

**NEW ISSUE****Ratings: See "RATINGS" herein**

*In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Authority, under existing law, assuming continuing compliance with certain provisions of the Internal Revenue Code of 1986, as amended, interest on the Series 2008-1 Bonds will not be included in the gross income of the holders of the Series 2008-1 Bonds for federal income tax purposes. Interest on the Series 2008-1 Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on individuals and corporations, although interest on the Series 2008-1 Bonds will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., interest on the Series 2008-1 Bonds and any profit made on the sale thereof, is exempt from Massachusetts personal income taxes, and the Series 2008-1 Bonds are exempt from Massachusetts personal property taxes. See "TAX MATTERS" herein.*

**\$232,545,000**

**University of Massachusetts Building Authority  
Project Revenue Bonds, Senior Series 2008-1**

**Dated: Date of Initial Delivery****Price: 100%****CUSIP\*: 914440HE5****Due: May 1, 2038**

The Project Revenue Bonds, Senior Series 2008-1 (the "Series 2008-1 Bonds") will be issued by the University of Massachusetts Building Authority (the "Authority") as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Individual purchases of beneficial ownership of the Series 2008-1 Bonds will be made in book-entry form, in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. No physical delivery of the Series 2008-1 Bonds will be made to purchasers. While the Series 2008-1 Bonds bear interest at the Weekly Rate or Daily Rate, principal and semiannual interest (payable May 1 and November 1, commencing November 1, 2008) are payable to DTC by U.S. Bank National Association, Boston, Massachusetts, as Trustee. See "BOOK-ENTRY ONLY SYSTEM." The Series 2008-1 Bonds shall be subject to optional and mandatory sinking fund redemption prior to maturity and optional and mandatory tender for purchase as more fully described herein.

The Series 2008-1 Bonds will initially bear interest at the Weekly Rate. The Series 2008-1 Bonds may be converted to and from the Weekly Rate Period, the Daily Rate Period, the Term Rate Period, and the Auction Rate Period and may be converted until maturity to the Fixed Rate Period. The initial Weekly Rate for the Series 2008-1 Bonds for the period commencing on the date of delivery of the Series 2008-1 Bonds and each Weekly Rate and Daily Rate, as applicable, thereafter will be determined by Lehman Brothers Inc., as Remarketing Agent for the Series 2008-1 Bonds, as described herein.

**This Official Statement generally describes the Series 2008-1 Bonds only while bearing interest at the Weekly Rate or the Daily Rate. Prospective purchasers of the Series 2008-1 Bonds bearing interest at rates other than the Weekly Rate or the Daily Rate should not rely on this Official Statement.**

The Series 2008-1 Bonds are special obligations of the Authority payable solely from funds provided under the Enabling Act (defined herein), the Trust Agreement (defined herein) and the Series Resolution (defined herein), including payments made by the Board of Trustees of the University of Massachusetts (the "University"), and funds drawn under an irrevocable direct pay letter of credit (the "Letter of Credit") issued by Lloyds TSB Bank plc, acting through its New York Branch (the "Bank"). Under the Letter of Credit, the Bank is obligated to pay the Trustee, upon presentation of required documentation, the amount necessary to pay the principal or purchase price of, and accrued interest on the Bonds. The Letter of Credit will expire on April 23, 2013 (unless extended in accordance with its terms) or earlier upon the occurrence of certain events described herein.

THE SERIES 2008-1 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A GENERAL OBLIGATION OF THE AUTHORITY OR A DEBT OR LIABILITY OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2008-1 BONDS. THE ENABLING ACT OF THE AUTHORITY DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF TO PAY DEBT SERVICE WITH RESPECT TO THE SERIES 2008-1 BONDS. THE AUTHORITY DOES NOT HAVE TAXING POWER.

The Series 2008-1 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval of legality by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain matters will be passed upon for the Authority by its counsel, Burns & Levinson LLP, Boston, Massachusetts, for the Underwriter by its counsel, McCarter & English, LLP, Boston, Massachusetts and for the Bank by its domestic counsel, Nixon Peabody, LLP, New York, New York, and by the Bank's English counsel. It is expected that the Series 2008-1 Bonds in definitive form will be available for delivery through DTC in New York on or about April 24, 2008.

**LEHMAN BROTHERS**

Dated: April 15, 2008

\* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions.

## **Addresses of Principal Parties**

### **Authority**

**University of Massachusetts Building Authority**  
225 Franklin Street, 12<sup>th</sup> Floor  
Boston, Massachusetts 02110  
Attention: Executive Director

### **Trustee**

**U.S. Bank National Association**  
One Federal Street, 3<sup>rd</sup> Floor  
Boston, Massachusetts 02110  
Attention: Corporate Trust Department

### **Remarketing Agent**

**Lehman Brothers Inc.**  
399 Park Avenue  
New York, New York 10022  
Attention: Remarketing Desk

### **Bank**

**Lloyds TSB Bank plc, New York Branch**  
1251 Avenue of the Americas – 39<sup>th</sup> Floor  
New York, New York 10020

The information set forth or incorporated by reference herein has been obtained from the Authority, the University, the Bank and other sources which are believed to be reliable, but, as to information from other than the Authority, it is not to be construed as a representation by the Authority. 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 Authority since the date hereof, except as expressly set forth herein.

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 responsibilities 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.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation 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 the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2008-1 Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

All quotations from and summaries and explanations of provisions of laws, the Trust Agreement, the Contract, the Series 2008-1 Bonds, the Reimbursement Agreement and other documents herein do not purport to be complete; reference is made to said laws, the Trust Agreement, the Bonds, the Reimbursement Agreement and other documents for full and complete statements of their provisions. Copies of the above are available for inspection at the principal office of the Trustee.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL, IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

<b>INTRODUCTORY STATEMENT .....</b>	<b>1</b>	<b>RATINGS .....</b>	<b>22</b>
General .....	1	<b>LEGAL MATTERS .....</b>	<b>23</b>
Purpose and Content of Official Statement .....	2	<b>DISCLOSURE CERTIFICATES .....</b>	<b>23</b>
<b>ESTIMATED APPLICATION OF PROCEEDS OF THE</b>	<b>3</b>	<b>UNDERWRITING .....</b>	<b>23</b>
<b>BONDS.....</b>	<b>3</b>	<b>REMARKETING AGENT .....</b>	<b>23</b>
<b>THE SERIES 2008-1 BONDS.....</b>	<b>3</b>	<b>CERTAIN CONSIDERATIONS AFFECTING SALES OF</b>	<b>23</b>
General .....	3	<b>VARIABLE RATE BONDS .....</b>	<b>23</b>
Description of the Series 2008-1 Bonds .....	3	<b>CONTINUING DISCLOSURE.....</b>	<b>25</b>
Redemption Provisions .....	5	<b>FINANCIAL ADVISOR .....</b>	<b>25</b>
Optional and Mandatory Tender for Purchase.....	7	<b>FINANCIAL STATEMENTS OF THE AUTHORITY ...</b>	<b>25</b>
Plan of Finance; Interest Rate Swap.....	9	<b>FINANCIAL STATEMENTS OF THE UNIVERSITY...25</b>	<b>25</b>
<b>SECURITY AND SOURCES OF PAYMENT FOR THE</b>	<b>9</b>	<b>MISCELLANEOUS .....</b>	<b>25</b>
<b>SERIES 2008-1 BONDS .....</b>	<b>9</b>	<b>APPENDIX A - LETTER FROM THE UNIVERSITY.....</b>	<b>A-1</b>
General .....	9	<b>APPENDIX B - FINANCIAL STATEMENTS OF THE</b>	<b>B-1</b>
Pledge of Revenues and the Contract.....	9	<b>AUTHORITY .....</b>	<b>B-1</b>
Rate Covenant .....	12	<b>APPENDIX C - FINANCIAL STATEMENTS OF THE</b>	<b>C-1</b>
Additional Indebtedness.....	12	<b>UNIVERSITY .....</b>	<b>C-1</b>
<b>SUMMARY OF CERTAIN PROVISIONS OF THE</b>	<b>12</b>	<b>APPENDIX D - SUMMARY OF LEGAL DOCUMENTS.....</b>	<b>D-1</b>
<b>LETTER OF CREDIT AND REIMBURSEMENT</b>	<b>12</b>	<b>APPENDIX D-1SUMMARY OF CERTAIN PROVISIONS OF</b>	<b>D-1-1</b>
<b>AGREEMENT .....</b>	<b>12</b>	<b>THE TRUST AGREEMENT .....</b>	<b>D-1-1</b>
<b>ANNUAL DEBT SERVICE REQUIREMENTS .....</b>	<b>16</b>	<b>APPENDIX D-2 SUMMARY OF CERTAIN PROVISIONS OF</b>	<b>D-2-1</b>
<b>BOOK-ENTRY ONLY SYSTEM .....</b>	<b>16</b>	<b>THE SERIES RESOLUTION .....</b>	<b>D-2-1</b>
DTC .....	16	<b>APPENDIX D-3 SUMMARY OF THE CONTRACT .....</b>	<b>D-3-1</b>
No Responsibility of the Authority or the Trustee.....	18	<b>APPENDIX E - PROPOSED FORM OF OPINION OF BOND</b>	<b>E-1</b>
Certificated Bonds .....	18	<b>COUNSEL .....</b>	<b>E-1</b>
<b>THE AUTHORITY .....</b>	<b>19</b>	<b>APPENDIX F - SUMMARY OF CONTINUING DISCLOSURE</b>	<b>F-1</b>
General.....	19	<b>UNDERTAKING.....</b>	<b>F-1</b>
Members, Officers and Staff.....	20	<b>APPENDIX G - CERTAIN INFORMATION REGARDING</b>	<b>G-1</b>
<b>LITIGATION.....</b>	<b>21</b>	<b>THE BANK.....</b>	<b>G-1</b>
<b>LEGALITY FOR INVESTMENT .....</b>	<b>21</b>	<b>APPENDIX H - FORM OF LETTER OF CREDIT .....</b>	<b>H-1</b>
<b>TAX MATTERS .....</b>	<b>21</b>		

[Intentionally Left Blank]

## OFFICIAL STATEMENT

**\$232,545,000**

### **University of Massachusetts Building Authority Project Revenue Bonds, Senior Series 2008-1**

## INTRODUCTORY STATEMENT

### **General**

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to furnish information in connection with the offering by the University of Massachusetts Building Authority (the "Authority") of its \$232,545,000 Project Revenue Bonds, Senior Series 2008-1 (the "Series 2008-1 Bonds").

Unless otherwise defined herein, capitalized terms used herein shall have the meanings set forth in Appendix D-1 "Summary of Legal Documents - Summary of Certain Provisions of the Trust Agreement - Definitions." All references to time in this Official Statement, unless otherwise specifically stated, are to New York, New York time.

The Series 2008-1 Bonds are issued pursuant to Chapter 773 of the Acts of 1960 of the Commonwealth of Massachusetts, as amended (the "Enabling Act"), the Trust Agreement dated as of November 1, 2000 (the "Trust Agreement"), between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"), and the Series Resolution Authorizing the Issuance of Project Revenue Bonds, Senior Series 2008-1 and Providing For Certain Other Matters (the "Series Resolution"), adopted by the Authority on March 3, 2008.

The Authority was created by the Enabling Act as a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts (the "Commonwealth") for the general purpose of aiding and contributing to the performance of the educational and other purposes of the University of Massachusetts (the "University") by providing dormitories, dining commons and other buildings and structures for the use of the University, its students, staff and their dependents and for lease to certain other entities related to the University, all in accordance with the Enabling Act. See "THE AUTHORITY" herein.

The Series 2008-1 Bonds are being issued to finance projects which meet certain conditions set forth in the Series Resolution (collectively, the "2008-1 Projects"). The proceeds of the Series 2008-1 Bonds will be used to finance the costs of the 2008-1 Projects and to pay costs of issuing the Series 2008-1 Bonds. The Authority also expects to issue \$26,570,000 principal amount of Facilities Revenue Bonds, Senior Series 2008-A (Commonwealth Guaranteed) (the "Series 2008-A Bonds") on the same date as the Series 2008-1 Bonds and expects to issue additional Project Revenue Bonds, Senior Series 2008-2 within thirty (30) days of the issuance of the Series 2008-1 Bonds in order to fund certain projects under the University's capital plans. For information regarding the University's capital plans and means for funding its future capital plans, see Appendix A, hereto under the caption "Current and Future Capital Plans."

The Enabling Act prohibits the Authority from initiating any project except upon request made by authority of the Board of Trustees of the University (the "University Trustees") and upon written approval from the Commissioner of Administration of the Commonwealth. In connection with the Series 2008-1 Bonds, such request has been made and all such approvals have been obtained.

As more fully described herein, the Series 2008-1 Bonds will be special obligations of the Authority and, as to the payment of principal and redemption price, if any, of and interest thereon, are payable solely from and secured by amounts pledged under the provisions of the Enabling Act, the Trust Agreement and the Series Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-1 BONDS" herein.

In connection with the Series 2008-1 Bonds, the Authority will enter into a Letter of Credit and Reimbursement Agreement, dated as of April 1, 2008 (the "Reimbursement Agreement") with Lloyds TSB Bank plc, acting through its New York Branch, as initial Credit Facility Provider (the "Bank"), pursuant to which the Bank will issue in favor of the Trustee an irrevocable, transferable, direct-pay letter of credit (the "Letter of Credit") in an

amount sufficient to pay the aggregate principal amount of or a portion of the purchase price corresponding to the principal of the Series 2008-1 Bonds and accrued interest on the Series 2008-1 Bonds, or a portion of the purchase price corresponding to accrued interest when the Series 2008-1 Bonds bear interest at the Weekly Rate or the Daily Rate. For information about the Letter of Credit, see the information under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" and Appendix H - Form of Letter of Credit. For information about the Bank, see Appendix G.

