equity market exposure	17,296	(1,246)	-	-	225	(566)	154	(160)	593	(809)	18,268	(2,781)	15,487	14,799	
Fixed-income:															
Domestic	2,479	-	-	-	-	-	-	-	-	(85)	2,479	(85)	2,394	2,411	
Foreign	776	-	-	-	-	-	120	(4)	125	(346)	1,021	(350)	671	1,192	
High-yield securities	1,523	-	-	-	-	-	-	-	-	-	1,523	-	1,523	1,831	
Inflation-indexed	1,537	-	-	-	-	-	-	-	-	-	1,537	-	1,537	1,589	
Arbitrage accounts	15,758	(1,515)	-	-	(225)	10,162	(4,969)	1,902	(18,252)	27,822	(24,961)	2,861	-	-	
Total fixed-income market exposure	22,073	(1,515)	-	-	(225)	10,282	(4,973)	2,027	(18,683)	34,382	(25,396)	8,986	7,023		
Commodities:															
Core	3,302	-	-	-	(78)	-	-	1,169	-	4,471	(78)	4,393	3,675		
Arbitrage accounts	16	-	-	-	-	-	-	-	(35)	16	(35)	(19)	-		
Total commodities market exposure	3,318	-	-	-	(78)	-	-	1,169	(35)	4,487	(113)	4,374	3,675		
Private equities	2,358	-	-	-	-	-	-	-	-	2,358	-	2,358	2,358		
Real estate	1,892	-	-	-	-	-	-	-	-	1,892	-	1,892	1,940		
Total market exposure	46,937	(2,761)	-	-	225	(869)	10,436	(5,133)	3,789	(19,527)	61,387	(28,290)	33,097	29,795	
Cash and other:															
Cash and cash equivalents	1,169	-	-	-	-	-	-	-	-	-	-	-	-	(417)	
Collateral advanced on borrowings	1,748	-	-	-	-	-	-	-	-	-	-	-	-	-	
Collateral held on loans	-	(17,296)	-	-	-	-	-	-	-	-	-	-	-	-	
Accounts receivable	(1,406)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Option premium	1,274	(287)	-	-	-	-	-	-	-	-	-	-	-	-	
Total cash and other	2,785	(17,583)	-	-	-	-	-	-	-	-	-	-	-	(417)	
<b>NET ASSETS PER BALANCE SHEET</b>	<b>49,722</b>	<b>(20,344)</b>	-	-	-	-	-	-	-	-	-	-	-	<b>29,378</b>	

## Gifts available for current purposes

<i>Year ended June 30, 2005 (in thousands of dollars)</i>	Gifts for current use	Non-federal sponsored research grants
<b>FACULTIES:</b>		
Faculty of Arts and Sciences	\$ 54,531	\$ 14,651
Business School	15,283	
School of Dental Medicine	386	51
Graduate School of Design	2,606	160
Divinity School	1,131	379
Graduate School of Education	4,355	4,632
John F. Kennedy School of Government	19,966	7,561
Law School	12,669	4,100
Medical School	41,211	22,958
School of Public Health	6,910	20,451
Radcliffe Institute for Advanced Study	2,655	570
<b>TOTAL FACULTIES</b>	<b>161,703</b>	<b>75,513</b>
<b>OTHER ACADEMIC DEPARTMENTS:</b>		
Arnold Arboretum	288	
Harvard University Art Museums	3,342	240
Joint Center for Housing Studies	1,427	826
Nieman Foundation	62	272
Villa I Tatti	720	337
<b>TOTAL OTHER ACADEMIC DEPARTMENTS</b>	<b>5,839</b>	<b>1,675</b>
<b>SERVICE DEPARTMENTS:</b>		
Harvard University Press	3	
University Health Services	5	
<b>TOTAL SERVICE DEPARTMENTS</b>	<b>8</b>	<b>0</b>
<b>CENTRAL ADMINISTRATION:</b>		
Memorial Church	516	
President's Initiatives	17,432	4
University Library	2,016	1,250
Other	258	
<b>TOTAL CENTRAL ADMINISTRATION</b>	<b>20,222</b>	<b>1,254</b>
<b>TOTAL GIFTS AVAILABLE FOR CURRENT PURPOSES</b>	<b>\$ 187,772</b>	<b>\$ 78,442</b>

## Gifts for capital

<i>Year ended June 30, 2005 (in thousands of dollars)</i>	Endowment funds	Construction funds	Loan funds	Total
<b>FACULTIES:</b>				
Faculty of Arts and Sciences	\$ 78,024	\$ 2,067	\$ 262	\$ 80,353
Business School	102,304	5,691	14	108,009
School of Dental Medicine	94	295		389
Graduate School of Design	648			648
Divinity School	1,386			1,386
Graduate School of Education	558	435		993
John F. Kennedy School of Government	6,579	475		7,054
Law School	23,547	250	190	23,987
Medical School	29,511	484	370	30,365
School of Public Health	6,135			6,135
Radcliffe Institute for Advanced Study	8,850	73		8,923
<b>TOTAL FACULTIES</b>	<b>257,636</b>	<b>9,770</b>	<b>836</b>	<b>268,242</b>
<b>OTHER ACADEMIC DEPARTMENTS:</b>				
Arnold Arboretum	1,352			1,352
Harvard University Art Museums	1,025	18		1,043
Nieman Foundation	3	283		286
Villa I Tatti	1,757	330		2,087
<b>TOTAL OTHER ACADEMIC DEPARTMENTS</b>	<b>4,137</b>	<b>631</b>	<b>0</b>	<b>4,768</b>
<b>SERVICE DEPARTMENTS:</b>				
Harvard University Press	156			156
University Health Services	12			12
University Operations Services	10			10
<b>TOTAL SERVICE DEPARTMENTS</b>	<b>178</b>	<b>0</b>	<b>0</b>	<b>178</b>
<b>CENTRAL ADMINISTRATION:</b>				
Memorial Church	493			493
President's Initiatives	22,287			22,287
University Library	752			752
Other	176			176
<b>TOTAL CENTRAL ADMINISTRATION</b>	<b>23,708</b>	<b>0</b>	<b>0</b>	<b>23,708</b>
<b>TOTAL ENDOWMENT, CONSTRUCTION, AND LOAN FUNDS</b>	<b>\$ 285,659</b>	<b>\$ 10,401</b>	<b>\$ 836</b>	<b>296,896</b>
<b>LIFE INCOME FUNDS:</b>				
Charitable Remainder Annuities and Unitrusts				58,691
Gift Annuities				15,691
Harvard Balanced Fund				653
Harvard Growth Fund				571
Harvard Life Return Fund				328
<b>TOTAL LIFE INCOME FUNDS</b>				<b>75,934</b>
<b>TOTAL GIFTS FOR CAPITAL</b>				<b>\$ 372,830</b>

## Endowment funds by department

Year ended June 30, 2005 (dollar amounts in thousands)

	Endowment principal				
	Book value July 1, 2004	Gifts and other changes	Book value June 30, 2005	Market value June 30, 2005	Participating units June 30, 2005
<b>FACULTIES:</b>					
Faculty of Arts and Sciences	\$ 2,491,100	\$ 98,189	\$ 2,589,289	\$ 11,711,315	8,201,977
Business School	572,999	116,358	689,357	1,923,709	1,341,179
School of Dental Medicine	29,672	141	29,813	158,759	111,357
Graduate School of Design	59,768	580	60,348	321,190	225,289
Divinity School	76,367	2,749	79,116	455,271	319,337
Graduate School of Education	93,181	2,216	95,397	389,178	272,977
John F. Kennedy School of Government	219,746	5,633	225,379	765,781	532,173
Law School	301,292	31,495	332,787	1,278,171	896,256
Medical School	750,877	93,003	843,880	2,922,663	2,049,390
School of Public Health	159,014	8,723	167,737	848,137	594,900
Radcliffe Institute for Advanced Study	202,562	7,529	210,091	404,234	283,464
<b>TOTAL FACULTIES</b>	<b>4,956,578</b>	<b>366,616</b>	<b>5,323,194</b>	<b>21,178,408</b>	<b>14,828,299</b>
<b>OTHER ACADEMIC DEPARTMENTS:</b>					
Arnold Arboretum	39,027	4,949	43,976	222,827	156,295
Harvard University Art Museums	104,612	2,445	107,057	470,861	328,538
Joint Center for Housing Studies	0	0	0	0	0
Nieman Foundation	15,238	(249)	14,989	102,487	71,886
Villa I Tatti	45,055	4,983	50,038	197,851	138,777
<b>TOTAL OTHER ACADEMIC DEPARTMENTS</b>	<b>203,932</b>	<b>12,128</b>	<b>216,060</b>	<b>994,026</b>	<b>695,496</b>
<b>SERVICE DEPARTMENTS:</b>					
Harvard University Press	16,254	3,491	19,745	77,042	54,039
University Health Services	3,610	4,384	7,994	36,834	25,836
University Operations Services	818	10	828	4,012	2,814
<b>TOTAL SERVICE DEPARTMENTS</b>	<b>20,682</b>	<b>7,885</b>	<b>28,567</b>	<b>117,888</b>	<b>82,689</b>
Central Administration	541,974	19,006	560,980	2,931,482	2,064,287
<b>SUBTOTAL</b>	<b>5,723,166</b>	<b>405,635</b>	<b>6,128,801</b>	<b>25,221,804</b>	<b>17,670,771</b>
Pledges outstanding	443,656	(64,329)	379,327	379,327	
Interests in perpetual trusts held by others	245,277	6,640	251,917	251,917	
<b>TOTAL</b>	<b>\$ 6,412,099</b>	<b>\$ 347,946</b>	<b>\$ 6,760,045</b>	<b>\$ 25,853,048</b>	<b>17,670,771</b>

Year ended June 30, 2005 (in thousands of dollars)