Under the Letter of Credit, the Bank is obligated to pay to the Trustee, upon presentation of a sight draft and required accompanying documentation, the amount necessary to pay the principal or purchase price of and interest on the Series 2008-1 Bonds then due and payable. The Letter of Credit provides that it will expire (unless extended in accordance with its terms) on April 23, 2013, or earlier upon the occurrence of certain events described herein. The Agreement also provides that the Trustee will make drawings under the Letter of Credit in accordance with the terms thereof (i) to pay when due (whether by maturity, redemption, acceleration or otherwise) the principal of and interest on the Series 2008-1 Bonds (other than Bank-Owned Bonds or Series 2008-1 Bonds owned by or on behalf of the Authority) and (ii) to the extent that proceeds from the sale of Series 2008-1 Bonds subject to optional or mandatory tender which have been remarketed are not available therefor, to pay when due the purchase price of such Series 2008-1 Bonds (other than Bank-Owned Bonds).

Under certain circumstances, the Letter of Credit may be replaced by a Alternate Credit Facility. See the information under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" and "THE SERIES 2008-1 BONDS - Optional and Mandatory Tender for Purchase" herein.

The Series 2008-1 Bonds are payable solely from funds provided under the Enabling Act, the Trust Agreement and the Series Resolution, including payments made by the University Trustees under the Contract for Financial Assistance, Management and Services dated as of April 1, 2008 (the "Contract") among the Commonwealth, acting by and through the University Trustees, the University Trustees and the Authority.

The obligations of the University Trustees to make payments under the Contract are limited to funds of the University lawfully available for such purpose. The obligations of the University Trustees in connection with the Series 2008-1 Bonds and the Contract do not constitute a debt or obligation of the Commonwealth, and (a) neither the Commonwealth nor any political subdivision thereof shall be obligated to pay the Series 2008-1 Bonds, and (b) neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the Series 2008-1 Bonds. The Enabling Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay debt service in the event of default. The Authority does not have taxing power. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-1 BONDS" herein

### **Purpose and Content of Official Statement**

This Official Statement describes the terms and use of proceeds of, and security for, the Series 2008-1 Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through H. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Information about the University is set forth in Appendix A. Financial Statements of the Authority and of the University, respectively, for the fiscal year ended June 30, 2007 are set forth in Appendices B and C. Summaries of certain provisions of the Trust Agreement, the Series Resolution and the Contract are included as Appendix D. The proposed form of opinion of Bond Counsel is included in Appendix E. Appendix F includes a summary of the Continuing Disclosure Agreement with respect to the Authority and the University. A summary of the Reimbursement Agreement can found under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" herein. Information about the Bank is included in Appendix G and a form of the Letter of Credit is included as Appendix H.

The summaries of the agreements and other documents herein do not purport to be comprehensive or definitive and all references to any contract, agreement and other document described herein are qualified in their entirety by reference to each such contract, agreement and other document. All references herein to the Series 2008-1

Bonds are qualified in their entirety by reference to the definitive forms thereof and to the Trust Agreement and the Series Resolution. Definitive copies of all contracts, agreements and other documents described in the Official Statement are available for inspection prior to the date of issuance of the Series 2008-1 Bonds at the offices of the Authority, located at 225 Franklin Street, 12<sup>th</sup> Floor, Boston, Massachusetts 02110, and subsequent to the date of issuance of the Series 2008-1 Bonds, at the Boston corporate trust office of the Trustee.

### ESTIMATED APPLICATION OF PROCEEDS OF THE SERIES 2008-1 BONDS

Deposit to the Series 2008-1 Account of the Construction Fund	\$231,782,394
Costs of Issuance (including Underwriter's discount and Letter of Credit fee)	<u>762,606</u>
Total	\$232,545,000

### THE SERIES 2008-1 BONDS

#### General

The Series 2008-1 Bonds will be issued in the aggregate principal amount of \$232,545,000 and are Variable Rate Bonds under the Trust Agreement. The Series 2008-1 Bonds will be dated the date of initial delivery thereof, will mature (unless redeemed prior to maturity) on May 1, 2038, and will be subject to optional and mandatory sinking fund redemption and optional and mandatory tender for purchase before maturity as described below. The Series 2008-1 Bonds will initially be issued in the Weekly Rate Period. The Series 2008-1 Bonds may be converted to and from the Weekly Rate Period, the Daily Rate Period, the Term Rate Period and the Auction Rate Period and converted to the Fixed Rate Period until maturity.

**This Official Statement generally describes the Series 2008-1 Bonds only while bearing interest at the Weekly Rate and the Daily Rate. Prospective purchasers of the Series 2008-1 Bonds bearing interest at rates other than the Weekly Rate or the Daily Rate should not rely on this Official Statement.**

The Series 2008-1 Bonds will be issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and not available for distribution to the public, evidencing ownership of the Series 2008-1 Bonds in principal amounts of \$100,000 or any integral multiples of \$5,000 in excess thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest on the Series 2008-1 Bonds will be payable as stated below, principal of the Series 2008-1 Bonds will be paid, at maturity or upon earlier redemption, and the purchase price will be paid when due, to DTC or its nominee as registered owner of the Series 2008-1 Bonds. Transfer of principal and interest payments and the purchase price to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments and purchase price to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. While the Series 2008-1 Bonds bear interest at the Weekly Rate or the Daily Rate, the record date for principal and interest payments by DTC to its participants will be the business day next preceding an Interest Payment Date. Accordingly, debt service will be payable to participants of DTC, shown on the records of DTC, at the close of business on the business day preceding such debt service payment date. Neither the Authority nor the Trustee will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

The Interest Payment Dates for the Series 2008-1 Bonds bearing interest at the Weekly Rate or the Daily Rate will be each May 1 and November 1, commencing on November 1, 2008, or in the event any such date is not a Business Day, the next succeeding Business Day.

#### Description of the Series 2008-1 Bonds

General. The Series 2008-1 Bonds will bear interest initially at the Weekly Rate. At the option of the Authority, Series 2008-1 Bonds bearing interest at the Weekly Rate may be converted and reconverted, as described below, to Series 2008-1 Bonds bearing interest at another Adjustable Rate, including the Daily Rate, the Term Rate and the Auction Period Rate or may be converted to a Fixed Rate. While the Series 2008-1 Bonds bear interest at the

Weekly Rate or the Daily Rate, the rates of interest to be borne by the Series 2008-1 Bonds will be determined as described below under “Interest Rate Determination” by Lehman Brothers Inc., as Remarketing Agent (together with any successor thereto as Remarketing Agent, the “Remarketing Agent”), under the Remarketing Agreement by and between the Remarketing Agent and the Authority.

Interest on the Series 2008-1 Bonds shall be paid on each Interest Payment Date, any redemption date for the Series 2008-1 Bonds, any mandatory or optional tender date and the stated maturity date of the Series 2008-1 Bonds. While the Series 2008-1 Bonds bear interest at the Weekly Rate or the Daily Rate interest accrued on such Series 2008-1 Bonds shall be computed on the basis of a 365 -day year for the number of days actually elapsed.

Interest Rate Determination. *Weekly Rate.* The Weekly Rate on the Series 2008-1 Bonds shall be determined by the Remarketing Agent, by 4:00 p.m. on Tuesday of each week during a Weekly Rate Period (or if such date is not a Business Day, on the next succeeding Business Day), except that the initial Weekly Rate on the Series 2008-1 Bonds shall be determined by the Remarketing Agent on or prior to the date of issuance of the Series 2008-1 Bonds. The initial Weekly Rate for the Series 2008-1 Bonds as so determined shall be in effect from and including the date of issuance of the Series 2008-1 Bonds to and including the following Tuesday and thereafter, while the Series 2008-1 Bonds are in the Weekly Rate Period, for each Calculation Period, which is the period from and including each Wednesday to and including the next succeeding Tuesday; provided, however, if Wednesday is not a Business Day, the Weekly Rate shall begin on the Business Day next succeeding such Wednesday and shall end on the day before the next Weekly Rate begins. Each Weekly Rate for the Series 2008-1 Bonds shall be the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Series 2008-1 Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

During any period in which the Remarketing Agent fails for any reason to determine the interest rate for Series 2008-1 Bonds in a Weekly Rate Period, the last interest rate so determined shall remain in effect for up to two successive Calculation Periods and, with respect to subsequent Calculation Periods for which the Weekly Rate is not so determined, the Weekly Rate shall be a rate per annum equal to 100% of the Municipal Swap Index rate most recently published by The Securities Industry and Financial Markets Association on or before the applicable Determination Date; provided, that, with respect to any Determination Date, if the applicable rate is not published by The Securities Industry and Financial Markets Association, the Authority shall select such other publicly available rate as it shall deem most nearly equivalent thereto.

*Daily Rate.* The Daily Rate on the Series 2008-1 Bonds shall be determined by the Remarketing Agent, by 9:30 a.m. on each Business Day during a Daily Rate Period (or if such date is not a Business Day, on the next succeeding Business Day). The Daily Rate for the Series 2008-1 Bonds shall be in effect for each Calculation Period, which is the period from and including a Business Day to but not including the next succeeding Business Day. Each Daily Rate for the Series 2008-1 Bonds shall be the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Series 2008-1 Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

During any period in which the Remarketing Agent fails for any reason to determine the interest rate for the Series 2008-1 Bonds in a Daily Rate Period, the last interest rate so determined shall remain in effect for up to five successive Calculation Periods and, with respect to subsequent Calculation Periods for which the Daily Rate is not so determined, the Daily Rate shall be a rate per annum equal to 100% of the Municipal Swap Index rate most recently published by The Securities Industry and Financial Markets Association on or before the applicable Determination Date; provided, that, with respect to any Determination Date, if the applicable rate is not published by The Securities Industry and Financial Markets Association, the Authority shall select such other publicly available rate as it shall deem most nearly equivalent thereto.

In no event shall the interest rate borne by any Series 2008-1 Bond exceed the Maximum Rate of 12% (excluding any Bank-Owned Bonds).

Conversion. While the Series 2008-1 Bonds bear interest at the Weekly Rate or the Daily Rate, the Series 2008-1 Bonds may be converted in whole or in part, to a different Adjustable Rate as directed by the Authority, in a written notice to the Trustee, the Remarketing Agent and any Rating Agency then rating the Series 2008-1 Bonds, delivered at least 30 days prior to the proposed effective date of the conversion to a different Adjustable Rate. Upon

any change in the type of interest rate borne by the Series 2008-1 Bonds pursuant to the provisions in the Series Resolution (a "Change in the Interest Rate Mode"), the Series 2008-1 Bonds are subject to mandatory tender for purchase at a price equal to the principal amount thereof plus accrued interest and premium, if any, on the effective date of such Change in Interest Rate Mode. (See, "Optional and Mandatory Tender for Purchase - Mandatory Tender Upon a Change in the Interest Rate Mode" below.) The Trustee is required to mail the notice of the proposed Change in the Interest Rate Mode received from the Authority to the holders of the Series 2008-1 Bonds no less than 15 days prior to the proposed effective date of the Change in the Interest Rate Mode. A Change in the Interest Rate Mode may only be effected on the last Interest Payment Date for a Calculation Period. The notice of the proposed Change in the Interest Rate Mode from the Authority shall be effective only if it is accompanied by the form of opinion that Bond Counsel expects to be able to give on the proposed effective date of such Change in the Interest Rate Mode to the effect that such Change in the Interest Rate Mode is authorized by the Series Resolution, is permitted under the Enabling Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes.

A Change in the Interest Rate Mode for Series 2008-1 Bonds bearing interest at the Weekly Rate or the Daily Rate shall only occur if (i) the Trustee, the Credit Facility Provider and the Remarketing Agent receive by 4:00 p.m., on the effective date of such Change in the Interest Rate Mode, a certificate from an Authorized Officer of the Authority that all of the Series 2008-1 Bonds tendered or deemed tendered have been purchased at a price equal to the principal amount thereof plus accrued and unpaid interest, if any, with funds provided from the remarketing of such Series 2008-1 Bonds, or from funds deposited with the Trustee, and any premium, if any, has been paid from monies deposited with the Trustee and (ii) the Remarketing Agent, the Credit Facility Provider and the Trustee receives, by 9:30 a.m. on the effective date of such Change in the Interest Rate Mode, an opinion of Bond Counsel to the effect that such Change in the Interest Rate Mode is authorized by the Series Resolution, is permitted under the Enabling Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes. If any of the foregoing conditions, and other conditions set forth in the Series Resolution and described in Appendix D-2, are not met, the Series 2008-1 Bonds shall not be subject to mandatory tender and shall continue to bear interest at the interest rate borne by the Series 2008-1 Bonds immediately prior to the proposed Change in the Interest Rate Mode and shall be subject to the provisions of the Series Resolution applicable to Series 2008-1 Bonds bearing interest at the Weekly Rate or Daily Rate. If any of the foregoing conditions for a Change in the Interest Rate Mode are not met, the Trustee shall, as soon as practicable, but in no event later than the next succeeding Business Day, give notice of the failed conversion by Electronic Means to the Authority and the holders of the Series 2008-1 Bonds.

For information regarding conversion of the Bonds to bear interest at a Fixed Rate, see Appendix D-2.

Remarketing Agent. The Remarketing Agent may at any time resign by giving at least 30 days' notice to the Authority, the Trustee and the Bank. In addition, the Remarketing Agent may be removed at any time, upon at least 30 days' prior notice, at the direction of the Authority, by an instrument filed with the Remarketing Agent, the Trustee and the Bank and upon at least thirty (30) days' notice to the Remarketing Agent.

### **Redemption Provisions**

Optional Redemption. The Series 2008-1 Bonds while in a Weekly Rate Period or the Daily Rate Period are subject to redemption prior to their stated maturity date at the option of the Authority, in whole or in part, on any Business Day, at a redemption price equal to the principal amount of the Series 2008-1 Bonds or portion thereof to be redeemed, without premium, plus interest accrued thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Series 2008-1 Bonds while in a Weekly Rate Period or Daily Rate Period shall be subject to mandatory redemption prior to their stated maturity date from Sinking Fund Installments, payable on May 1 of each of the years and in the amounts set forth below, at a redemption price equal to the principal amount of the Series 2008-1 Bonds to be redeemed, without premium, plus interest accrued thereon to the date fixed for redemption.

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2009	\$5,425,000	2024	\$10,460,000
2010	5,645,000	2025	10,865,000
2011	6,355,000	2026	11,290,000
2012	6,605,000	2027	11,725,000
2013	6,860,000	2028	12,190,000
2014	7,125,000	2029	10,980,000
2015	7,405,000	2030	11,405,000
2016	7,700,000	2031	11,855,000
2017	7,995,000	2032	12,315,000
2018	8,315,000	2033	12,795,000
2019	8,635,000	2034	105,000
2020	8,965,000	2035	110,000
2021	9,320,000	2036	115,000
2022	9,680,000	2037	120,000
2023	10,060,000	2038*	125,000

\* Final maturity.

Mandatory Redemption Due to Default Under Credit Facility Agreement; Expiration of Credit Facility. All Series 2008-1 Bonds secured by the Letter of Credit or another Credit Facility (except Bank-Owned Bonds or Authority Bonds) shall be subject to mandatory redemption in whole at the direction of the Bank (or successor Credit Facility Provider) at a redemption price equal to the principal amount thereof, plus accrued interest, if any, following any Event of Default, as defined in and occurring under the Credit Facility Agreement (including non-reinstatement of a drawing for interest). Such Series 2008-1 Bonds subject to mandatory redemption shall be redeemed on the redemption date specified by the Credit Facility Provider in such written notice (or if such date is not a Business Day, the next succeeding Business Day). Such redemption date shall be not more than ten (10) nor less than five (5) days after the date such notice is given and not less than five (5) days before the date the Credit Facility is to be terminated on account of the Credit Facility Provider's giving of direction to the Trustee to redeem all of the Series 2008-1 Bonds. Series 2008-1 Bonds redeemed shall be delivered by the Registered Owners (with all necessary endorsements) to the office of the Trustee, at or before 12:00 noon on the redemption date, and payment of the Redemption Price shall be made by wire transfer in immediately available funds by the Trustee by the close of business on the redemption date. The principal of and any accrued interest on any Series 2008-1 Bonds being redeemed under this Section shall be paid from an advance under the Credit Facility.

Notice of Redemption. The Trustee is required to give notice of redemption of any Series 2008-1 Bonds, specifying the date of redemption, the principal amount thereof to be redeemed and the redemption price, by mailing, postage prepaid, not more than 60 days nor less than 30 days prior to the redemption date, copies thereof to the Registered Owners of any Series 2008-1 Bonds, or portions thereof, to be redeemed; provided, however, that failure of any Registered Owner to receive such notice so mailed to such Registered Owner or any defect therein shall not affect the validity of proceedings for the redemption of any Series 2008-1 Bonds, and failure to mail such notice to any Registered Owner entitled thereto shall not affect the validity of the proceedings for the redemption of any Series 2008-1 Bonds as to which no such failure occurred. On the date designated for redemption, notice having been mailed and moneys for payment of the Redemption Price of and interest accrued to the redemption date on the Series 2008-1 Bonds to be redeemed being held by the Trustee, the Series 2008-1 Bonds or portions of Series 2008-1 Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for such Series 2008-1 Bonds (or such portions thereof) on such date, plus interest accrued thereon to such date, interest on such Series 2008-1 Bonds (or such portions thereof) shall cease to accrue, such Series 2008-1 Bonds (or such portions thereof) so called for redemption shall cease to be entitled to any lien, benefit or security under the Trust Agreement, and the Registered Owners thereof shall have no rights in respect of such Series 2008-1 Bonds (or such portions thereof) except to receive payment of the Redemption Price thereof and such interest accrued thereon so held by the Trustee. If, at the

time of mailing of a notice of optional redemption, moneys have not been deposited with the Trustee in an amount sufficient to redeem all the Series 2008-1 Bonds called for redemption, such notice shall state that it is subject to the deposit of sufficient moneys not later than the opening of business on the redemption date, and that such notice shall be of no effect unless such moneys are deposited. So long as the book-entry-only system remains in effect for the Series 2008-1 Bonds, notices of redemption will be mailed by the Trustee only to DTC or its nominee, as registered owner of the Series 2008-1 Bonds. The Trustee is not responsible for giving notices of redemption to anyone other than the registered owners of the Series 2008-1 Bonds. The Authority is not responsible for giving any notice of redemption.

Effect of Redemption. Notice of redemption having been given in the manner provided above, and money sufficient for the redemption being held by the Trustee for that purpose on the redemption date, the Series 2008-1 Bonds so called for redemption shall become due and payable on the redemption date, and interest thereon shall cease to accrue as of the redemption date and the owners of the Series 2008-1 Bonds so called for redemption shall thereafter no longer have any security or benefit under the Trust Agreement except to receive payment of the redemption price for such Series 2008-1 Bonds.

### **Optional and Mandatory Tender for Purchase**

Optional Tender for Purchase. During any Weekly Rate Period or Daily Rate Period, any Series 2008-1 Bond or portion thereof in a principal amount equal to \$100,000 or integral multiples of \$5,000 in excess thereof (so long as the principal amount not purchased is in a principal amount not less than \$100,000 or \$5,000 in excess thereof) shall be purchased on the demand of the holder of such Series 2008-1 Bond on any Business Day at a price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon delivery to the Trustee and the Remarketing Agent at their respective principal offices, by the close of business on any Business Day of a Notice of Election to Tender; provided, however, that the substance of such Notice of Election to Tender must also be given telephonically to the Remarketing Agent prior to or simultaneously with delivery of such written Notice of Election to Tender to the Remarketing Agent. The date on which such Series 2008-1 Bond shall be purchased at the request of the holder of such Series 2008-1 Bonds shall be (i) if the Series 2008-1 Bond bears interest at a Daily Rate, the date of delivery of such Notice of Election to Tender if such Notice of Election to Tender is delivered to the Trustee and the Remarketing Agent by 10:00 a.m. on such date or may be any Business Day thereafter, or (ii) if the Series 2008-1 Bond bears interest at a Weekly Rate, a Business Day at least seven days after the date of the delivery of such Notice of Election to Tender to the Trustee and the Remarketing Agent. If the holder of such Series 2008-1 Bonds fails to deliver the Series 2008-1 Bond referred to in such notice to the Trustee, such Series 2008-1 Bond shall nevertheless be deemed to have been purchased on the date established for the purchase thereof, and, to the extent that there shall be on deposit in the Bond Purchase Account on such date an amount sufficient to pay the principal amount thereof, plus accrued interest, if any, no interest shall accrue on such Series 2008-1 Bond from and after the date of purchase and such holder shall have no rights under the Series Resolution as the owner of such Series 2008-1 Bond except the right to receive the purchase price of such Series 2008-1 Bond.

The right of a holder of Series 2008-1 Bonds to tender a Series 2008-1 Bond to the Trustee shall terminate after the Fixed Rate Conversion Date.

Mandatory Tender Upon a Change in the Interest Rate Mode. While the Series 2008-1 Bonds are in the Weekly Rate Period or the Daily Rate Period, the Series 2008-1 Bonds shall be subject to mandatory tender for purchase in accordance with the terms of the Series Resolution, on the effective date of a Change in the Interest Rate Mode at a price equal to the principal amount thereof plus accrued interest and premium, if any. A Change in the Interest Rate Mode may only be effected on the last Interest Payment Date for a Calculation Period.

Mandatory Tender Upon Conversion to Fixed Rate. While the Series 2008-1 Bonds are in the Weekly Rate Period or the Daily Rate Period, the Series 2008-1 Bonds shall be subject to mandatory tender for purchase in accordance with the terms of the Series Resolution on the Fixed Rate Conversion Date at a price equal to the principal amount thereof plus accrued interest and premium, if any.

Mandatory Tender in Connection with an Alternate Credit Facility. While the Series 2008-1 Bonds are in the Weekly Rate Period or the Daily Rate Period, the Series 2008-1 Bonds shall be subject to mandatory tender for purchase five Business Days prior to the date on which an Alternate Credit Facility is to be substituted for the Credit Facility then in effect

Mandatory Tender Upon the Expiration of the Credit Facility. The Series 2008-1 Bonds in the Weekly Rate Period or the Daily Rate Period, shall also be subject to mandatory tender for purchase five Business Days prior to the date on which the Credit Facility expires if, (i) an extension of the Credit Facility has not been obtained or an Alternate Credit Facility has not been delivered to the Trustee and (ii) the Authority has not delivered a notice with respect to a Change in Interest Rate Mode for which a Credit Facility is not required.

Mandatory Tender Due to Default Under Credit Facility Agreement. Upon the occurrence and continuation of an Event of Default under the Credit Facility in connection with which the Trustee has received a notice from the Credit Facility Provider that the Credit Facility will terminate ten (10) days after receipt of such notice, the Bank, in its sole discretion, may deliver to the Trustee written notice that an Event of Default has been declared under the Credit Facility Agreement, which notice may include a demand that the Series 2008-1 Bonds be subject to mandatory tender rather than mandatory redemption. If so requested by the Bank, all Series 2008-1 Bonds secured by a Credit Facility shall be subject to mandatory tender at a purchase price equal to the principal amount thereof, plus accrued interest, if any.

Payment of Purchase Price. The purchase price of Series 2008-1 Bonds subject to optional or mandatory tender in an aggregate principal amount of at least one million dollars (\$1,000,000) shall be payable in immediately available funds or by wire transfer upon written notice from the holder of such Series 2008-1 Bonds containing the wire transfer address (which shall be in the continental United States) to which such holder wishes to have such wire directed, if such written notice is received by the Trustee not less than five days prior to the related purchase date.

Notice of Mandatory Tender. Notice of mandatory tender shall state the purchase date and that the Series 2008-1 Bonds are subject to mandatory tender on the purchase date at the applicable purchase price. Any such notice of mandatory tender for purchase shall be given by the Trustee, in the name of the Authority (with copies thereof to be given to the Remarketing Agent, the Authority, and any Rating Agency then rating the Series 2008-1 Bonds) by first-class mail to the holders of the Series 2008-1 Bonds subject to purchase at their addresses shown on the books of registry no less than ten (10) days prior to the Mandatory Purchase Date.

Book-Entry Bonds. Beneficial Owners (hereinafter defined) will not have any rights to tender Series 2008-1 Bonds directly to the Trustee. Procedures under which a Beneficial Owner may direct a Direct Participant (hereinafter defined) of DTC or an Indirect Participant (hereinafter defined) of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Series 2008-1 Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. See “BOOK-ENTRY ONLY SYSTEM” herein.

For so long as the Series 2008-1 Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Series 2008-1 Bonds shall be given to DTC only, and neither the Authority, the Trustee, the Underwriter nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Series 2008-1 Bonds.

For so long as the Series 2008-1 Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of 2008-1 Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable purchase date of a book entry credit to the account of the Trustee of a beneficial interest in such Series 2008-1 Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Series 2008-1 Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the purchase price shall be paid directly to DTC. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants. See “BOOK-ENTRY-ONLY SYSTEM” herein.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Series 2008-1 Bonds properly tendered for purchase.

## **Plan of Finance; Interest Rate Swap**

In connection with the Series 2008-1 Bonds, the Authority has entered into an interest rate swap agreement (the "2008-1 Swap Agreement") with UBS AG, as swap counterparty (the "2008-1 Swap Counterparty") in an initial notional amount equal to the par amount of the Series 2008-1 Bonds. The 2008-1 Swap Agreement, which shall be effective on May 1, 2008 and mature on the final maturity of the Series 2008-1 Bonds, unless terminated earlier in accordance with the terms thereof, provides that the Authority will pay a fixed rate of 3.388% and receive a floating rate based on 70% of the one-month LIBOR Rate.

The obligation of the Authority to pay interest on the Series 2008-1 Bonds is in no way conditional upon the Authority's receipt of payments from the 2008-1 Swap Counterparty. Neither the owners of the Series 2008-1 Bonds nor any other person other than the Authority will have any rights under the 2008-1 Swap Agreement or against the 2008-1 Swap Counterparty. Pursuant to the 2008-1 Swap Agreement and the Series Resolution, the Authority's payment obligations to the 2008-1 Swap Counterparty under the 2008-1 Swap Agreement, excluding termination payments, if any, are secured on parity with the payment of debt service on the Series 2008-1 Bonds. Termination payments and other fees and expenses under the 2008-1 Swap Agreement shall be paid, as provided in the Series Resolution, on a basis subordinate to the debt service on the Series 2008-1 Bonds.