	Unexpended income July 1, 2004	Investment income distributed	Endowment income		Unexpended income June 30, 2005
			Other receipts and transfers	Fund income availed of	
<b>FACULTIES:</b>					
Faculty of Arts and Sciences	\$ 99,439	\$ 366,313	\$ (43,058)	\$ (324,965)	\$ 97,729
Business School	346	58,743	3,262	(61,926)	425
School of Dental Medicine	893	4,999	89	(5,057)	924
Graduate School of Design	1,305	10,147	998	(11,395)	1,055
Divinity School	6,635	14,430	1,114	(15,427)	6,752
Graduate School of Education	2,648	12,212	684	(11,286)	4,258
John F. Kennedy School of Government	11,416	23,991	3,764	(26,767)	12,404
Law School	9,981	38,983	730	(40,281)	9,413
Medical School	82,898	89,047	(1,999)	(74,092)	95,854
School of Public Health	34,712	26,987	(1,889)	(24,796)	35,014
Radcliffe Institute for Advanced Study	4,688	12,094	(1,415)	(11,469)	3,898
<b>TOTAL FACULTIES</b>	<b>254,961</b>	<b>657,946</b>	<b>(37,720)</b>	<b>(607,461)</b>	<b>267,726</b>
<b>OTHER ACADEMIC DEPARTMENTS:</b>					
Arnold Arboretum	1,733	7,616	(183)	(7,966)	1,200
Harvard University Art Museums	5,197	14,737	(3,811)	(10,268)	5,855
Joint Center for Housing Studies	41	0	39	(80)	0
Nieman Foundation	2,076	3,268	(21)	(3,423)	1,900
Villa I Tatti	2,466	6,053	(365)	(5,431)	2,723
<b>TOTAL OTHER ACADEMIC DEPARTMENTS</b>	<b>11,513</b>	<b>31,674</b>	<b>(4,341)</b>	<b>(27,168)</b>	<b>11,678</b>
<b>SERVICE DEPARTMENTS:</b>					
Harvard University Press	4,410	2,413	4,345	(9,560)	1,608
University Health Services	144	1,051	(2)	(1,049)	144
University Operations Services	156	128	(127)	0	157
<b>TOTAL SERVICE DEPARTMENTS</b>	<b>4,710</b>	<b>3,592</b>	<b>4,216</b>	<b>(10,609)</b>	<b>1,909</b>
Central Administration	41,420	91,602	(39,812)	(49,231)	43,979
<b>TOTAL</b>	<b>\$ 312,604</b>	<b>\$ 784,814</b>	<b>\$ (77,657)</b>	<b>\$ (694,469)</b>	<b>\$ 325,292</b>

# Endowment and income information for the major academic units

The charts and graphs in this section present summaries of endowment and income information for each of the University’s major academic units, as well as for the University as a whole.

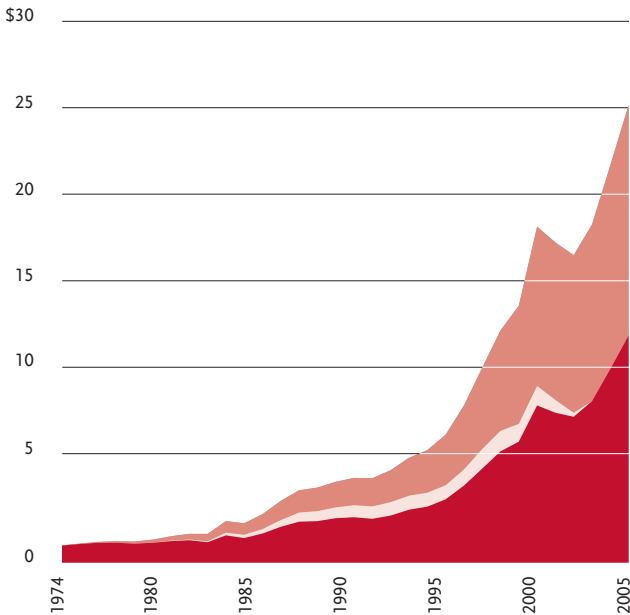
The endowment graphs display the growth since 1974 of the major components of the endowment: 1974 appreciated principal, capitalized income, and gifts and other changes. To allow for comparability with years prior to fiscal 1995, endowment values exclude pledge balances and interests in perpetual trusts.

The income charts show the major components of income in fiscal 1995 and 2005. Shown below each of these charts is the ten-year compound growth rate after inflation for total income.

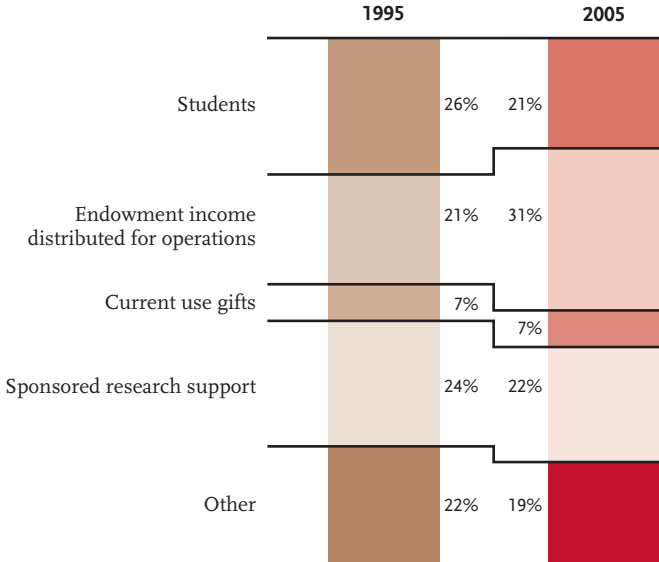
On October 1, 1999, Harvard University and Radcliffe College merged and established the Radcliffe Institute for Advanced Study (RIAS). Therefore, the information for RIAS is presented beginning with fiscal 2000.

## UNIVERSITY

ENDOWMENT GROWTH (in billions of dollars)



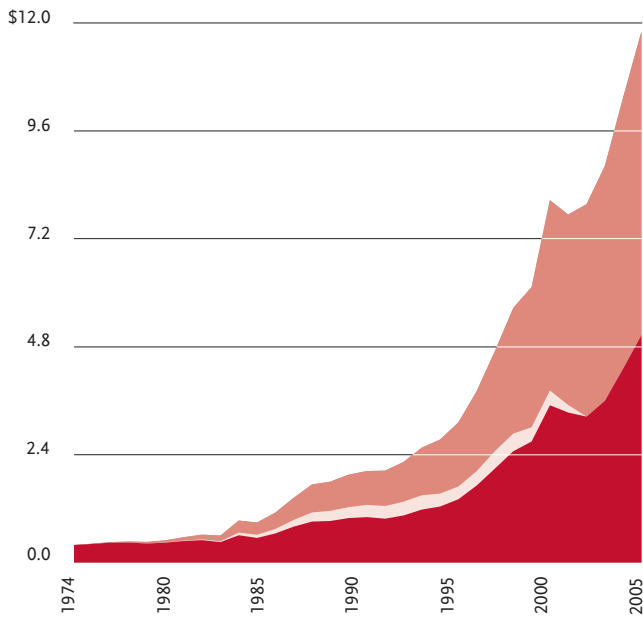
SOURCES OF INCOME (% of total)



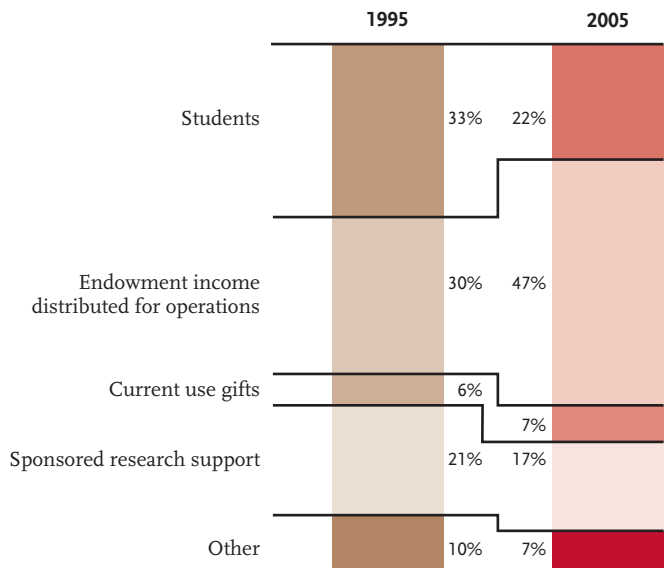
Real growth rate of income 1995–2005: 4.3%

## FACULTY OF ARTS AND SCIENCES

ENDOWMENT GROWTH (in billions of dollars)



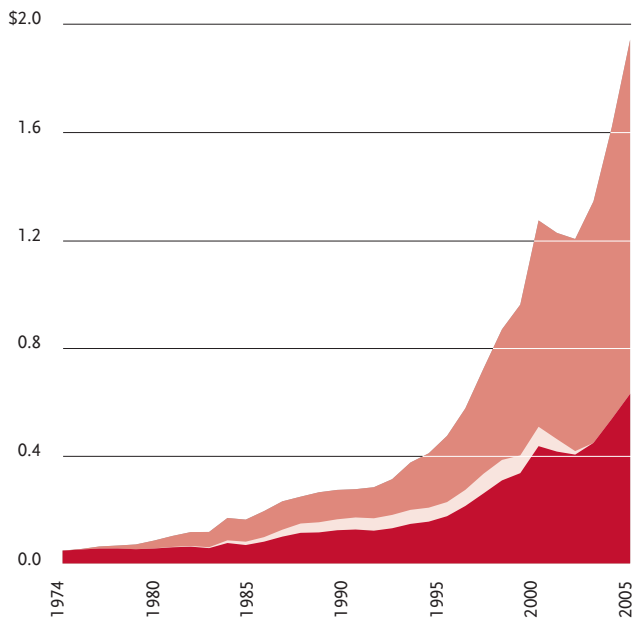
SOURCES OF INCOME (% of total)



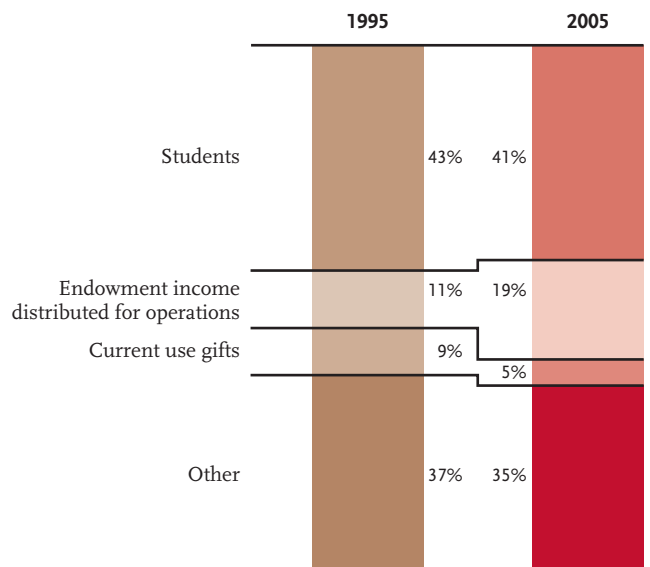
Real growth rate of income 1995–2005: 4.0%