The Authority has also entered into an interest rate swap agreement with Lehman Brothers Special Financing Inc., as swap counterparty (the "2008-A Swap Counterparty" and together with the 2008-1 Swap Counterparty, the "Swap Counterparty") in an initial notional amount equal to \$26,580,000 (the "2008-A Swap Agreement" and together with the 2008-1 Swap Agreement, the "Swap Agreements"), which is the expected par amount of the Series 2008-A Bonds, which are expected to be issued by the Authority on the same date as the Series 2008-1 Bonds. The 2008-A Swap Agreement is effective on May 1, 2008 and matures on May 1, 2038, which is the expected final maturity of the Series 2008-A Bonds, unless terminated earlier in accordance with the terms thereof and provides that that Authority will pay a fixed rate of 3.378% and receive a floating rate based on 70% of the one-month LIBOR Rate.

Under certain circumstances (including the occurrence of certain events of default with respect to the Authority or the 2008-1 Swap Counterparty or the 2008-A Swap Counterparty, as applicable), the Swap Agreements are subject to termination prior to their stated expiration dates. Following any termination of either or both Swap Agreements, either the Authority or the applicable Swap Counterparty may owe a termination payment to the other, depending upon market conditions and the events that caused the applicable Swap Agreement to terminate. In the event of an early termination of a Swap Agreement, there can be no assurance that (i) the Authority will receive any termination payment payable to it by the applicable Swap Counterparty, and (ii) the Authority will have sufficient amounts to pay a termination payment payable by it to the applicable Swap Counterparty, and (iii) the Authority will be able to obtain a replacement swap agreement with comparable terms. Under certain market conditions, the Authority could owe a termination payment to a Swap Counterparty that could be substantial.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008-1 BONDS**

### **General**

The Series 2008-1 Bonds are special obligations of the Authority payable solely from the funds provided under the provisions of the Enabling Act, the Trust Agreement, the Contract and the Series Resolution, including the Letter of Credit.

### **Pledge of Revenues and the Contract**

The Trust Agreement assigns and pledges to the Trustee and grants to the Trustee a security interest in all rights of the Authority under the Contract to receive all Revenues payable to the Authority thereunder and pledged under the Trust Agreement. The Trust Agreement pledges to the Trustee for the benefit of the holders of the Bonds and all other bonds issued under the Trust Agreement (i) all moneys paid or payable for deposit in or on deposit in any Fund, Account or subaccount created under the Trust Agreement, all investments received or receivable for deposit in or on deposit in or on deposit in any Fund, Account or subaccount created under the Trust Agreement and all interest or other income on such investments paid or payable for deposit in or on deposit in any Fund, Account or subaccount created thereunder and all rights of the Authority to receive such moneys, investments and interest or other income (except for the Rebate Fund), subject to application of such moneys, investments and other income as provided in the

Trust Agreement; (ii) (a) subject to the Trust Agreement, the Revenues from each Project financed or refinanced under the Trust Agreement and (b) the Revenues, including Secondary Revenues payable to the Authority from Other Projects, except the pledge made in clauses (ii)(a) and (b) does not include amounts necessary to pay for maintenance, repair and operation of any Project financed under the Trust Agreement, fees and expenses of the Trustee, any paying agent, any escrow agent in connection with any refunding bonds issued under the Trust Agreement, insurance premiums, rent payable under lease agreements between the Authority and the Commonwealth, allocable operating and administrative expenses of the Authority and any amounts required by Section 19C of the Enabling Act to be paid to the Treasurer and Receiver-General of the Commonwealth out of such Revenues.

Pursuant to the Enabling Act, Revenues pledged by the Trust Agreement and received by the Authority in connection with the Projects financed or refinanced by any Series of Bonds issued under the Trust Agreement are pledged to the payment of the principal of and interest on all Outstanding Bonds under the Trust Agreement as they become due, the redemption price or the purchase price of Outstanding Bonds redeemed or purchased as provided in the Trust Agreement, and other costs payable with respect to Outstanding Bonds under the Trust Agreement.

The Series 2008-1 Bonds are on a parity with all other Senior Bonds previously issued and Outstanding under the Trust Agreement and with all Senior Bonds hereafter issued and Outstanding under the Trust Agreement.

As authorized by the Enabling Act, the University Trustees have agreed in the Contract to maintain, repair and operate the 2008-1 Projects and all other Projects financed or refinanced by the 2008-1 Bonds or to cause the 2008-1 Projects and such other Projects to be so maintained, repaired and operated and have agreed in the Contract to remit to the Trustee Revenues in an aggregate amount at least equal to debt service on the Bonds and related expenses. See Appendix D-3 – “Summary of the Contract.”

With respect to the aggregate of all Revenues from the Projects and from any other projects or property the Revenues from which are pledged under the Trust Agreement, the Contract requires that the Authority fix and revise fees, rents, rates and other charges so as to: (1) maintain, insofar as consistent with such requirements, reasonable uniformity in charges for like accommodations at the University and (2) provide Revenues sufficient to (a) pay the cost of maintaining, repairing and operating the Projects and such other projects and property, if any, to the extent that the University Trustees have not undertaken to provide such maintenance, repair and operation, (b) pay the fees and expenses of the Trustee, any paying agent and any fiscal agent appointed by the Authority in connection with the issuance of Series 2008-1 Bonds or any other notes or bonds secured or provided for under the Trust Agreement, premiums of insurance maintained by the Authority with respect to the applicable Projects and such other projects and property and rentals payable by the Authority under any lease or leases of land on which such Projects or any other such project or property may be located, (c) pay the principal of (including Sinking Fund Installments) and the interest on the Series 2008-1 Bonds and notes and bonds issued to finance or refinance such other projects or property, as such principal and interest shall become due and payable, (d) pay such portions of the current office and other operating and administrative expenses of the Authority (which shall include any amount (the “Rebate Amount”) required by the Internal Revenue Code of 1986, as amended or other applicable law to be rebated by the Authority with respect to the Series 2008-1 Bonds to the United State of America and not provided from other funds of the Authority) as the Authority shall deem properly allocable to the Projects and such other projects and property, (e) pay amounts payable by the Authority under the Series Resolution, under the Swap Agreement and the Reimbursement Agreement or any other contract or other arrangement with respect to the Series 2008-1 Bonds, (f) create or maintain reserves, if any, for any of the foregoing purposes as may be required under any resolution of the Authority as may be required or permitted by the Trust Agreement, (g) pay the amount, if any, required by Section 19C of the Enabling Act to be paid to the Commonwealth to repay certain appropriations or other expenditures, if any, and (h) create the reserves required by Section 10 of the Enabling Act (the Series 2008-1 Bonds are not secured by such reserves).

Under the Contract, the Authority shall certify to the University Trustees (with a copy to the Trustee) on or before May 1, 2008 (for the period through October 31, 2009) and each March 1 thereafter for the twelve-month period commencing the next succeeding November 1, the amount estimated for each component of the Projects, detailing (i) the projected costs of operating, maintaining and repairing the Projects, (ii) the Authority's projected debt service costs and fees and expenses related to the Series 2008-1 Bonds, including without limitation any payments with respect to the Swap Agreement and the Reimbursement Agreement, (iii) the Authority's projected operating and administrative costs, (iv) any projected required deposits to reserves, including without limitation the Section 10 Reserve Fund, Capital Improvements Reserve Fund and the General Reserve Fund, (v) any projected payments to the Commonwealth pursuant to Section 19C of the Act, (vi) any additional reserves it may propose to create or augment

consistent with the Trust Agreement and (vii) the amount, if any, payable to the University Trustees to reimburse Specific Revenue Project expenses, if any, incurred by the University Trustees (collectively, the "Certified Amount"). Such certificate, which may be revised from time to time as necessary, shall state the dates within such period when any portion of the Certified Amount shall be due, the portion of the Certified Amount due on such dates, the payee of such amount and payment instructions, the source of such payments and the amount payable from each source. The Certified Amount shall also detail the fees, rents, rates and other charges proposed for the use of the Projects, which shall be fixed so as to be sufficient, in the aggregate, together with other available moneys, to cover all of the costs and transfers to reserves as aforesaid allocable to the Projects. The Certified Amount shall be paid from Revenues generated from Specific Revenue Projects, University Eligible Gifts (as defined in Appendix D-3), Authority Eligible Gifts (as defined in Appendix D-3), other available Revenues of the Authority and, in the case of Projects financed by the 2008-1 Bonds, all funds of the University permitted by law to be applied thereto, including without limitation amounts available in the University's Unrestricted Net Assets (as defined in Appendix D-3). See Appendix D-3 – "Summary of the Contract."

Under the Contract, the University Trustees pledge to the making of payments required thereunder all available funds of the University, including trust funds and other funds administered by the University Trustees as gifts, grants or trusts, or as provided in the University enabling act.

The University shall cause to be available in the Unrestricted Net Assets at all times amounts sufficient to pay such portion of the Certified Amount required to be paid therefrom and to provide for any other payments required under the Prior Contracts or under the HEFA Financing Agreements (as defined in Appendix D-3). See Appendix D-3 – "Summary of the Contract."

On or before June 1, 2008, and on or before April 1 of each year thereafter, the President of the University or the Vice President for Management and Fiscal Affairs and Treasurer of the University, or such other officer as delegated pursuant to the provisions of the Contract, shall certify in writing to the Authority whether or not there are sufficient funds in the Unrestricted Net Assets to pay the amounts so required to be paid therefrom and, if so, that such funds will be held in trust in the Unrestricted Net Assets for the equal and ratable benefit of the Authority and each other person or entity for whose benefit amounts will be applied to the payment of amounts required to be paid therefrom and will not be expended for any other purpose. Such funds will be so held and not expended for any other purpose; provided, however, that if any portion of the Certified Amount is paid from University Eligible Gifts, Authority Eligible Gifts, other Authority revenues or Revenues from Specific Revenue Projects, then after any such payment an amount equal to such portion so paid need no longer be held in the Unrestricted Net Assets.

If such certification states that sufficient funds are not available in the Unrestricted Net Assets to pay such amounts, such certification shall state the amount of funds in the Unrestricted Net Assets that are available to pay a portion of such amounts and a ratable portion of such funds in the Unrestricted Net Assets shall be held in trust for the benefit of the Authority to be applied to the payment pro rata of all amounts payable to or for the account of the Authority from the Unrestricted Net Assets. The University will continue to be obligated to pay any portion (or, if applicable, all) of the Certified Amount payable from all funds of the University permitted by law to be applied thereto notwithstanding any shortfall in amounts available in the Unrestricted Net Assets.

If such certification states that sufficient funds are not available in the Unrestricted Net Assets to pay such amounts, or if the Authority has not received such certificate as required by the Contract, the Authority will promptly adopt or revise mandatory fees, rates, rents and other charges for the use of the Projects and any portion thereof to be charged and billed to and collected from students in the University and provide for the billing, collection and remittance of such fees rates, rents and other charges by the University Trustees at such times and in such manner as in the judgment of the Authority will produce moneys sufficient and available to meet the requirements hereof. The Authority shall promptly notify the University Trustees in writing of the matters set forth in the foregoing sentence. Although the Contract requires that any fixing or revision of charges by the Authority receive the prior written approval of the University Trustees, the University Trustees have agreed in the Contract to approve, and have agreed to confirm such approval from time to time, all fees, rents, rates and other charges adopted or revised by the Authority as described in this paragraph and have agreed to cause the same to be billed to and collected from students in the University as the Authority may provide and remitted as the Authority may provide.

All moneys collected, received or set aside by the University Trustees to be transmitted to the Authority are stated by the Contract to be collected or received for the account of the Authority in trust to be held and applied solely as provided in the Enabling Act and the Contract.

### **Rate Covenant**

Under the Trust Agreement, the Authority covenants that it will fix revise, adjust and collect Charges for the use of each Project and any other projects or property the Revenues from which are pledged under the Trust Agreement to provide Revenues sufficient in the aggregate to pay all expenses of the Authority allocable to projects financed or refinanced under such Trust Agreement and debt service on all bonds issued and outstanding under such Trust Agreement, all as set forth in Appendix D-1 – “Summary of Certain Provisions of the Trust Agreement.”

### **Additional Indebtedness**

The Trust Agreement provides that the Authority may issue additional bonds on a parity with or subordinate to the Bonds issued under the Trust Agreement. See Appendix D-1 – “Summary of Certain Provisions of the Trust Agreement.” On the date of issuance of the Series 2008-1 Bonds, the Authority expects to issue its Series 2008-A Bonds and, within thirty (30) days thereof, expects to issue its Series 2008-2 Bonds (see “INTRODUCTION,” herein) which will be on parity with the Bonds.

Pursuant to the Financing Agreement dated as of September 12, 2006 by and between Massachusetts Health and Educational Facilities Authority (“MHEFA”) and the University, acting in the name and on behalf of the Commonwealth, and pursuant to the Loan and Trust Agreement dated as of September 12, 2006 among MHEFA, the University and Chittenden Trust Company, as Trustee providing for the issue of Massachusetts Health and Educational Facilities Authority Revenue Bonds, University of Massachusetts Issue, Series D (2007), Worcester City Campus Corporation Issue (University of Massachusetts Project) Series E (2007) and Worcester City Campus Corporation Issue (University of Massachusetts Project) Series F (2007), the University agreed not to request or permit the Authority to issue additional indebtedness on behalf of the University except (i) indebtedness that is payable from all available funds of the University or (ii) indebtedness secured by pledged revenues derived from the project or projects being financed, new or increased student fees, existing pledged revenues or any combination of the foregoing, provided, that the maximum annual debt service on all such revenue-backed indebtedness then outstanding, including the additional indebtedness, does not exceed 10% of the amount shown on the then most recent audited financial statements of the University as total available revenues. In addition, no such indebtedness shall be subject to acceleration.

For a description of the Authority’s bonds outstanding under the Trust Agreement and the Trust Agreement dated as of December 1, 2000 between the Authority and the Trustee (the “Facilities Trust Agreement”), see Appendix B.

For information regarding the University’s capital plans and means for funding its future capital plans, see Appendix A, hereto under the caption “Current and Future Capital Plans.” In addition, for a discussion of additional Bonds expected to be issued to refund the Authority’s Series 2006-1 Bonds, see “THE AUTHORITY” herein under the caption “General”.

## **SUMMARY OF CERTAIN PROVISIONS OF THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT**

The following is a summary of certain provisions of the Letter of Credit and Reimbursement Agreement, dated as of April 1, 2008 (the “Reimbursement Agreement”), by and between the University of Massachusetts Building Authority and Lloyds TSB Bank plc, New York Branch. This summary is not to be considered a full description of the Reimbursement Agreement or the Letter of Credit issued pursuant thereto, and reference is made to the Reimbursement Agreement and the Letter of Credit for full recital of the provisions thereof. Various words or terms used in the following summary are defined in this Official Statement, the Reimbursement Agreement and the Letter of Credit, and reference thereto is made for full understanding of their import.

## General

Subject to the conditions precedent set forth in the Reimbursement Agreement, the Bank agrees to issue the Letter of Credit, dated the date of the initial delivery of the Series 2008-1 Bonds, in substantially the form attached to the Reimbursement Agreement, with such changes to such form as the Authority and the Bank shall agree are necessary or advisable (see Appendix H – Form of Letter of Credit). The Letter of Credit shall specify the Stated Amount, which (a) initially shall be \$248,905,975, representing the aggregate principal amount of the Series 2008-1 Bonds as of the date of initial delivery plus interest thereon for a period of 214 days at an assumed rate equal to 12.00% per annum and computed on the basis of actual days elapsed and a year of 365 days and (b) from and after receipt by the Bank from the Trustee of a certificate designating the effective date of a reduction in the interest portion thereof, and subject to reduction and reinstatement as provided therein, shall be \$248,370,803, representing the aggregate principal amount of the Series 2008-1 Bonds as of the date of initial delivery plus interest thereon for a period of 207 days at an assumed rate equal to 12.00% per annum and computed on the basis of actual days elapsed and a year of 365 days.

The Letter of Credit automatically shall expire at the close of business on the earliest of: (a) April 23, 2013; provided that, if the Bank provides the Trustee with a written notice that the Letter of Credit shall be extended, the term of the Letter of Credit shall be extended to the date provided in such notice; (b) the Bank's receipt from the Trustee of a certificate, appropriately completed, together with the Letter of Credit; and (c) ten (10) days after the Trustee has received notice from the Bank stating that an Event of Default has been declared under the Reimbursement Agreement, stating that the Letter of Credit will be terminated and demanding that the Trustee cause the Series 2008-1 Bonds to be redeemed pursuant to the Series Resolution. In the event such expiration date shall not be a Business Day (as hereinafter defined), then the Letter of Credit shall expire on the next succeeding Business Day. As used herein, "Business Day" means any day other than (i) a Saturday or Sunday or (ii) a day on which the New York Stock Exchange or the Bank's office at which demands for payment under this Letter of Credit are required to be made are closed.

If the Authority submits to the Bank a written request for an extension of the expiration date of a Letter of Credit for a period as specified in such written request (but not to exceed three (3) years), the Bank will make reasonable efforts to respond to such request forty-five (45) days prior to the expiration date. In the event the Bank fails to definitively respond to such request prior to such time, the Bank shall be deemed to have refused to grant the extension requested. The Bank may, in its sole and absolute discretion, decide to accept or reject any such proposed extension and no extension shall become effective unless the Bank shall have consented thereto in writing. If such an extension request is accepted by the Bank in its absolute discretion, the then current expiration date for such Letter of Credit shall be extended to the date agreed by the Authority and the Bank.

## Events of Default

The Reimbursement Agreement provides that each of the following events will constitute an "Event of Default" thereunder:

- (a) the Authority shall fail to pay when due (i) any amount due under the Reimbursement Agreement in respect of the reimbursement of drawings under the Letter of Credit or due under the Series 2008-1 Bonds (including any Bank Bonds) or (ii) any other amount due under the Reimbursement Agreement, the Fee Letter or the Bank Note, other than those described in sub-clause (a)(i), and such amount remains unpaid for five (5) Business Days after the Authority receives written notice of such failure from the Bank;
- (b) the Authority shall fail to observe or perform any covenant or agreement contained in specified sections of the Reimbursement Agreement;
- (c) the Authority shall fail to observe or perform any of the covenants, conditions or provisions of the Reimbursement Agreement (other than as specified in (a) and (b) above) and such failure, if capable of being cured, is not cured within thirty (30) days after receipt by the Authority from the Bank of written notice of such failure;
- (d) any representation, warranty, certification or statement of the Authority in the Reimbursement Agreement or any Related Document or in any certificate or other document delivered pursuant to the Reimbursement Agreement or any Related Document shall prove to have been incorrect in any material respect when made;

- (e) the Authority shall fail to pay when due any amount payable on any Parity Debt in an aggregate principal amount in excess of \$5,000,000, as and when the same shall become due;
- (f) an “event of default” shall have occurred and be continuing under, and as defined in, the Trust Agreement or (ii) an “event of default” shall have occurred and be continuing under, and as defined in, any of the other Bond Documents;
- (g) a judgment or court order for the payment of money in excess of \$5,000,000 shall be rendered against the Authority, and such judgment or court order shall continue unsatisfied or unstayed for a period of forty-five (45) consecutive days;
- (h) (i) any material provision of the Reimbursement Agreement, any Parity Debt, the Series 2008-1 Bonds (including the Bank Bonds), the Bank Note or any other Related Document ceases, at any time and for any reason, to be valid and binding on the Authority, or shall be declared null and void, or the validity or enforceability thereof is contested by the Authority, or (ii) any provision of the Enabling Act relating to the ability or the obligation of the Authority to repay its obligations under the Reimbursement Agreement or the Authority’s ability or obligation to repay when due any Parity Debt, the Series 2008-1 Bonds (including any Bank Bonds) or the Bank Note, or the security for any of the foregoing, ceases, at any time and for any reason, to be valid and binding on the Authority, or shall be declared null and void, or the validity or enforceability thereof is contested by the Authority;
- (i) the Authority makes an assignment for the benefit of creditors, files a petition in bankruptcy, is unable generally to pay its debts as they come due, is adjudicated insolvent or bankrupt or there is entered any order or decree granting relief in any involuntary case commenced against it under any applicable bankruptcy, insolvency or similar law now or hereafter in effect; or if the Authority petitions or applies to any tribunal for any receiver, trustee, liquidator, assignee, custodian, sequestrator or other similar official of it, or of any substantial part of its properties, or commences any proceeding in a court of law for a reorganization, readjustment of debt, dissolution, liquidation or other similar procedure under the law or statutes of any jurisdiction, whether now or hereafter in effect; or if there is commenced against the Authority any such proceeding in a court of law which remains undismissed or shall not be discharged, vacated or stayed, or such jurisdiction shall not be relinquished, within sixty (60) days after commencement; or the Authority by any act indicates its consent to, approval of, or acquiescence in any such proceeding in a court of law, or to an order for relief in an involuntary case commenced against it under any such law, or to the appointment of any receiver, trustee, liquidator, assignee, custodian, sequestrator or other similar official for it or a substantial part of its properties; or if the Authority suffers any such receivership, trusteeship, liquidation, assignment, custodianship, sequestration or other similar procedure to continue undischarged for a period of sixty (60) days after commencement or if the Authority takes any action for the purposes of effecting the foregoing;
- (j) (i) any amendment to the Constitution of the Commonwealth or any amendment to the Enabling Act or any other statute is enacted which materially adversely affects the enforceability of the Reimbursement Agreement or the Bank Note against the Authority, or (ii) the Authority or the Commonwealth takes or permits to be taken any action which materially adversely affects the ability or the obligation of the Authority to repay its reimbursement obligations under the Reimbursement Agreement or under the Bank Note or the Series 2008-1 Bonds (including the Bank Bonds) or limits or restricts the sources to which the Bank may look for the payment of such reimbursement obligations, the Bank Note or the Series 2008-1 Bonds (including the Bank Bonds);
- (k) any event or circumstance occurs which materially and adversely affects the ability of the Authority to perform its ability to perform or its obligation to perform under, and in strict accordance with the terms of, the Reimbursement Agreement, the Bank Note, the Series 2008-1 Bonds (including the Bank Bonds) or the Bond Documents; and
- (l) any Rating Agency shall have (i) assigned to any unenhanced, long-term Parity Debt a rating below “BBB-”, in the case of Fitch or S&P, (ii) withdrawn its ratings of any unenhanced, long-term Parity Debt, other than as a result of debt maturity, redemption, defeasance, nonapplication or nonprovision of information, or (iii) suspended their ratings of any unenhanced, long-term Parity Debt, other than as a result of debt maturity, redemption, defeasance, nonapplication or nonprovision of information.

## Remedies

Upon the occurrence and continuation of an Event of Default, the Bank, in its sole discretion (a) may deliver a notice to the Authority for purposes of increasing the Bank Rate payable on the Bank Bonds and all Reimbursement Obligations to the Default Rate, (b) may deliver a notice to the Remarketing Agent instructing the Remarketing Agent not to remarket any Bonds and not to deliver any Notice of Purchase pursuant to the provisions of the Reimbursement Agreement, (c) may deliver to the Trustee written notice that an Event of Default has been declared under the Reimbursement Agreement, which notice may also include a demand for mandatory tender of the Series 2008-1 Bonds pursuant to the Resolution, (d) may deliver to the Trustee written notice that an Event of Default has been declared under the Reimbursement Agreement, which notice may also include a demand that the Series 2008-1 Bonds be redeemed pursuant to the Resolution; *provided*, that the remedy referred to in this clause (d) shall not be permitted if the Event of Default consists of a failure to reimburse the Bank for an Interest Drawing, or (e) may exercise any other rights or remedies available under the Reimbursement Agreement or under any Related Document, subject to the terms and conditions of such Related Document, any other agreement or at law or in equity. If the Event of Default is the failure by the Authority to reimburse the Bank, on a timely basis, for an Interest Drawing under the Letter of Credit, the Bank may, no later than the tenth (10<sup>th</sup>) day following such Drawing, take the action referred to in clause (d) of this paragraph, with the written notice delivered to the Trustee to include the statement that the Letter of Credit will not be reinstated. The Bank shall deliver to the Authority a copy of any notice delivered to the Trustee pursuant to clause (a), (b), (c) or (d) above; *provided*, that the failure of the Bank to do so shall not affect the remedy referred to in clause (a), (b), (c) and (d) above. The rights and remedies of the Bank specified in the Reimbursement Agreement are for the sole and exclusive benefit, use and protection of the Bank, and the Bank is entitled, but shall have no duty or obligation to the Authority, the Trustee, the Bondholders or otherwise, (i) to exercise or to refrain from exercising any right or remedy reserved to the Bank under the Reimbursement Agreement, or (ii) to cause the Trustee or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Related Documents.

## Alternate Credit Facility

The Series Resolution provides that the Authority may provide for delivery to the Trustee of an Alternate Credit Facility subject to certain conditions, including the delivery to the Trustee of (i) an Alternate Credit Facility in substitution for the Credit Facility then in effect, (ii) an opinion of Bond Counsel, and (iii) written evidence satisfactory to the Credit Facility Provider of the provision for purchase from the Credit Facility Provider of all Bank-Owned Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Credit Facility Agreement on or before the effective date of such Alternate Credit Facility. The Trustee shall give notice of such proposed substitution by mail to the Owners of the Series 2008-1 Bonds subject to mandatory purchase no less than thirty (30) days prior to the proposed Substitution Date.

## The Bank

See Appendix G – “Certain Information Regarding the Bank” for a summary description and certain financial information of the Bank.

## ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each fiscal year ending June 30 the debt service for the Series 2008-1 Bonds and on all outstanding bonds of the Authority issued under the Trust Agreement and the Facilities Trust Agreement, excluding the Series 2008-A Bonds, as of the date of issuance of the Series 2008-1 Bonds, including principal (whether at maturity or by mandatory sinking fund redemption), interest and total debt service.