## BUSINESS SCHOOL

ENDOWMENT GROWTH (in billions of dollars)



SOURCES OF INCOME (% of total)

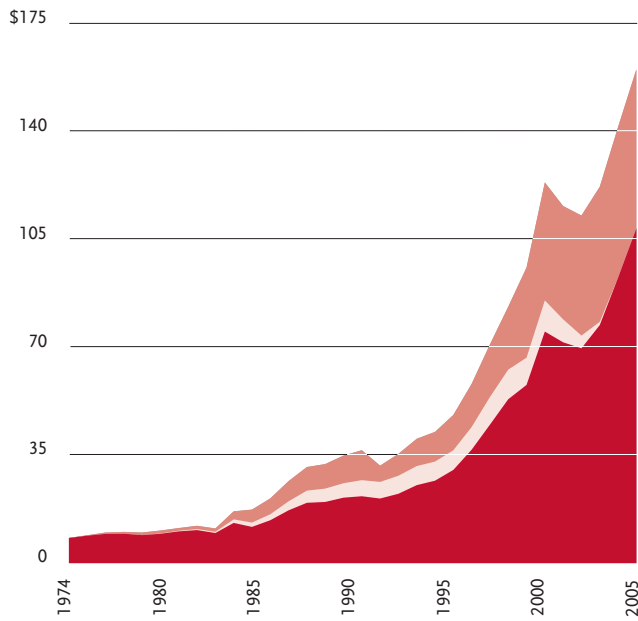


Real growth rate of income 1995–2005: 4.1%

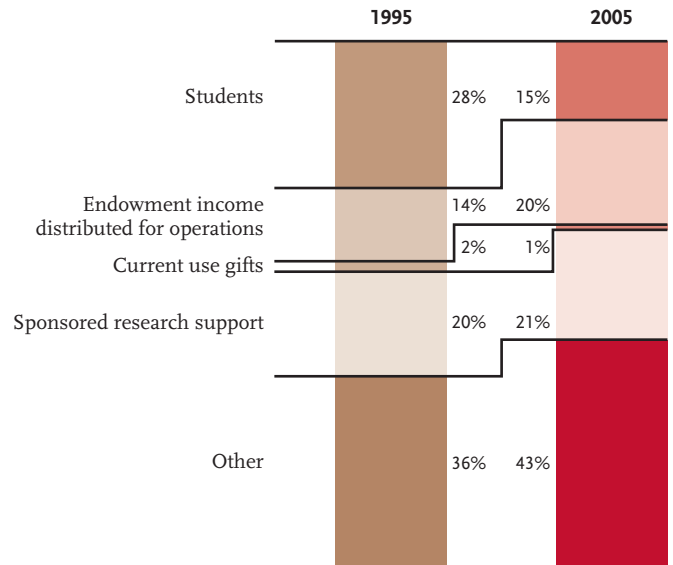


## SCHOOL OF DENTAL MEDICINE

ENDOWMENT GROWTH (in millions of dollars)



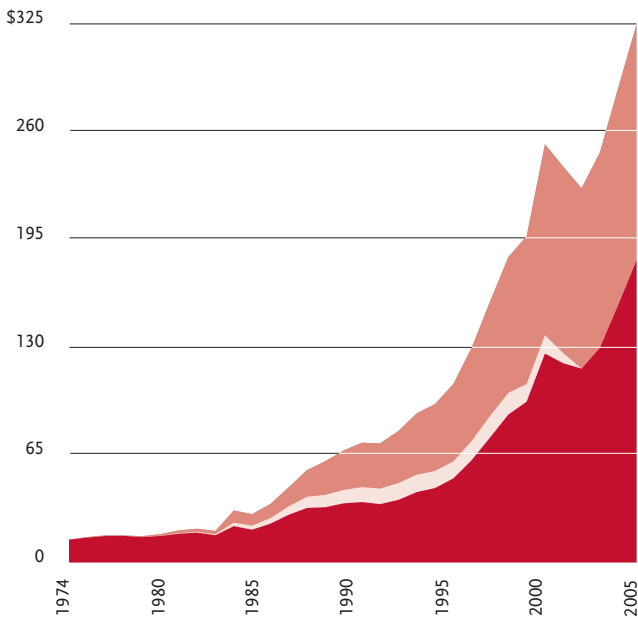
SOURCES OF INCOME (% of total)



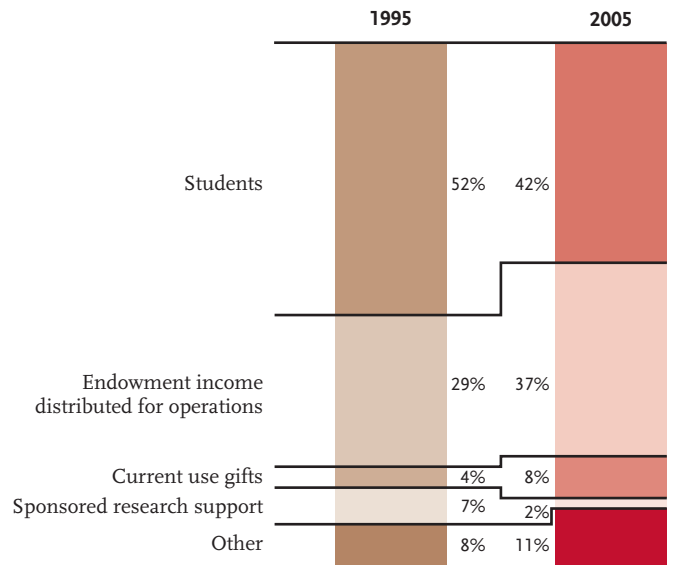
Real growth rate of income 1995–2005: 4.9%

## GRADUATE SCHOOL OF DESIGN

ENDOWMENT GROWTH (in millions of dollars)



SOURCES OF INCOME (% of total)

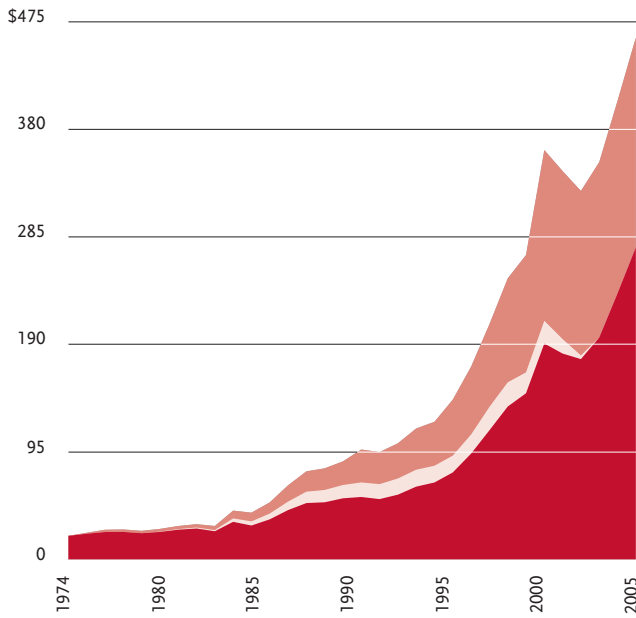


Real growth rate of income 1995–2005: 4.9%

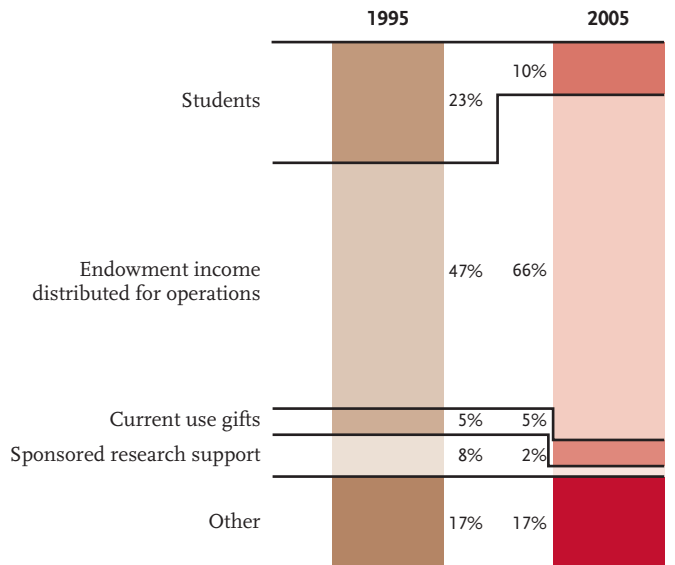


## DIVINITY SCHOOL

ENDOWMENT GROWTH (in millions of dollars)



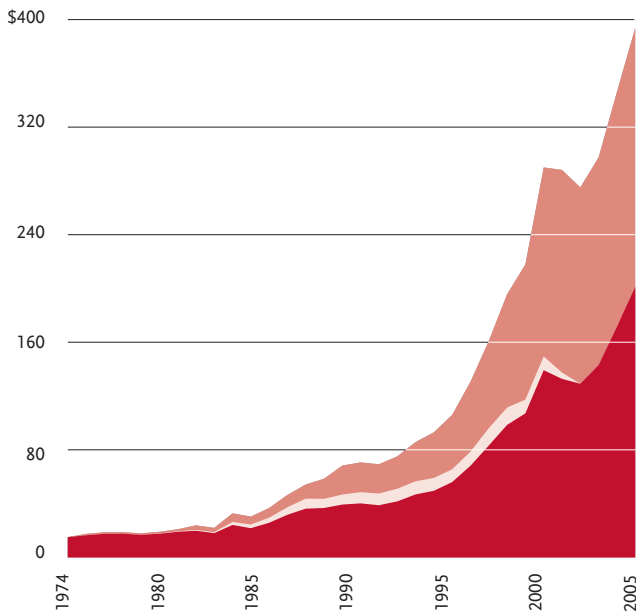
SOURCES OF INCOME (% of total)