<u>Fiscal Year Ended June 30</u>	<u>Debt Service on Outstanding Authority Bonds*</u>	<u>Principal of Series 2008-1 Bonds</u>	<u>Interest on Series 2008-1 Bonds**</u>	<u>Total Debt Service Requirements for Series 2008-1 Bonds</u>	<u>Total Debt Service on Authority Bonds</u>
2008	\$54,301,782	-	-	-	\$54,301,782.00
2009	54,270,633	\$5,425,000	\$8,031,820.08	\$13,456,820.08	67,727,453.08
2010	54,288,036	5,645,000	7,694,825.60	13,339,825.60	67,627,861.60
2011	54,312,885	6,355,000	7,503,573.00	13,858,573.00	68,171,458.00
2012	53,777,724	6,605,000	7,288,265.60	13,893,265.60	67,670,989.60
2013	52,486,568	6,860,000	7,064,488.20	13,924,488.20	66,411,056.20
2014	51,133,219	7,125,000	6,832,071.40	13,957,071.40	65,090,290.40
2015	48,214,967	7,405,000	6,590,676.40	13,995,676.40	62,210,643.40
2016	46,210,282	7,700,000	6,339,795.00	14,039,795.00	60,250,077.00
2017	43,276,824	7,995,000	6,078,919.00	14,073,919.00	57,350,743.00
2018	43,297,046	8,315,000	5,808,048.40	14,123,048.40	57,420,094.40
2019	43,299,071	8,635,000	5,526,336.20	14,161,336.20	57,460,407.20
2020	43,313,305	8,965,000	5,233,782.40	14,198,782.40	57,512,087.40
2021	43,310,838	9,320,000	4,930,048.20	14,250,048.20	57,560,886.20
2022	31,647,913	9,680,000	4,614,286.60	14,294,286.60	45,942,199.60
2023	31,683,112	10,060,000	4,286,328.20	14,346,328.20	46,029,440.20
2024	31,725,955	10,460,000	3,945,495.40	14,405,495.40	46,131,450.40
2025	23,999,355	10,865,000	3,591,110.60	14,456,110.60	38,455,465.60
2026	24,012,287	11,290,000	3,223,004.40	14,513,004.40	38,525,291.40
2027	20,843,044	11,725,000	2,840,499.20	14,565,499.20	35,408,543.20
2028	20,191,469	12,190,000	2,443,256.20	14,633,256.20	34,824,725.20
2029	19,511,635	10,980,000	2,030,259.00	13,010,259.00	32,521,894.00
2030	16,687,105	11,405,000	1,658,256.60	13,063,256.60	29,750,361.60
2031	6,512,539	11,855,000	1,271,855.20	13,126,855.20	19,639,394.20
2032	6,525,110	12,315,000	870,207.80	13,185,207.80	19,710,317.80
2033	6,535,281	12,795,000	452,975.60	13,247,975.60	19,783,256.60
2034	6,547,792	105,000	19,481.00	124,481.00	6,672,273.00
2035	6,562,295	110,000	15,923.60	125,923.60	6,688,218.60
2036	-	115,000	12,196.80	127,196.80	127,196.80
2037	-	120,000	8,300.60	128,300.60	128,300.60
2038	-	125,000	4,235.00	129,235.00	129,235.00

\* Interest on the Authority's Project and Refunding Revenue Bonds, Senior Series 2006-1, issued as variable rate debt, currently outstanding in the principal amount of \$240,620,000 and amortizing in accordance with the terms thereof, is assumed at the rate of 3.482% based on the fixed rate being paid to a counterparty under an interest rate swap agreement effective with respect to such portion of the outstanding bonds of the Authority.

\*\* Interest on the Series 2008-1 Bonds is assumed at the rate of 3.388% based on the fixed rate being paid to the 2008-1 Swap Counterparty. See "THE SERIES 2008-1 BONDS - Plan of Finance; Interest Rate Swap" herein.

## BOOK-ENTRY-ONLY SYSTEM

### DTC

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2008-1 Bonds. The Series 2008-1 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2008-1 Bond certificate will be issued for each stated maturity of Series 2008-1 Bonds, in the aggregate principal amount of the applicable stated maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Participants" or "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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Series 2008-1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008-1 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008-1 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008-1 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 Series 2008-1 Bonds, except in the event that use of the book-entry system for the Series 2008-1 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008-1 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2008-1 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008-1 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008-1 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 DTC. If less than all of the Series 2008-1 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2008-1 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008-1 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008-1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2008-1 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 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, the Trustee 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 Trustee, 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 Series 2008-1 Bonds purchased or tendered, through its Participant, to the Trustee and the Remarketing Agent, and shall effect delivery of such Series 2008-1 Bonds by causing the Direct Participant to transfer the Participant’s interest in the Series 2008-1 Bonds, on DTC’s records, to the Trustee. The requirement for physical delivery of the Series 2008-1 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2008-1 Bonds are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Series 2008-1 Bonds to Trustee’s DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2008-1 Bonds at any time by giving reasonable notice to the Authority or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2008-1 Bond certificates are required to be printed and delivered.

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, Series 2008-1 Bond certificates will be printed and delivered to DTC.

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

#### **No Responsibility of the Authority or the Trustee**

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2008-1 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OF THE SERIES 2008-1 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2008-1 BONDS.

#### **Certificated Bonds**

DTC may discontinue providing its services as securities depository with respect to the Series 2008-1 Bonds at any time by giving reasonable notice to the Authority and 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 of the Series 2008-1 Bonds. If for either reason the Book-Entry Only system is discontinued, Series 2008-1 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 holder of such Series 2008-1 Bond. Thereafter, the Series 2008-1 Bonds may be exchanged for an equal aggregate principal amount of the Series 2008-1 Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of the Series 2008-1 Bonds may be registered on the books maintained by the Trustee for such purpose only upon the assignment in the form satisfactory to the Trustee. For every exchange or registration of transfer of the Series 2008-1 Bonds, the Authority and the Trustee 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 holder of such Series 2008-1 Bond for any exchange or registration of transfer of the Series 2008-1 Bonds. The Trustee will not be required to transfer or

exchange the Series 2008-1 Bonds during the notice period preceding any redemption if such Series 2008-1 Bonds (or any part thereof) is eligible to be selected or has been selected for redemption.

## **THE AUTHORITY**

### **General**

The Authority was created by the Enabling Act as a body politic and corporate and a public instrumentality placed in the Commonwealth's Department of Education, but not subject to the supervision or regulation of that Department or of any other department, commission, board, bureau or agency of the Commonwealth except as specifically provided in the Enabling Act.

The Authority was created for the general purpose of aiding and contributing to the performance of the educational and other purposes of the University by providing dormitories, dining commons and other buildings and structures primarily (i) for the use of the University, its students, staff and their dependents, (ii) for lease to or use by an organization or association of students or others, the activities of which are a part of the activities at the University and subject to regulation by the University Trustees, (iii) for a research foundation or other research organization the operation of which in conjunction with the University is approved by the University Trustees, or (iv) any other entity the activities of which are approved by the University Trustees as furthering the purposes of the University.

The Enabling Act prohibits the Authority from initiating any project except upon request made by authority of the University Trustees and upon written approval from the Commissioner of Administration of the Commonwealth. In connection with the Series 2008-1 Bonds, such request has been made and all such approvals have been obtained.

The Authority is empowered, among other things, to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct, remodel and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Enabling Act authorizes the Authority, among other things, to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes and to issue and sell its revenue bonds and notes therefor payable solely from its revenues.

The Enabling Act establishes a \$200,000,000 limit on the total outstanding principal amount of notes and bonds issued by the Authority which are guaranteed by the Commonwealth (excluding refunded notes or bonds), of which \$25,655,000 were outstanding as of June 30, 2007. The Series 2008-1 Bonds are not guaranteed by the Commonwealth. The Authority is issuing the Series 2008-A Bonds on the same date as the Series 2008-1 Bonds. The Series 2008-A Bonds are being issued in the principal amount of \$26,580,000 and are guaranteed by the Commonwealth. The Enabling Act requires approval by the Treasurer and Receiver General of the Commonwealth and the Commissioner of Administration of the Commonwealth, or by their designees, of the sale and terms of bonds or notes sold by the Authority, which approval the Authority will obtain prior to the sale of the Series 2008-1 Bonds.

The Authority is considering issuing additional Commonwealth guaranteed bonds to refund a portion of its Project and Refunding Revenue Bonds, Senior Series 2006-1 currently outstanding in the principal amount of \$240,820,000 (the "Series 2006-1 Bonds"). The Series 2006-1 Bonds are insured by Ambac Assurance Corporation and supported by a standby bond purchase agreement provided by Depfa Bank plc. As of April 14, 2008, Series 2006-1 Bonds in the principal amount of \$40,445,000 have been tendered for purchase by the holders thereof and not remarketed. The portion of the Series 2006-1 Bonds not refunded with Commonwealth guaranteed bonds are expected to be refunded through the issuance of additional Senior Bonds under the Trust Agreement.

## Members, Officers and Staff

The Authority consists of eleven members appointed by the Governor of the Commonwealth, five of whom shall be appointive members of the University Trustees and may, but need not, be graduates of the University, and two others of whom shall be graduates of the University. Members from the University Trustees serve while they are University Trustees; each other member serves for a term expiring on June 30 in the sixth calendar year after the calendar year in which his or her term began (unless appointed to fill a vacancy in which case such member shall serve for the unexpired term). Each member continues in office until his or her successor is appointed and qualified. The Authority annually elects a chairman and vice-chairman from its members and also elects a secretary-treasurer and may elect an assistant secretary-treasurer, neither of whom needs to be a member of the Authority. There is currently one vacancy in the members of the Authority.

The present members and officers of the Authority and the dates of expiration of their respective terms are as follows:

<u>Member's Name, Position, Residence and Profession</u>	<u>Date of Appointment</u>	<u>Term Expires</u>
William E. Giblin, Chair, Wareham President and Chief Executive Officer, Tweave, Inc.	1996	June 30, 2009
Robert K. Sheridan, Vice Chair, Hingham Chief Executive Officer, Savings Bank Life Insurance	2002	June 30, 2013
Paul J. Carney, Secretary-Treasurer, Portsmouth, New Hampshire	2006	June 30, 2011
Matthew E. Carlin,* Member, Natick President and Chief Executive Officer, Resource Options, Inc.	2006	September 1, 2009
Robert L. Fortes, Member, Boston Assistant General Manager for Strategic Planning, Performance & Accountability, MBTA	2006	June 30, 2012
William F. Kennedy, Member, Quincy Attorney, Nutter McClennen & Fish, LLP	2002	June 30, 2010
Richard J. Lawton,* Member, North Easton Attorney	2006	September 1, 2011
Robert J. Manning,* Member, Swampscott Chief Executive Officer, MFS Investment Management	2006	September 1, 2011
Brian W. McNally, Member, Sudbury Principal, Atlantic Benefit Group	2007	June 30, 2008
Stephen P. Tocco,* Member, Reading President and Chief Executive Officer, ML Strategies <sup>†</sup>	2006	September 1, 2011

\* University Trustee

<sup>†</sup> ML Strategies is an affiliate of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., bond counsel to the Authority.

David J. MacKenzie is the Executive Director of the Authority. Prior to his appointment in 2004, Mr. MacKenzie was the Vice Chancellor for Administration and Finance at the Boston campus of the University. Mr. MacKenzie has also served as the Interim Chancellor at the UMass Boston and at the UMass Lowell campuses, as General Counsel to the Massachusetts Health and Educational Facilities Authority and as the Staff Director of the Massachusetts Senate Committee on Ways and Means.

Steven W. Dansby is the Chief Financial Officer and Assistant Secretary-Treasurer of the Authority. Mr. Dansby has previously served as Chief Financial Officer of the Massachusetts Housing Partnership Fund and American Red Cross of Massachusetts Bay. He has also served as Director of Administration and Finance of the Massachusetts Health and Educational Facilities Authority.

The Authority maintains offices at 225 Franklin Street, 12th Floor, Boston, Massachusetts 02110. The Authority's telephone number is (617) 287-3200.

For information about outstanding indebtedness of the Authority, see Appendix A under the heading "Indebtedness of the University - University of Massachusetts Building Authority." See Appendix B for a copy of the Authority's audited financial statements for the fiscal year ended June 30, 2007.

### **LITIGATION**

There is no litigation of any nature now pending or, to the knowledge of the Authority or its independent general counsel, threatened seeking to restrain or enjoin or restraining or enjoining the issuance, sale, execution or delivery of the Series 2008-1 Bonds or in any way contesting the validity of the Series 2008-1 Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the validity of the Contract, or any proceedings of the Authority or of the Commonwealth taken with respect thereto, or of the pledge of any moneys or security provided under the Trust Agreement for the payment of the Series 2008-1 Bonds or the existence or powers of the Authority or the titles of its officers to their offices.

See Appendix A under the caption "Litigation" for a discussion of material litigation against the University.

### **LEGALITY FOR INVESTMENT**

As declared by the Enabling Act, the Series 2008-1 Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all savings banks, insurance companies, trust companies in their commercial departments, and, within the limits set by Section 40 of Chapter 172 of the General Laws of the Commonwealth, banking associations, investment companies, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereto be authorized to invest in bonds or other obligations of a similar nature, may properly and legally invest funds, including capital, in their control or belonging to them. The Series 2008-1 Bonds are securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereto be authorized by law.