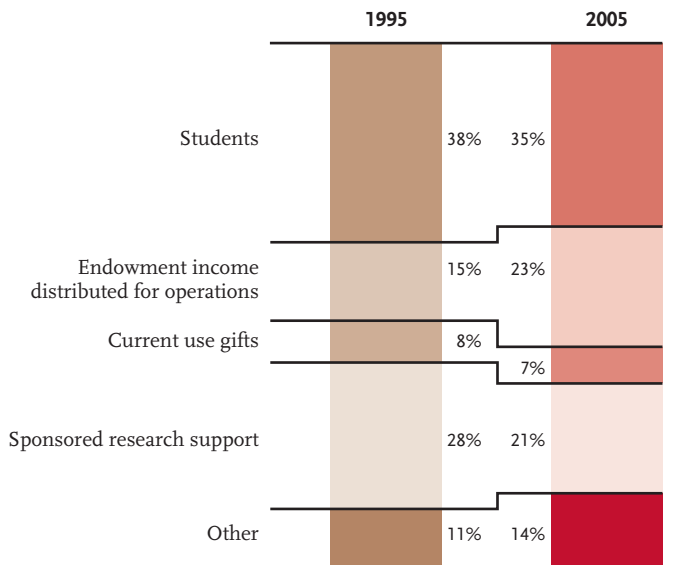
Real growth rate of income 1995–2005: 5.0%

## GRADUATE SCHOOL OF EDUCATION

ENDOWMENT GROWTH (in millions of dollars)



SOURCES OF INCOME (% of total)

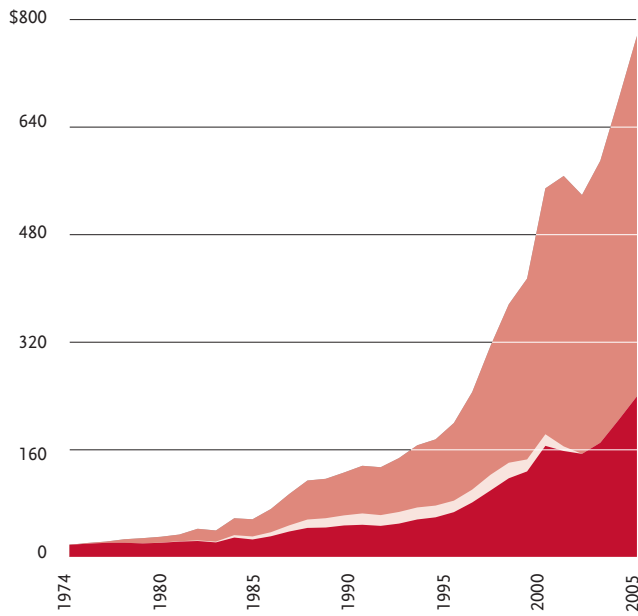


Real growth rate of income 1995–2005: 5.3%

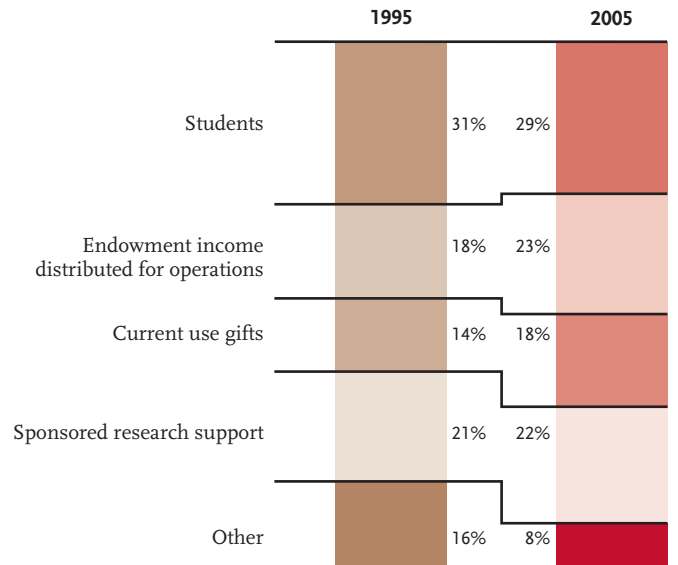


## JOHN F. KENNEDY SCHOOL OF GOVERNMENT

ENDOWMENT GROWTH (in millions of dollars)



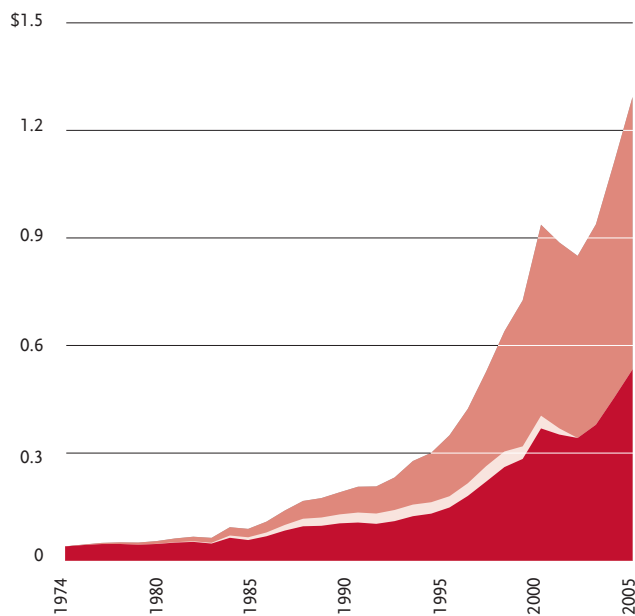
SOURCES OF INCOME (% of total)



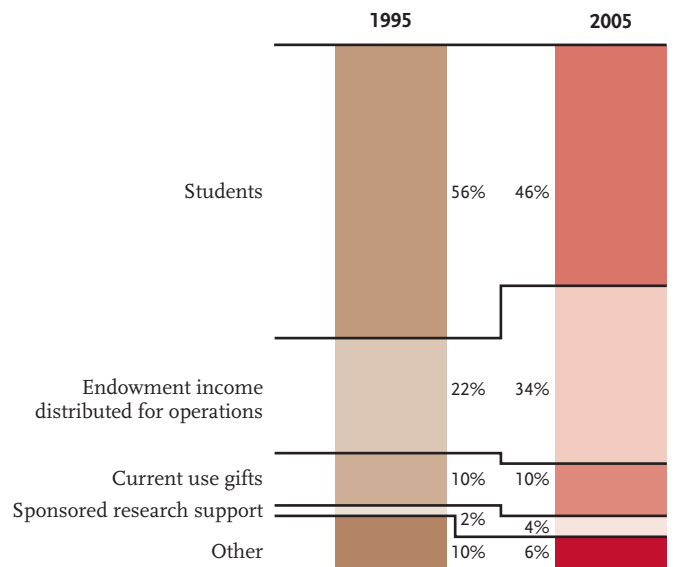
Real growth rate of income 1995–2005: 7.7%

## LAW SCHOOL

ENDOWMENT GROWTH (in billions of dollars)



SOURCES OF INCOME (% of total)

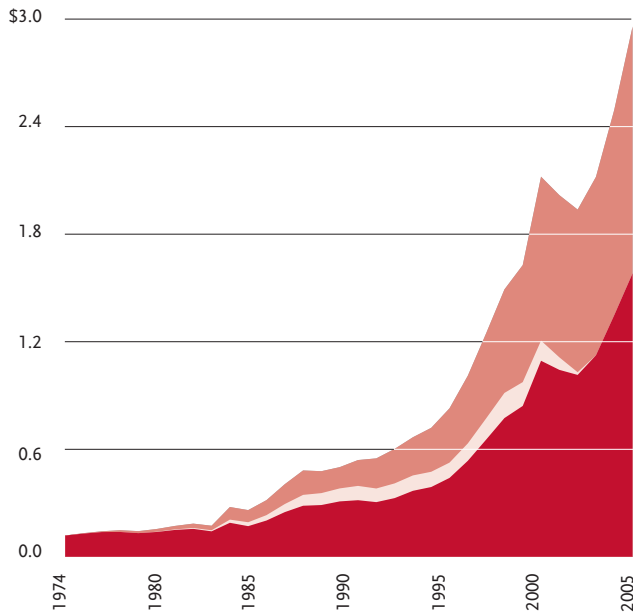


Real growth rate of income 1995–2005: 4.5%

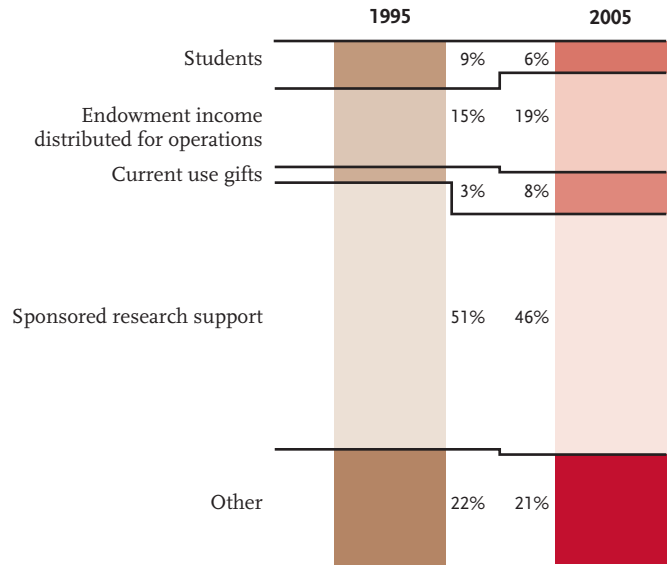


## MEDICAL SCHOOL

ENDOWMENT GROWTH (in billions of dollars)



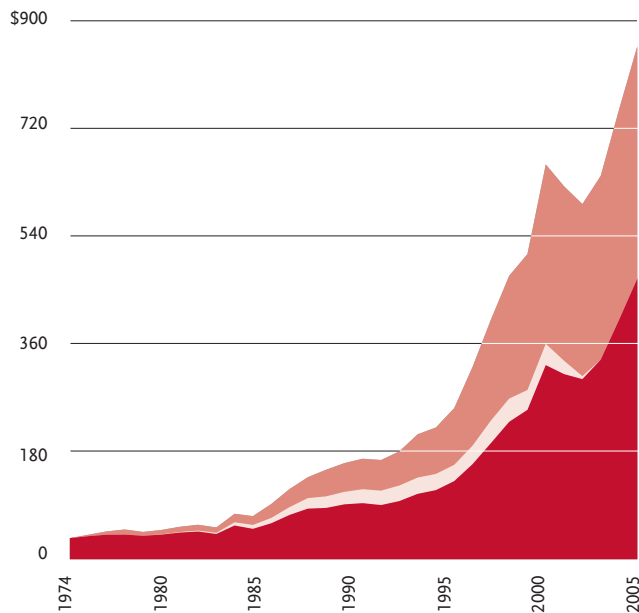
SOURCES OF INCOME (% of total)



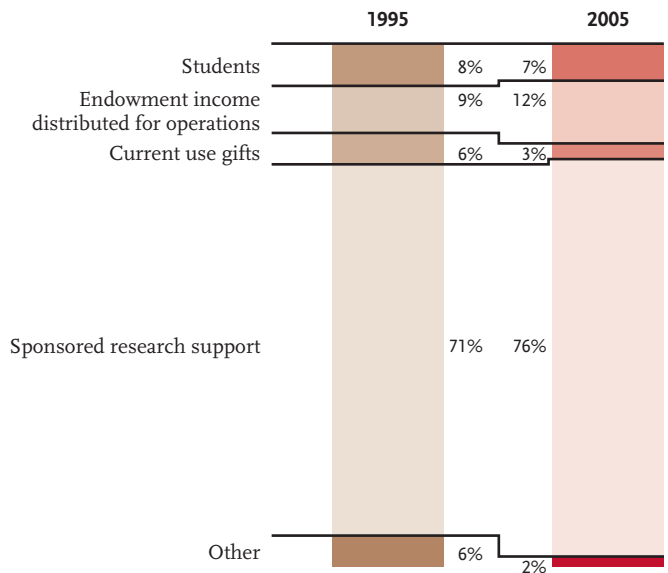
Real growth rate of income 1995–2005: **6.7%**

## SCHOOL OF PUBLIC HEALTH

ENDOWMENT GROWTH (in millions of dollars)



SOURCES OF INCOME (% of total)

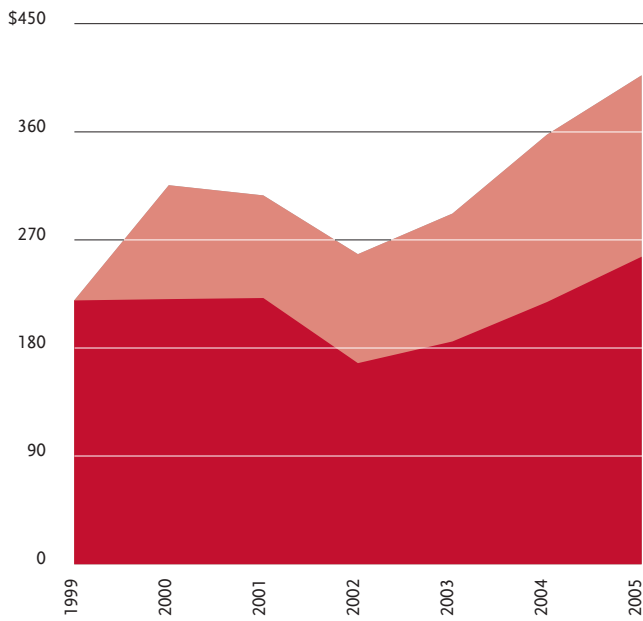


Real growth rate of income 1995–2005: **5.7%**



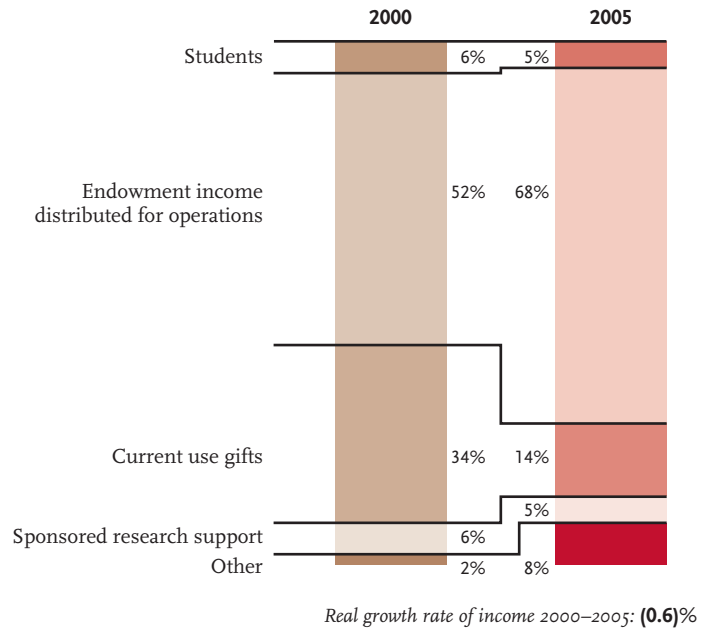
**RADCLIFFE INSTITUTE FOR ADVANCED STUDY\***

ENDOWMENT GROWTH (in millions of dollars)



1999 Principal and appreciation  
 Gifts and other changes

SOURCES OF INCOME (% of total)



\* On October 1, 1999, Harvard University and Radcliffe College merged and established the Radcliffe Institute for Advanced Study (RIAS). Therefore, the information for RIAS is presented beginning with fiscal 2000.

**APPENDIX C**

**SUMMARY OF THE LOAN AND TRUST AGREEMENT**

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**SUMMARY OF THE LOAN AND TRUST AGREEMENT**

The following is a brief summary, prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement dated as of October 12, 1999, as amended and supplemented through the Sixth Supplemental Agreement dated as of March 1, 2006 (as amended and supplemented, the "Agreement") pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreement for full and complete statements of such and all provisions. In addition, for certain provisions relating to the Auction Procedures, see Appendix F to this Official Statement.

The Agreement is entered into pursuant to resolutions adopted by the Authority on October 12, 1999 and March 8, 2005 which authorize the issuance of the Bonds.

**Optional Tender**

While the Bonds are in the Daily Mode, Weekly Mode or Multiannual Mode, the Bondowners have the right to tender 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 Agreement and satisfactory to the Paying Agent at the times provided in the Agreement. Bonds in the Daily Mode will be purchased by 5:00 p.m. on the date of such notice. 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 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 Bonds to any purchaser determined in accordance with the provisions of the 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 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 Bonds are delivered to the Paying Agent. The Purchase Price of Bonds shall be paid only upon surrender of the Bonds to the Tender Agent. From and after the Purchase Date, no further interest on the Bonds shall accrue to the Bondowner who tendered the Bonds for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. Tender of the Bonds will not be effective and the Bonds will not be purchased if at the time fixed for purchase an acceleration of the maturity of the Bonds shall have occurred and not have been annulled in accordance with the Agreement. Notice of tender of the Bonds is irrevocable.

## **APPENDIX C**

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

### **Conversion to a Fixed Rate**

The interest rate on the Bonds may be converted to a Fixed Rate at the sole option of the Institution provided that no default exists under the 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 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 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.

The interest Rate on the Bonds while in the Auction Rate Mode may be converted to a Fixed Rate at the Option of the Institution. Certain conditions, as described in the Agreement, must occur for such Conversion to the Fixed Rate to be effective, including certification by the Institution that an agreement has been entered into by the Institution and a firm or firms of investment bankers providing for the purchase as underwriters and resale to the public of the Bonds to be converted on the Conversion Date at a price equal to the principal amount thereof. (Section 301)

### **Partial Conversions**

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

In the event of any partial conversion of the Bonds to a new Mode, the Bonds to be converted shall be selected by the Trustee from Bonds in the Mode selected by the Institution. The particular Bonds to be converted shall be selected by the Trustee from all the Bonds in the Mode from which 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 Bonds. The principal amount of Bonds to be converted shall be determined so that all of the Bonds shall be in the denominations specified in the Agreement for the particular Modes. (Section 301)

### **The Assignment and Pledge of Revenues**

The Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Institution or derived from any security provided thereunder and (b) all rights to receive such Revenues and the proceeds of such rights.

This assignment and pledge 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 Agreement to enforce the provisions of the Agreement. (Section 201)

**Establishment of Funds**

The following funds are maintained by the Trustee for the account of the Institution, held in trust by the Trustee and applied subject to the provisions of the Agreement:

Bond Payment Fund;  
Debt Service Fund; and  
Redemption Fund. (Sections 302, 303 and 304)

**Debt Service Fund**

The moneys and investments held in the Debt Service Fund shall be applied, except as otherwise provided, to the payment of the principal (including sinking fund installments), redemption premiums, if any, and interest on the Bonds. The Trustee shall transfer moneys from the Debt Service Fund to the Paying Agent for the payment of Bonds. (Section 303)

**Redemption Fund**

The moneys and investments held in the Redemption Fund shall be applied, except as otherwise provided, to the redemption of 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 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 Bonds shall be paid by the Institution.

Moneys in the Redemption Fund to be applied to the redemption of Bonds shall be transferred by the Trustee to the Paying Agent for payment.

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 Bonds, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase 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. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment shall be used to restore the funds so applied. (Section 304)

## **APPENDIX C**

### **Rebate**

The Institution covenants to pay when due any rebate due to the United States. (Section 305)

### **Expenses of Issue**

Except as otherwise permitted by law, the Institution shall pay from its own funds all expenses of issue of the offered Bonds, including underwriting fees. No proceeds of the offered Bonds shall be used to pay such expenses. (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 (including sinking fund installments), redemption price and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the 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 the same become due (pro rata with respect to interest which become due at the same time) and second to the payment of principal (including sinking fund installments) 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 paragraph, 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 Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 307)

### **Issuance of Remaining Bonds**

The remaining Bonds may be issued under the Agreement by the Authority at any time, in one or more tranches as part of the same series as the initial Bonds and the offered Bonds or in one or more new series, at the request of the Institution for the purpose of refunding more Series A Bonds, Series B Bonds, Series C Bonds, Series D Bonds, Series I Bonds, Series L Bonds, Series M Bonds, Series N Bonds, Series P Bonds, Series Q-1, 2, 3 Bonds, Series Z Bonds, Series AA Bonds and any additional bonds issued to refund such prior series of bonds. The remaining Bonds shall be issued only upon delivery to the Trustee and the Authority of (1) an opinion of Bond Counsel stating that (i) interest on the remaining Bonds is excluded from the gross income of the owners of such Bonds, (ii) the remaining Bonds have been validly issued and (iii) other

appropriate legal matters, and (2) an opinion of counsel to the Institution as to (I) the validity of the undertakings of the Institution with respect to the remaining Bonds, and (ii) other appropriate legal matters. If issued, the remaining Bonds shall mature and shall be subject to mandatory redemption as provided in the Supplemental Agreement and shall be considered in all respects to be Bonds as defined in the Agreement. In connection with the issuance of the remaining Bonds, the Authority, the Institution and the Trustee shall enter into a Supplemental Agreement providing for: (a) the principal amount of the remaining Bonds; (b) the series designation for such remaining Bonds if such series designation is to be different from that of the Bonds Outstanding; (c) an amendment to the schedule of mandatory sinking fund redemptions, if necessary; (d) a certification that no Default or Event of Default exists under the Agreement; and (e) any other amendment to the Agreement in order to provide for the details of the issuance of the remaining Bonds.