### **TAX MATTERS**

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Authority, is of the opinion that, under existing law, interest on the Series 2008-1 Bonds will not be included in the gross income of the holders of the Series 2008-1 Bonds for federal income tax purposes. In rendering its opinions, Bond Counsel will rely upon certificates of the Authority with respect to certain material facts solely within the Authority's knowledge relating to the Projects and the application of the proceeds of the Series 2008-1 Bonds and will rely on certificates of the University with respect to certain material facts solely within the University's knowledge relating to the Projects. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied subsequent to the date of issuance of the Series 2008-1 Bonds in order to ensure that interest on the Series 2008-1 Bonds is and continues to be excludable from the gross income of the holders thereof. Failure to so comply could cause the interest on the Series 2008-1 Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of the Series 2008-1 Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds and payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Authority and the University have provided covenants and certificates as to its respective continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, interest on the Series 2008-1 Bonds will not constitute a preference item under section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under section 55 of the Code. However, interest on the Series 2008-1 Bonds will be included in "adjusted current earnings" of corporate holders of the Series 2008-1 Bonds and therefore will be taken into account under section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to other federal tax consequences of holding the Series 2008-1 Bonds. However, prospective purchasers should be aware that (i) section 265 of the Code denies a deduction for interest on

indebtedness incurred or continued to purchase or carry the Series 2008-1 Bonds or, in the case of a financial institution, that portion of the holder's interest expense allocated to the Series 2008-1 Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(1) reduces the deduction for losses incurred by 15% of the sum of certain items, including interest on the Series 2008-1 Bonds, (iii) interest on the Series 2008-1 Bonds earned by certain foreign corporations doing business in the United States could be subject to a foreign branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Series 2008-1 Bonds, may be subject to federal income taxation under section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds and (vi) receipt of investment income, including interest on the Series 2008-1 Bonds, may, pursuant to section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit otherwise provided by section 32(a) of the Code.

Interest paid on tax-exempt obligations such as the Series 2008-1 Bonds is now generally required to be reported by payors to the Internal Revenue Service ("IRS") and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to "backup withholding" if the Owner of such Series 2008-1 Bond fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has specifically identified the Owner as being subject to backup withholding because of prior underreporting. Neither the information reporting requirement nor the backup withholding requirement affects the excludability of interest on the Series 2008-1 Bonds from gross income for federal tax purposes.

In the opinion of Bond Counsel, interest on the Series 2008-1 Bonds and any profit made on the sale thereof are also exempt from Massachusetts personal income taxes and the Series 2008-1 Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to the other Massachusetts tax consequences resulting from holding the Series 2008-1 Bonds. However, prospective purchasers should be aware that the Series 2008-1 Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Series 2008-1 Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series 2008-1 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of states other than the Commonwealth.

Prospective purchasers should be aware that the statutory framework on which the exemption from Massachusetts taxation is based is similar to that at issue in *Department of Revenue of Finance and Admin. Cabinet v. Davis*, 127 S.Ct. 2451 (U.S. May 21, 2007) (NO. 06-666), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding bonds, including the Series 2008-1 Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal bonds, either of which could affect the market price of the Series 2008-1 Bonds.

On the date of delivery of the Series 2008-1 Bonds, the original purchasers of the Series 2008-1 Bonds will be furnished with an opinion of Bond Counsel substantially in the form shown in "Proposed Form of Opinion of Bond Counsel" attached hereto as Appendix E.

## RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc. ("S&P"), have assigned the Series 2008-1 Bonds the long term ratings of "AA+" and "AA", respectively, and have assigned the Series 2008-1 Bonds the short-term ratings of "F1+" and "A-1+", respectively, assuming delivery of the Letter of Credit and based on the credit quality of the Bank. Without regard to the Bank or the Letter of Credit, Fitch and S&P have assigned the Series 2008-1 Bonds the long-term ratings of "A+" and "A+", respectively. The ratings may be changed upon a change in the rating of the Bank.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will

continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Series 2008-1 Bonds.

### **LEGAL MATTERS**

All legal matters related to the authorization and issuance of the Series 2008-1 Bonds are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel for the Authority. The approving opinion of Bond Counsel, substantially in the form attached hereto as Appendix E, will be delivered on the date of delivery of the Series 2008-1 Bonds. Certain matters will be passed upon for the Authority by its counsel, Burns & Levinson LLP, Boston, Massachusetts, for the Underwriter by its counsel, McCarter & English, LLP, Boston, Massachusetts, and for the Bank by its by its domestic counsel, Nixon Peabody, LLP, New York, New York, and by the Bank's English counsel.

### **DISCLOSURE CERTIFICATES**

At the time of delivery of the Series 2008-1 Bonds, an Authorized Officer of the Authority will furnish a certificate to the effect that, to the best of his knowledge and belief, the Official Statement as of its date and as of the date of delivery of the Series 2008-1 Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading. To the extent that such certificate covers information regarding the University, the Executive Director of the Authority will rely solely upon the certificates of the University discussed in the following paragraph.

At the time of delivery of the Series 2008-1 Bonds, the President and Vice President for Management and Fiscal Affairs and Treasurer, of the University will deliver a certificate to the effect that, to the best of their knowledge and belief, the information set forth in the Official Statement relating to the University, as of the date of the Official Statement and the date of delivery of the Series 2008-1 Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase all of the Series 2008-1 Bonds from the Authority at a discount from the initial offering price of the Series 2008-1 Bonds equal to \$253,540. The Underwriter may offer and sell the Series 2008-1 Bonds to certain dealers (including dealers depositing the Series 2008-1 Bonds into investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The principal offering price of the Series 2008-1 Bonds set forth on the cover hereof may be changed from time to time after the initial offering by the Underwriter.

### **REMARKETING AGENT**

The initial Remarketing Agent shall be Lehman Brothers Inc. The Remarketing Agent will set interest rates on the Series 2008-1 Bonds and perform the other duties and remarket Series 2008-1 Bonds as provided for in the Series Resolution, subject to the provisions of the remarketing agreement with the Remarketing Agent. The Remarketing Agent may deal in Series 2008-1 Bonds for its own account or as broker or agent for others and may do anything any other Bondowner may do to the same extent as if the Remarketing Agent were not serving as such.

### **CERTAIN CONSIDERATIONS AFFECTING SALES OF VARIABLE RATE BONDS**

#### **The Remarketing Agent is Paid by the Authority**

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Series 2008-1 Bonds that are tendered pursuant to the optional or mandatory tender provisions of the Agreement by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Authority and is paid by the

Authority for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Series 2008-1 Bonds.

### **Tenders to the Trustee and the Remarketing Agent**

As described under “Book-Entry-Only System,” while the Series 2008-1 Bonds are in book-entry form, a beneficial owner may give notice to elect to tender its Series 2008-1 Bonds, through its Participant, to the Trustee and the Remarketing Agent, and may effect delivery of such Series 2008-1 Bonds by causing the Participant to transfer the Participant’s interest in the Series 2008-1 Bonds, on DTC’s records, to the Trustee. The requirement for physical delivery of Series 2008-1 Bonds in connection with an optional tender or a mandatory tender may be deemed satisfied when the ownership rights in the Series 2008-1 Bonds are transferred by Participants on DTC’s records and followed by a book entry credit of tendered Series 2008-1 Bonds to the Trustee’s DTC account. Tendering Bondowners will receive par, plus accrued interest, if any, after the required number of days’ notice have elapsed. For example, while the Series 2008-1 Bonds bear interest at the Weekly Rate, tendering Bondowners will receive par, plus accrued interest on the seventh Business Day following their tender to the Trustee. Tendering Bondowners will be paid with the proceeds of the remarketing of the Series 2008-1 Bonds and, to the extent those proceeds are insufficient, from the proceeds of draws on the Letter of Credit by the Trustee.

### **The Remarketing Agent Routinely Purchases Series 2008-1 Bonds for its Own Account**

The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations issued by many issuers and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Series 2008-1 Bonds for its own account and, in its sole discretion, routinely acquires such tendered Series 2008-1 Bonds in order to achieve a successful remarketing of the Series 2008-1 Bonds (*i.e.*, because there otherwise are not enough buyers to purchase the Series 2008-1 Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Series 2008-1 Bonds, and may cease doing so at any time without notice, in which case it may be necessary for the Trustee to draw on the Letter of Credit to pay tendering Bondowners.

The Remarketing Agent may also make a secondary market in the Series 2008-1 Bonds by routinely purchasing and selling Series 2008-1 Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, which may be at, above, or below par. No notice period is required for such purchases. However, the Remarketing Agent is not required to make a secondary market in the Series 2008-1 Bonds. Thus, investors who purchase the Series 2008-1 Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Series 2008-1 Bonds other than by tendering the Series 2008-1 Bonds in accordance with the tender process.

The Remarketing Agent may also sell any Series 2008-1 Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Series 2008-1 Bonds. The purchase of Series 2008-1 Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Series 2008-1 Bonds in the market than is actually the case. The practices described above also may result in fewer Series 2008-1 Bonds being tendered in a remarketing.

### **Series 2008-1 Bonds May be Sold at Prices Other Than Par**

Pursuant to the Series Resolution and the Remarketing Agreement, on each Determination Date, the Remarketing Agent is required to determine the interest rate that will be effective with respect to the Series 2008-1 Bonds on the first day of the Calculation Period. That rate is required by the Series Resolution to be the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Series 2008-1 Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon. The interest rate will reflect, among other factors, the level of market demand for the Series 2008-1 Bonds (including whether the Remarketing Agent is willing to purchase Series 2008-1 Bonds for its own account). There may or may not be Series 2008-1 Bonds tendered and remarketed on a Determination Date, and the Remarketing Agent may or may not be able to remarket any Series 2008-1 Bonds tendered for purchase on such date at par. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the Series 2008-1 Bonds at the remarketing price. If the Remarketing Agent owns Series 2008-

1 Bonds for its own account, in its sole discretion, it may sell those Series 2008-1 Bonds at fair market value, which may be at prices above or below par only on days other than the first day of the Calculation Period and Determination Dates after the interest rate for the succeeding Calculation Period has been set. The Remarketing Agent may not agree in advance of the first day of a Calculation Period to sell Series 2008-1 Bonds to a customer at a price below par.

**Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Series 2008-1 Bonds, Without a Successor Being Named**

Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Series Resolution and the Remarketing Agreement. In the event there is no Remarketing Agent, Bondowners will be required to tender their Series 2008-1 Bonds to the Trustee. In that event, the Series 2008-1 Bonds will bear interest at the rate determined as described above under “The Series 2008-1 Bonds - Description of the 2008-1 Bonds -Interest Rate Determination” as such section relates to the Remarketing Agent’s failure to determine the interest rate on the Series 2008-1 Bonds. Remarketing of Series 2008-1 Bonds will cease until a successor remarketing agent has been appointed, and tendering Bondowners will be paid from draws on the Letter of Credit.

**CONTINUING DISCLOSURE**

The Authority and the University will undertake to provide annual reports and notices of certain events. A description of these undertakings is set forth in Appendix F attached hereto.

To date, the Authority and the University have complied with all of their undertakings under paragraph (b)(5) of Rule 15c2-12.

**FINANCIAL ADVISOR**

Public Financial Management, Inc. (“PFM”) is serving as financial advisor to the Authority for the issuance of the Series 2008-1 Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities.

**FINANCIAL STATEMENTS OF THE AUTHORITY**

The financial statements of the Authority as of June 30, 2007 and for the fiscal year then ended, included in this Official Statement as Appendix B, have been audited by Carlin, Charron & Rosen, LLP, certified public accountants, as stated in their report, dated November 1, 2007, which report is also included in Appendix B.

**FINANCIAL STATEMENTS OF THE UNIVERSITY**

The financial statements of the University at June 30, 2007 and 2006, and for each of the fiscal years then ended, included in this Official Statement as Appendix C, have been audited by PricewaterhouseCoopers LLP, independent accountants, as set forth in their report dated December 19, 2007, which references the report of other auditors and which report is also included in Appendix C. Insofar as such financial statements, for the fiscal year ended June 30, 2007, relate to the financial statements of the Authority, such financial statements have been audited by Carlin, Charron & Rosen, LLP, certified public accountants, whose report thereon appears herein in Appendix B.

**MISCELLANEOUS**

All quotations from and summaries and explanations of the Enabling Act, the Trust Agreement, the Series Resolution, the Contract, the Reimbursement Agreement and the Swap Agreement contained herein do not purport to be complete and reference is made to said laws and documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Trust Agreement, the Series Resolution, the Contract, the Reimbursement Agreement and the Swap Agreement may be

obtained upon request directed to the University of Massachusetts Building Authority, 225 Franklin Street, 12<sup>th</sup> Floor, Boston, Massachusetts 02110, Attention: Executive Director.

Any statements in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2008-1 Bonds.

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

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**

By: /s/ David J. MacKenzie  
David J. MacKenzie  
Executive Director

**APPENDIX A**

**LETTER FROM THE UNIVERSITY**

[Intentionally Left Blank]

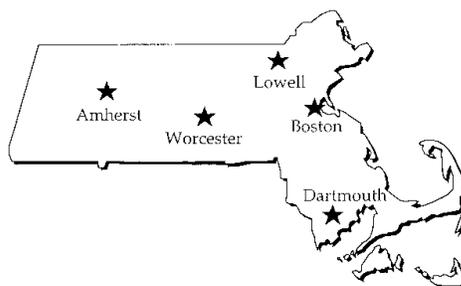
**APPENDIX A**

April 15, 2008

Members of the University of Massachusetts Building Authority:

In connection with the issuance by the University of Massachusetts Building Authority (the "Authority") of its Project Revenue Bonds, Senior Series 2008-1 (the "2008-1 Bonds"), we are pleased to submit the following information with respect to the University of Massachusetts (the "University" or "UMass") and other pertinent matters for inclusion in this Official Statement. Unless otherwise indicated by context, all utilization and financial data for any year refers to the fiscal year ended June 30. Unless otherwise indicated, the University is the source of all information included in this Appendix A.

### University of Massachusetts



The University is a state coeducational institution for higher education with separate campuses at Amherst, Boston, Dartmouth, Lowell and Worcester in The Commonwealth of Massachusetts (the "Commonwealth"). The University was established in 1863 in Amherst, under the provisions of the 1862 Morrill Land Grant Acts, as the Massachusetts Agricultural College. It became known as the Massachusetts State College in 1932 and in 1947 became the University of Massachusetts. The Boston and Worcester campuses were opened in 1965 and 1970, respectively. The Lowell and Dartmouth campuses (previously the University of Lowell and Southeastern Massachusetts University, respectively) were made a part of the University by a legislative act of the Commonwealth, effective September 1, 1991.