Issuance of the remaining Bonds shall not be subject to Bondowner consent. Upon issuance of the remaining Bonds, appropriate changes to the form of Bonds may be made, and Bonds previously issued may be exchanged for new Bonds at the office of the Paying Agent. (Section 301A)

### **Investment of Moneys**

Pending their use under the Agreement, moneys in the Debt Service Fund, the Bond Payment Fund, and Redemption Fund may be invested by the Trustee in Permitted Investments (described 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. Any investments pursuant to this paragraph shall be held by the Trustee as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the Uniform Commercial Code to the extent applicable.

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 on the Redemption Fund and the Bond Payment Fund (except as permitted in the Agreement and any Supplemental Agreement) shall be transferred to the Debt Service Fund not less often than quarterly and credited against the payments otherwise required to be made thereto.

The term “Permitted Investments” means (I) 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; (ii) “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 or 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

## APPENDIX C

“investment property” within the meaning of IRC §148(b)(2) provided either that the fund has all of its assets invested in such obligations of such rating quality, or, if such obligations are not so rated, the fund has comparable credit worthiness through insurance or otherwise and which fund is rated Aam or Aam-G if rated by S&P; (iii) shares of money market funds rated AAAM-G, AAAM or Aam by S&P; (iv) 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; and (v) Repurchase Agreements. 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 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. (Section 316)

### **Payments by the Institution**

At least one Business Day preceding any date on which a payment of principal (including any sinking fund installment) 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 equal to such payment less the amount, if any, in the Debt Service Fund and available therefor; provided, however, that with respect to Bonds in the Flexible Mode, interest payments thereon may be paid directly to the Paying Agent with notice to the Trustee.

The payments to be made under the foregoing paragraph shall be appropriately adjusted to reflect the dates of issue of the initial Bonds and offered Bonds, accrued interest deposited in the Debt Service Fund, if any, and any purchase in lieu of redemption or redemption of Bonds so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal (including any sinking fund installment) due or coming due on the Bonds and so that accrued interest will be applied to the installments of interest to which it is applicable.

At any time when any principal of the 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 as described above 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 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 Agreement and a loss results therefrom so that there are insufficient funds to pay principal of (including any sinking fund installment) and redemption premium, if any, and interest on the Bonds when due, the Institution shall supply the deficiency.

The Institution shall pay the Authority's annual administrative fee. Within thirty (30) days after notice, the Institution shall also pay all expenditures reasonably incurred by the Authority, the Trustee or the Paying Agent by reason of the Agreement. (Section 308)

### **Default**

"Event of Default" 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; Required Purchase. The Institution shall fail to make any debt service payment whether at maturity, by acceleration, upon redemption or otherwise after the same becomes due, or any payment representing all or part of the purchase price and accrued interest of Bonds in the Flexible Mode or any Variable Rate Mode required to be paid by the Institution after the same becomes due all as provided in the Agreement.

(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 is given by the Authority or Trustee to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the 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 Agreement by the Institution 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, a receiver, a 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.

## APPENDIX C

(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 \$1,000,000, 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 or is empowered to accelerate any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under the provisions of the Agreement summarized in this paragraph (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, (b) the power of acceleration is not exercised and it ceases to be in effect, or (c) such breach or event is remedied and the acceleration, if any, is wholly annulled. Immediately upon becoming aware of such breach or event, the Institution will notify the Trustee and the Authority.

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 Bonds. (Section 501)

### **Remedies for Events of Default**

Acceleration. 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 of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing.

Rights as a Secured Party. 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 Agreement. Notice sent by registered or certified mail, postage prepaid, or delivered during business hours, to the Institution at least seven (7) days before an event under UCC Section 9-504(3) or any successor provision of law shall constitute reasonable notification of such event. (Section 502)

### **Remedies Cumulative**

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. (Section 506)

### **Limitations on Bondowners' Remedies**

Upon a failure of the Institution to make a required debt service or purchase price payment when the same becomes due and payable, the Trustee shall give written notice of such default to the Authority and the Institution. The Trustee shall not be required to take notice of

any other breach or default by the Institution or the Authority, and the Authority shall not be required to take notice of a breach or default by the Institution, in each case unless given written notice thereof by the owners of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Trustee shall give default notices and accelerate payments, and the Authority shall give default notices, in each case when so instructed in writing by the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Trustee shall enforce the Agreement for the benefit of the Bondowners, in accordance with the written directions of the owners of a majority in principal amount of the Outstanding Bonds. Neither the Trustee nor the Authority shall be required to take remedial action (other than acceleration, in the case of the Trustee, or the giving of notice), unless reasonable indemnity is furnished for any expense or liability to be incurred therein.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement unless the Authority and the Trustee have failed or refused to take action as required by the Agreement. (Sections 502, 602, 702 and 802)

### **Tax Status of the Bonds**

The Institution represents and warrants that (i) it is an organization described in Section 501(c)(3) of the IRC (or corresponding provisions of prior law) 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.

The Institution shall not take or permit any action which would cause the Bonds to be “arbitrage bonds” under Section 148 of the IRC or would cause the Bonds to not meet any requirements of Section 149 of the IRC or cause the Bonds to cease to be “qualified 501(c)(3) bonds” under Section 145 of the IRC. (Section 902)

### **Fees and Charges**

The Institution agrees, subject to any limitations imposed by law, to charge and collect fees and charges which, together with any other moneys legally available to it, shall provide moneys sufficient at all times: (a) to make the payments required by the Agreement and comply with the Agreement in all other respects, and (b) to satisfy all other obligations of the Institution in a timely fashion. Without limiting the generality of the foregoing, the Institution shall, subject to applicable governmental restrictions, charge and collect fees and charges which, together with any other moneys legally available to it, in each fiscal year will produce revenues at least sufficient to meet expenses (excluding from revenues and expenses extraordinary items and

## **APPENDIX C**

excluding from expenses depreciation but including interest on and amortization of long-term indebtedness). (Section 904)

### **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 or spin-off all or substantially all 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 upon satisfaction of the conditions set forth in the Agreement which include (a) that each of the surviving, resulting or transferee entity or entities meet certain requirements set forth in the Agreement as to its nonprofit, tax-exempt status, (b) that the transaction not result in a conflict, breach or default as referred to in the Agreement, and (c) that the surviving, resulting or transferee entity or entities each assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Agreement. (Section 906)

### **Restrictions on Encumbrance, Sale and Lease of Property**

Excepting transfers of all or substantially all of its assets pursuant to Section entitled “Maintenance of Corporate Existence”, the Institution shall not spin off a substantial amount of its assets, encumber its title to any of its real property comprising its three main campuses to secure indebtedness, or sell or otherwise dispose of any of the Project or any of such real property comprising its three main campuses, or lease the same to others or permit others to occupy the same except to carry out the purposes of the Institution, without the written consent of the Authority, which consent shall not be unreasonably withheld. (Section 907)

### **Insurance**

The Institution shall maintain insurance with insurance companies authorized to transact business in the Commonwealth of Massachusetts or otherwise satisfactory to the Authority on such of its properties, in such amounts and against such risks as is customarily maintained by similar institutions of higher education operating in the area and promptly file with the Authority upon request, from time to time, certificates of all such insurance. (Section 403)

### **Amendments**

The 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 Agreement, (b) to provide for the establishment of a book entry system of registration for the Bonds through a securities depository, (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 Bonds to receive ratings acceptable to the Institution, (e) effective upon any Conversion Date to a new Mode, as applicable, to make any amendment, (f) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds or (g) to add provisions relating to the partial conversion of Bonds to a new Mode or providing for credit enhancement or liquidity support for the Bonds which do not impair the security for the 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 Bonds.

Except as provided in the foregoing paragraph, the 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 Bonds; provided, however, that no amendment of the 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 Bond, (ii) to reduce the principal amount or interest rate of any Bond, (iii) to make any Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment. When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Bondowner consents, it shall, within ninety (90) days, file a certificate to that effect in its records and mail notice to the Bondowners. (Section 1001)

### **Defeasance**

When there are in the Debt Service Fund and the 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 Bonds in full, and when all the rights of the Authority and Trustee have been provided for, upon written notice from the Institution to the Authority and Trustee, the Bondowners shall cease to be entitled to any benefit or security under the 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 Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, 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 Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon defeasance of the Agreement, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose subject to the requirements of the Agreement, and moneys held for defeasance shall be invested only as provided above in this paragraph. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for any payments of rebate, 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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**PROPOSED FORM OF BOND COUNSEL OPINION**

[Closing Date]

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

\$14,040,000  
Revenue Bonds, Harvard University Issue,  
Series R, Tranche 7 dated date of delivery

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 above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of October 12, 1999 as amended and supplemented by the First Supplemental Agreement dated as of October 1, 2000, the Second Supplemental Agreement dated as of November 1, 2001, the Third Supplemental Agreement dated as of October 1, 2002, the Fourth Supplemental Agreement dated as of January 1, 2004, the Fifth Supplemental Agreement dated as of March 8, 2005 and the Sixth Supplemental Agreement dated as of March 1, 2006 (collectively, the "Agreement") each among the Authority, President and Fellows of Harvard College (the "Institution") and State Street Bank and Trust Company or its successor, U. S. Bank National Association, 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 and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. The Bonds are payable solely from funds to be provided therefor by the Institution pursuant to the Agreement. Under the Agreement, the Institution has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and purchase or redemption price of 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 D

### EDWARDS ANGELL PALMER & DODGE LLP

We express no opinion with respect to compliance by the Institution with applicable legal requirements with respect to the Agreement or in connection with the construction or operation of the Project (as defined in the Agreement) being financed by the Bonds.

Reference is made to an opinion of even date of Ropes & Gray LLP, 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, the power of the Institution to enter into and perform its obligations under the Agreement, and the authorization, execution and delivery of the Agreement by the Institution. We have relied on such opinion with regard to such matters and to the other matters addressed therein, including, without limitation, the current qualification of the Institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to the limitations and conditions described therein. Failure of the Institution to maintain its status as an organization described in Section 501(c)(3) of the Code or to use the Project in activities of the Institution that do not constitute unrelated trades or businesses of the Institution within the meaning of Section 513 of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Based on our examination, we are of the opinion, 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 against the Authority. As provided in Section 13 of 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. 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 is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority and the Institution with all requirements of the Internal Revenue Code of 1954 and Title XIII of the Tax Reform Act of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to comply with all such requirements. Failure by the Authority or the Institution to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal

income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. 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 regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

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

Edwards Angell Palmer & Dodge LLP

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**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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**FORM OF CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by President and Fellows of Harvard College (the “Institution”) and U.S. Bank National Association, as Trustee (the “Trustee”) in connection with the issuance of \$14,040,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series R, Tranche 7 (the “Bonds”). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of October 12, 1999 (the “Loan and Trust Agreement”) among the Massachusetts Health and Educational Facilities Authority (the “Authority”), State Street Bank and Trust Company, as predecessor Trustee and the Institution, as supplemented by the First Supplemental Agreement dated as of October 1, 2000, the Second Supplemental Agreement dated as of November 1, 2001, the Third Supplemental Agreement dated as of October 1, 2002, the Fourth Supplemental Agreement dated as of December 1, 2003, the Fifth Supplemental Agreement dated as of March 8, 2005 and the Sixth Supplemental Agreement dated as of March 1, 2006, each among the Authority, the Institution and the Trustee (the Loan and Trust Agreement as so supplemented, the “Agreement”), and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The Institution and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** 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 Underwriter (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. Definitions.** In addition to the definitions set forth in the Agreement, 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.

“Transmission Agent” shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit B attached hereto.

### SECTION 3. Provision of Annual Reports.

(a) Not later than March 1 of each year, commencing March 1, 2007 (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 fiscal year of the type presented under the heading captioned "Student Applications and Enrollment" in Appendix A to the Authority's Official Statement dated March 29, 2006.

(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 March 29, 2006.

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. Alternative Methods for Reporting. The Institution may satisfy its obligation to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the Securities and Exchange Commission, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. 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 Agreement 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 8. 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 9. 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 Agreement pursuant to Section 1001 of the 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 10. 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 11. 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 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article VI of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. 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 reasonable attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful 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 13. 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 14. 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: April \_\_\_\_, 2006

PRESIDENT AND FELLOWS OF  
HARVARD COLLEGE

By \_\_\_\_\_  
Title:

U.S. BANK NATIONAL ASSOCIATION,  
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 R

Name of Obligated Person: President and Fellows of Harvard College

Date of Issuance: April \_\_, 2005

NOTICE IS HEREBY GIVEN that 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 April \_\_, 2005 between the Institution and U.S. Bank National Association, as Trustee.

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, on  
behalf of PRESIDENT AND FELLOWS OF  
HARVARD COLLEGE

cc: President and Fellows of Harvard College

EXHIBIT B

NATIONAL REPOSITORIES AND TRANSMISSION AGENT

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
Email: Munis@Bloomberg.com

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
Email: nrmsir@dpcdata.com

FT Interactive Data  
Attn: NRMSIR  
100 Williams Street  
New York, New York 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390 (Secondary Market Information)  
(212) 771-7391 (Primary Market Information)  
Email: NRMSIR@FTID.com

Standard & Poor's Securities Evaluations, Inc.  
55 Water Street  
45th Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
Email: nrmsir\_repository@sandp.com

TRANSMISSION AGENT

[www.DisclosureUSA.org](http://www.DisclosureUSA.org)

Disclosure USA  
P.O. Box 684667  
Austin, Texas 78768-4667

**AUCTION RATE MODE PROVISIONS**

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## AUCTION RATE MODE PROVISIONS

## ARTICLE I

## Definitions

**SECTION 1.01. Definitions.** In addition to the words and terms elsewhere defined herein, or whose defined meanings are incorporated by reference, the following words and terms as used in this Appendix F and elsewhere in the Agreement have the following meanings with respect to the Bonds in an Auction Rate Mode unless the context or use indicates another or different meaning or intent:

**Agent Member** means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

**Auction** means each periodic implementation of the Auction Procedures.

**Auction Agent** means the auctioneer appointed in accordance with Section 3.01 of this Appendix F.

**Auction Agreement** means an agreement by and among the Authority, the Institution, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix F, with respect to the Bonds in an Auction Rate Mode, as such agreement may from time to time be amended or supplemented.

**Auction Date** means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, (ii) if the Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); **provided, however**, that the last Auction Date with respect to Bonds in an Auction Period other than a daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the Maturity Date for such Bonds; **provided, further**, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such Bonds and (y) the Business Day next preceding the Maturity Date for the Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the Conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the Conversion.

**Auction Multiple** means, as of any Auction Date, the percentage of the Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

## APPENDIX F

<u>Prevailing Rating</u>	<u>Percentage of Index</u>
AAA/Aaa	150%
AA/Aa	200
A/A	250
BBB/Baa	275
Below BBB/Baa	300

### **Auction Period** means:

- (i) a Special Auction Period;
- (ii) with respect to Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (iii) with respect to Bonds in a seven-day Auction Period, a period of generally seven (7) days beginning on a Thursday and ending on the Wednesday which is seven days thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on the next succeeding day which is followed by a Business Day);
- (iv) with respect to Bonds in a 28-day Auction Period, a period of generally twenty-eight (28) days beginning on a Thursday and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);
- (v) with respect to Bonds in a 35-day Auction Period, a period of generally thirty-five (35) days beginning on a Thursday and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);
- (vi) with respect to Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and
- (vii) with respect to Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a Conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding May 1<sup>st</sup> or November 1<sup>st</sup> (unless such May 1<sup>st</sup> or November 1<sup>st</sup> is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

**provided, however,** that (a) if there is a Conversion of Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the

Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of Conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of Conversion.

**Auction Procedures** means the procedures for conducting Auctions for Bonds in an Auction Rate Mode set forth in this Appendix F.

**Auction Rate** means for each Bond for each Auction Period (other than the initial Auction Period), (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; **provided, however**, if all of such Bonds are the subject of Submitted Hold Orders, the Minimum Auction Rate with respect to such Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Bonds.

**Auction Rate Mode** means the Mode in which the interest rate on the Bonds is the Auction Rate.

**Available Bonds** means for Bonds on each Auction Date, the aggregate principal amount of such Bonds that are not the subject of Submitted Hold Orders.

**Bid** has the meaning specified in subsection (a) of Section 2.02 of this Appendix F.

**Bidder** means each Existing Owner and Potential Owner who places an Order.

**Broker-Dealer** means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix F that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Institution and approved by the Authority, that is a party to a Broker-Dealer Agreement with the Auction Agent, that is either a member of the National Association of Securities Dealers, Inc. or registered as a dealer of municipal securities under the Securities Exchange Act of 1934, as amended, and that has net capital of at least \$125,000,000.

**Broker-Dealer Agreement** means an agreement among the Auction Agent, the Institution and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix F, as such agreement may from time to time be amended or supplemented.

**Default Rate** means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to three hundred percent (300%) of the Index determined on the Auction

## APPENDIX F

Date next preceding the first day of such Auction Period or in the case of a daily Auction Period, three hundred percent (300%) of the Index determined on the Auction Date which was the first day of such Auction Period; **provided, however**, the Default Rate shall not exceed the Maximum Rate.

**Existing Owner** means a Person who is listed as the beneficial owner of Bonds in the records of the Auction Agent.

**Hold Order** has the meaning specified in paragraph (a) of Section 2.02 of this Appendix F.

**Index** shall have the meaning specified in Section 2.07 of this Appendix F.

**Interest Payment Date** with respect to Auction Rate Bonds means:

(a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period;

(b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; and

(c) when used with respect to a Special Auction Period of (i) seven (7) or more but fewer than ninety-two (92) days, the Business Day immediately following such Special Auction Period, or (ii) ninety-two (92) or more days, each thirteenth Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period;

**provided, however**, that the first Interest Payment Date following the Conversion Date shall be determined on the date of delivery of such Bonds.

**Maximum Auction Rate** means as of any Auction Date, the product of the Index multiplied by the Auction Multiple; **provided, however**, that in no event shall the Maximum Auction Rate exceed the Maximum Rate, anything herein to the contrary notwithstanding.

**Minimum Auction Rate** means, as of any Auction Date, forty-five percent (45%) of the Index in effect on such Auction Date; **provided, however**, in no event shall the Minimum Auction Rate exceed the Maximum Auction Rate.

**Order** means a Hold Order, Bid or Sell Order.

**Potential Owner** means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently beneficially owned by such Person, if any.

**Prevailing Rating** means (a) “AAA/Aaa”, if the Bonds shall have a rating of “AAA” or better by S&P and a rating of “Aaa” or better by Moody’s, (b) if not “AAA/Aaa”, “AA/Aa” if the Bonds shall have a rating of “AA-” or better by S&P and a rating of “Aa3” or better by Moody’s, (c) if not “AAA/Aaa” or “AA/Aa”, “A/A” if the Bonds shall have a rating of “A-” or

better by S&P and a rating of “A3” or better by Moody’s, (d) if not “AAA/Aaa”, “AA/Aa” or “A/A”, “BBB/Baa” if the Bonds shall have a rating of “BBB-” or better by S&P and a rating of “Baa3” or better by Moody’s, and (e) if not “AAA/Aaa”, “AA/Aa”, “A/A” or “BBB/Baa”, then below “BBB/Baa”, whether or not the Bonds are rated by any Rating Service. For purposes of this definition, S&P’s rating categories of “AAA,” “AA-,” “A-” and “BBB-” and Moody’s rating categories of “Aaa,” “Aa3,” “A3” and “Baa3” shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Service shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the Bonds are not rated by a Rating Service, the requirement of a rating by such Rating Service shall be disregarded. If the ratings for the Bonds are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there is no rating, then the Auction Rate shall be the Maximum Auction Rate.

**Principal Office** means, with respect to the Auction Agent, the office thereof designated in the Auction Agreement as the office of the Auction Agent to which notices, requests or communications should be sent.

**Securities Depository** or **Depository** means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

**Sell Order** has the meaning specified in paragraph (a) of Section 2.02 of this Appendix F.

**Special Auction Period** means any period of not less than seven nor more than three years which is not another Auction Period and which begins on an Interest Payment Date and ends on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

**Submission Deadline** means 1:00 p.m., New York City time, on each Auction Date for Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealer are required to submit Orders to the Auction Agent.

**Submitted Bid** has the meaning specified in paragraph (b) of Section 2.04 of this Appendix F.

**Submitted Hold Order** has the meaning specified in paragraph (b) of Section 2.04 of this Appendix F.

**Submitted Order** has the meaning specified in paragraph (b) of Section 2.04 of this Appendix F.

**Submitted Sell Order** has the meaning specified in paragraph (b) of Section 2.04 of this Appendix F.

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**Sufficient Clearing Bids** means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

**Winning Bid Rate** means the lowest rate specified in any Submitted Bid for Bonds which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

## ARTICLE II

### Auction Procedures

**SECTION 2.01. Beneficial Interests.** Each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in such Bonds, unless the context clearly requires otherwise.

During an Auction Rate Mode, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

### **SECTION 2.02. Orders by Existing Owners and Potential Owners.**

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner

(and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealer shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a “**Hold Order**”, an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a “**Bid**”, and an Order containing the information referred to in clause (i)(C) above is herein referred to as a “**Sell Order.**”

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in paragraph (a)(v) of Section 2.05 of this Appendix F if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in paragraph (b)(iv) of Section 2.05 of this Appendix F if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Bonds specified in such Sell Order;  
or

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(B) such principal amount or a lesser principal amount of Bonds as described in paragraph (b)(iv) of Section 2.05 of this Appendix F if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in paragraph (a)(vi) of Section 2.05 of this Appendix F if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not equal to the Authorized Denomination for Bonds or an integral multiple thereof shall be rounded down to the nearest amount that is equal to the Authorized Denomination for Bonds, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Authority of the occurrence of an Event of Default pursuant to 501(a)(i) of the Agreement, but shall resume two (2) Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

**SECTION 2.03. Submission of Orders by Broker-Dealer to Auction Agent.** (a) The Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

- (i) the name of the Bidder placing such Order;
- (ii) the aggregate principal amount of Bonds, if any, that are the subject of such Order;
- (iii) to the extent that such Bidder is an Existing Owner:
  - (A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;
  - (B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
  - (C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and
- (iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; **provided, however,** that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

- (i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner;

- (ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of the Bonds subject to Hold Orders referred to in subparagraph (i) above;

- (B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an

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Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in subparagraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in subparagraph (i) above; and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this subparagraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to subparagraph (i) above and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to subparagraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.

(f) Neither the Authority, the Institution, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

**SECTION 2.04. Determination of Auction Rate.** (a) Not later than 9:30 a.m., New York City time, on each Auction Date for Bonds in an Auction Rate Mode, the Auction Agent shall advise the Broker-Dealer and the Trustee by telephone or other electronic communication acceptable to the parties of the Minimum Auction Rate, the Maximum Auction Rate and the Index for the Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for Bonds in an Auction Rate Mode, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealer (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “**Submitted Hold Order**”, a “**Submitted Bid**” or a “**Submitted Sell Order**”, as the case may be, and collectively as a “**Submitted Order**”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to paragraph (b) above, the Auction Agent shall advise the Institution, the Trustee and the Broker-Dealer by telephone (promptly confirmed in writing), or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended one week to the same day of the week on which Auctions are held (or if such day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended, which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event that all of the conditions for a change in the Mode applicable to the Bonds from an Auction Mode to any other Mode pursuant to the Fourth Supplemental Agreement have not been met or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry form by the Securities Depository, then the Auction Rate shall be the Maximum Auction Rate.

**SECTION 2.05. Allocation of Bonds.** (a) In the event of Sufficient Clearing Bids for Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders for such Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

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(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in subparagraph (i) above or of Submitted Bids described in subparagraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in subparagraph (i) above or of Submitted Bids described in subparagraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders, for each Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Bonds, shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Bonds, shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate with respect to Bonds, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in subparagraph (iii) of this paragraph (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the Bonds shall be rejected.

(c) If, as a result of the procedures described in paragraph (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of the Authorized Denomination for such Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of the Authorized Denomination for Bonds, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in paragraph (a) above, any Potential Owner would be required to purchase a principal amount of Bonds that is less than the Authorized Denomination for Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate such Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of the Authorized Denomination for Bonds, even if such allocation results in one or more of such Potential Owners not purchasing such Bonds on such Auction Date.

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**SECTION 2.06. Notice of Auction Rate.** (a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing the Institution and the Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to Bonds for which an Auction was held on such Auction Date:

(i) the Auction Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to Bonds for which an Auction was held on such Auction Date, the Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such Bonds to be purchased pursuant to such Bid (including, with respect to such Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

**SECTION 2.07. Index.**

(a) The Index on any Auction Date with respect to Bonds in any Auction Period of fewer than ninety-five (95) days shall be LIBOR on such date. The Index with respect to Bonds in any Auction Period ninety-five (95) days or more shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal. If either rate is unavailable, the Index shall be an index or rate agreed to by the Broker-Dealer and consented to by the Institution and the Authority.

“**LIBOR,**” on any date of determination for any Auction Period, means (i) for any Auction Period of fewer than forty (40) days, the offered rate for deposits in U.S. dollars for a one-month period at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market (the “calculation date”) and (ii) for any Auction Period of forty (40) or more but fewer than ninety-five (95) days, such rates for deposits in U.S. dollars for a three-month period.

(b) If for any reason on any Auction Date the Index shall not be determined as hereinabove provided in this Section, the Index shall be the Index for the Auction Period ending on such Auction Date.

(c) The determination of the Index as provided herein shall be conclusive and binding upon the Authority, the Institution, the Trustee, the Broker-Dealer, the Auction Agent and the Owners of the Bonds.

**SECTION 2.08. Changes in Auction Period, Auction Date and Conversion from Auction Rate Mode.**

(a) Changes in Auction Period.

(i) During any Auction Rate Mode, the Authority, at the direction of the Institution and pursuant to current market conditions as determined by the Broker-Dealer, may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to any of the Bonds specified in the notice described below in an Auction Rate Mode among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period. The Authority at the direction of the Institution shall initiate the change in the length of the Auction Period by giving written notice to the Auction Agent, the Broker-Dealer and the Securities Depository that the Auction Period for the Bonds specified in such notice shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least ten (10) Business Days prior to the Auction Date for such Auction Period; **provided, however,** that in the case of a change from a Special Auction Period of ninety-two (92) or more days, the date of such change shall be the Interest Payment Date immediately following the last day of such Special Auction Period.

(ii) The change in the length of the Auction Period for Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on

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which the notice of the proposed change was given as provided in this paragraph (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period for Bonds shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authority consenting to the change in the length of the Auction Period specified in such certificate, (B) on or prior to such Auction Date the Trustee and the Authority receive an Opinion of Bond Counsel and (C) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds for which there is to be a change in the length of the Auction Period except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in clause (A) or (B) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in clause (A) above is met but the condition referred to in clause (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be the same Auction Period it was. If the condition referred to in (C) is not met, the Auction Period will be a seven-day Auction Period and the Auction Rate will be the Maximum Auction Rate.

(iv) On the conversion date for Bonds from one Auction Period to another Auction Period, any Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, with the written consent of the Authority, may specify another Auction Date for Bonds than the Auction Date that would otherwise be determined in accordance with the definition of “**Auction Date**”. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least forty-five (45) days prior to the proposed changed Auction Date to the Trustee, the Authority, the Institution, the Broker-Dealer and the Securities Depository.

(c) Conversions from Auction Rate Modes.

At the election of the Institution, all or a portion of the Bonds may be converted from an Auction Rate Mode to another Mode as follows:

(i) The Conversion Date will be the Interest Payment Date following the final Auction Period.

(ii) The Institution will give written notice of any such conversion to the Authority, the Trustee, the Auction Agent, the Remarketing Agent, the Paying Agent and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Bondowners of the conversion pursuant to subparagraph

(iii) below. Such notice will specify the proposed Conversion Date and Mode to which the conversion will be made (and the length of any Multiannual Rate, if applicable). No change to another Mode will become effective unless the Institution will also file with the Trustee and Authority, such an Opinion of Bond Counsel dated the Conversion Date, as the case may be.

(iii) Not less than twenty (20) days prior to the Conversion Date, the Trustee will mail a written notice of the conversion to the holders of all Bonds to be converted, specifying the Conversion Date and setting forth the matters required to be stated pursuant to the Agreement with respect to purchases of the Bonds.

(iv) If on the Conversion Date any condition precedent to such conversion required under the Agreement is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Bondowners, the Institution and the Authority that such conversion has not occurred, that the Bonds will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate will continue to be the Auction Rate; provided, however, that the interest rate borne by the Bonds during the Auction Period commencing on such failed Conversion Date, will be the Maximum Auction Rate, and the Auction Period will be the seven-day Auction Period.

**SECTION 2.09. Miscellaneous Provisions Regarding Auctions.**

(a) In this Appendix F, each reference to the purchase, sale or holding of the Bonds shall refer to beneficial interests in the Bonds, unless the context clearly requires otherwise.

(b) During an Auction Period with respect to the Bonds, the provisions of the Agreement, this Appendix F and the definitions contained therein, herein and described in this Appendix F, including without limitation the definitions of Maximum Auction Rate, Minimum Auction Rate, Index, Default Rate, Interest Payment Date, Auction Multiple and the Auction Rate, may be amended pursuant to the Agreement, by obtaining the consent of the owners of all Outstanding Bonds bearing interest at an Auction Rate as follows. If on the first Auction Date occurring at least twenty (20) days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Outstanding Bonds, (i) the Auction Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Authority and the Trustee an Opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Bonds of such Series bearing interest at an Auction Rate.

## APPENDIX F

### ARTICLE III

#### Auction Agent

**SECTION 3.01. Qualifications of Auction Agent; Resignation; Removal.** The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of National Association of Securities Dealers having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Agreement and a member of or a participant in, the Securities Depository.

The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Agreement by giving at least ninety (90) days notice to the Authority, the Institution, the Broker-Dealer and the Trustee. The Auction Agent may be removed at any time by the Institution upon at least fifteen (15) days' notice, delivered to the Auction Agent, the Authority, the Institution, the Broker-Dealer and the Trustee. Upon any such resignation or removal, the Institution or Trustee at the direction of the Institution shall appoint a successor Auction Agent meeting the requirements of this Section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Authority, the Institution and the Trustee even if a successor Auction Agent has not been appointed.