The fundamental mission of the University is to provide, within available resources, the highest possible quality of instruction, research and public service to the widest possible segment of the citizens of the Commonwealth. In the fall of 2007, the University enrolled approximately 51,069 full-time equivalent ("FTE") students. The University is committed to providing, without discrimination, diverse program offerings to meet the needs of the state's population. The University's five campuses are geographically dispersed throughout Massachusetts and possess unique and complementary missions.

### Amherst Campus

The Amherst campus, the University's flagship campus, is located approximately 90 miles west of Boston, and is the largest in the University system. With a student body of approximately 19,427 FTE undergraduate and approximately 4,332 FTE graduate students enrolled in the fall of 2007, the Amherst campus offers the most comprehensive and varied programs of the campuses in the University system, including liberal arts and professional programs, in addition to doctoral and research programs. It offers six associate-level programs and 88 bachelor's, 73 master's and 53 doctoral degree programs. During the 2006-2007 academic year, 83 associate, 4,235 bachelor and 1,479 advanced degrees were conferred. Students may enroll in the Commonwealth College (the

Commonwealth's honors college), School of Education, College of Engineering, College of Natural Resources and the Environment, College of Humanities and Fine Arts, Isenberg School of Management, School of Nursing, College of Natural Sciences and Mathematics, School of Public Health and Health Sciences, College of Social and Behavioral Sciences and the Stockbridge School of Agriculture, which offers associate level programs.

The 1,400-acre Amherst campus includes the 28-story W.E.B. Du Bois Library, containing approximately three million volumes as well as governmental documents and law collections, the 9,000-seat state-of-the-art multi-purpose arena, convocation center and theatre, the William D. Mullins Center, and 45 campus residence halls in six unique residential areas. The campus currently is experiencing its greatest period of renovation and construction since the 1960's. Over the next three years, the campus will add 4 new buildings, including a new central heating plant to maximize the production and use of energy and a landmark academic building will be completely renovated. The campus added four apartment style residences to its compliment of 41 existing residence halls and completely renovated one of its four dining commons to a state of the art food service facility. The 2006 report of *The Top American Research Universities (The Center)* ranks UMass 75<sup>th</sup> in total research among public research institutions. On a number of other measures of competitive success – national academy memberships, faculty awards, doctorates awarded, and postdoctoral appointees – the Amherst campus ranks in the top 50 among public research universities.

### **Boston Campus**

The 175-acre Boston campus, which is located three miles from downtown Boston on a harbor peninsula with the John F. Kennedy Presidential Library and the Massachusetts State Archives and Commonwealth Museum, is a non-residential campus. In April 2004, the Boston campus opened its new 331,000 square foot state-of-the-art Campus Center to better serve its students. The Boston campus focuses on the academic needs of the local urban and non-traditional population and the research and policy needs of businesses, government, and communities in the greater Boston metropolitan region. The Boston campus has a diverse student body, consisting of approximately 7,432 FTE undergraduate students and approximately 2,385 FTE graduate students enrolled in the fall of 2007. The Boston campus offers 81 undergraduate degree programs, 13 undergraduate certificate programs, 64 master's programs and graduate certificate programs and 14 doctoral programs (including tracks) through the College of Liberal Arts, College of Science and Mathematics, College of Management, College of Nursing and Health Science, College of Public and Community Service, McCormack School of Policy Studies and the Graduate College of Education. During the 2006-2007 academic year, 45 certificate, 1,418 bachelor and 832 advanced degrees were conferred.

The Boston campus is the only educational institution in the Northeast to share its campus with a presidential library. The students and faculty have access to the John F. Kennedy Library, as well as to the State Archives building, which houses valuable Massachusetts state government records. The Boston campus also has over 550,000 books and journals at its Healey Library. More recently, University officials are proposing to spend \$750 million over the next decade to build three academic buildings, two dormitories for 1,000 students, and a 1,000-space above-ground parking garage.

### **Dartmouth Campus**

UMass Dartmouth distinguishes itself as a vibrant public university actively engaged in personalized teaching and innovative research, and acting as an intellectual catalyst for regional economic, social, and cultural development. The Dartmouth campus has over 40 undergraduate and 27 graduate programs (including five at the Ph.D. level) offered by the College of Arts and Sciences, the Charlton College of Business, the College of Engineering, the College of Nursing, the College of Visual and Performing Arts and the School for Marine Science and Technology. The main campus, designed by the eminent architect Paul Rudolph, is located on 710 acres in North Dartmouth and is approximately 55 miles south of Boston and 35 miles east of Providence, Rhode Island. Other UMass Dartmouth sites include the Center for Marine Science and Technology on the waterfront in New Bedford, the Star Store Center for the Arts in New Bedford, and the Advanced Technology and Manufacturing Center in Fall River, a state-of-the-art technology facility for small business incubation.

The Dartmouth campus had approximately 7,064 FTE undergraduate and approximately 788 FTE graduate students enrolled in the fall of 2007. During the 2006-2007 academic year, 1,157 bachelor and 281 advanced

degrees were conferred. *U.S. News and World Report's 2008 Edition of America's Best Colleges* has ranked the University of Massachusetts as number one in New England and 11<sup>th</sup> among all northern publics, which in addition to Massachusetts, also includes New York, New Jersey, Pennsylvania, and Maryland. The campus – fully engaged in a strategic growth plan entitled Engaged, Embedded, Evolving – weaves its research, creative, and community service activities of faculty and graduate students into the undergraduate experience and into the economic and cultural life of southeastern Massachusetts. Areas of focus include marine science, bio-materials, public policy, K-12 schools, Portuguese-American Studies, and the creative economy.

### **Lowell Campus**

The Lowell campus, approximately 30 miles northwest of Boston on the Merrimack River, had a student body of approximately 6,883 FTE undergraduate and approximately 1,736 FTE graduate students in the fall of 2007. The Lowell campus offers five associate, 38 bachelor, 29 master and 15 doctoral degree programs within the College of Arts and Sciences, the College of Engineering, the School of Health and Environment, the College of Management and the Graduate School of Education. During the 2006-2007 academic year, 34 associate, 1,381 bachelor, and 577 advanced degrees were conferred.

The mission of the Lowell campus is to enhance the intellectual, cultural, and personal development of its students through excellent, accessible, affordable educational programs. The University seeks to discover, create, and transmit knowledge and apply that knowledge for the common good. The University seeks to meet the needs of the state, nation, and world today and into the future. The University supports the development of sustainable technologies and communities through our research, scholarship, and community engagement.

### **Worcester Campus**

The Worcester campus, located approximately 40 miles west of Boston and 50 miles east of Amherst, is one of 30 freestanding, university-based academic health science campuses in the United States. The campus houses the School of Medicine, the Graduate School of Biomedical Sciences, the Graduate School of Nursing and the University campus hospital of UMass Memorial Health Care, which was formerly the Clinical Services Division of the University. Effective March 31, 1998, as enacted by Chapter 163 of the 1997 legislative acts of the Commonwealth of Massachusetts, the Clinical Services Division of the University and the subsidiaries of a University-related organization, UMASS Health System, were contributed to and merged with and into an independent Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (“UMass Memorial”). The University maintains certain relationships with UMass Memorial through the arrangements presented in detail in the notes to the University’s financial statements.

Created in 1962, the Medical School provides health care education to Massachusetts residents, with a goal of enabling residents to study medicine at an affordable cost and of providing incentives to its graduates to practice primary care and other medical disciplines in underserved areas in Massachusetts. According to *US News & World Report's 2008 Edition of America's Best Graduate Schools*, the Medical School ranked 11<sup>th</sup> among the best medical schools in the nation in the primary care category. The school has consistently placed in the top ten percent of medical schools in the *US News & World Report's* rankings for primary care medical schools and has held a spot near the top of the category since the magazine began its ranking in 1994. The Graduate School of Biomedical Sciences comprises three divisions – Basic & Biomedical Sciences, Biomedical Engineering, and Clinical & Population Health Research – and trains students in their selected specialty area emphasizing a broad background in the basic medical sciences in preparation for research with direct relevance to human disease. The Graduate School of Nursing provides high quality educator specialties.

In 2006, Craig C. Mello, PhD, was co-recipient of the Nobel Prize in Physiology or Medicine, honored with Andrew Fire, PhD, of Stanford University for their discovery of RNA interference, a naturally occurring gene-silencing process. Also, in 2006, the Worcester campus broke ground for the Advanced Center for Clinical Education and Science (ACCES). The seven-story, 258,000-square-foot building is scheduled to be completed in the fall of 2008 and will allow the Worcester campus to advance its commitment to national distinction in education and research and provide much needed space for clinical partner UMass Memorial Health Care.

The Worcester campus had approximately 1,023 FTE graduate and medical students enrolled in the fall of 2007. In addition, there were approximately 527 medical residents. The Worcester campus offers two master's and 16 doctoral degree programs but does not offer undergraduate degrees. During the 2006-2007 academic year, 182 advanced degrees were conferred. The Worcester campus provides general and specialized medical care and engages in a comprehensive program of basic scientific and clinical research that benefits the recipients of clinical services and contributes to the national effort to understand, prevent and treat disease.

### **UMassOnline**

In February 2001, the University launched UMassOnline, the University's system-wide online education consortium. Headquartered at the Collaborative Services Facility in Shrewsbury, Massachusetts, UMassOnline enables the University to provide greater access to its educational programs and to increase revenues that can be used to support the campuses. In fiscal year 2007, UMassOnline and the Continuing Education units at the five campuses collaboratively generated tuition revenue of over \$28,000,000 and supported over 26,000 enrollments. Since 2001, UMassOnline has realized average annual gross revenue and enrollment growth rates of 38 percent and 28 percent, respectively.

UMassOnline's mission is to provide access to a University of Massachusetts education to students who are unable to attend one of the campuses; serving community needs for education in the critical areas of economic development, health and welfare and education; and raising revenues for support of students, faculty, teaching, outreach, and research. To this end, the ten-member UMassOnline team supports the campuses in developing, growing and marketing online programs by funding the development of new online programs; providing faculty support, development and training; providing technology support and by creating and maintaining a robust platform for online learning; assessing new teaching and learning technologies; and deploying marketing programs that will position the University as a high-quality national player in online higher education and increase online course and program enrollments in the Massachusetts, New England, national and international markets.

Currently, the University offers close to 70 online degrees, certificates and continuing medical education programs, as well as 1,000 courses annually. UMassOnline is led by its Chief Executive Officer. (See "Administrative Officers" below).

### **The University of Massachusetts Collaborative Service Facility**

The University established the University of Massachusetts Collaborative Services Facility ("CSF") in November 2003. The CSF is located in Shrewsbury, Massachusetts. The CSF was created for the purpose of consolidating a number of departments within the University President's Office and other UMass organizations in an effort to both reduce costs and better serve the University system. The following University offices/projects are currently housed at CSF: University Information Technology Services; Project e\*mpac; the ISIS Project; Graduate School of Nursing; UMassOnline; Office of Technology Management; the Donahue Institute; and Central Administrative Services, which comprises the University Treasurer's Office, the University Auditing Office, Human Resources, the University Procurement Office and the University Controller's Office. In April 2007, the Worcester City Campus Corporation acquired the property at 333 South Street, Shrewsbury, that is the present location of the CSF, from Maxtor Realty Corporation and Seagate Technology, LLC. The purchase price was \$27.5 million which consisted of approximately 83 acres of property and two buildings containing approximately 670,000 gross square feet of space. This acquisition allows WCCC to provide major benefits to the University and the Medical School by providing immediate available off campus space to meet the needs of the University, the Medical School and its clinical partner, UMASS Memorial Health Care. This property provides substantial capital cost avoidance as the acquisition cost of approximately \$45 per square foot compares favorably with new building costs of \$150 - \$300 per square foot for office or laboratory construction. Another major potential, as occupancy stabilizes, will be to reduce current occupancy costs within this complex to the University and Medical School.

### **The University of Massachusetts Club**

The University, acting through the Authority, has established an Alumni dining club, known as “The University of Massachusetts Club.” The club opened on October 31, 2005 and is located on the 33<sup>rd</sup> floor of 225 Franklin Street in downtown Boston. The club is managed by a national hospitality management firm.

### **UNIVERSITY RELATED ORGANIZATIONS**

The financial statements of the University included in Appendix C include the University and certain other organizations that have a significant relationship with the University. The statements include the University’s blended component units, which include the Authority, a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960 of the Commonwealth, and Worcester City Campus Corporation (“WCCC”), a tax-exempt organization, and the University of Massachusetts Amherst Foundation, Inc. (the “UMass Amherst Foundation”), a tax-exempt organization which was established in fiscal year 2003. The purpose of the Authority is to provide dormitories, dining commons and other buildings and structures for use by the University and other entities associated with the University and to issue bonds to finance such projects. On November 4, 1992, the University created WCCC to purchase various assets of Worcester City Hospital, to operate as a real estate holding company and to foster and promote the growth, progress and general welfare of the University. WCCC includes the Worcester Foundation for Biomedical Research, Inc. (“WFBR”) as a subsidiary. Beginning in fiscal year 2002, for financial reporting purposes, WCCC is included and categorized as a blended component unit of the University in its annual financial report. In previous fiscal years, WCCC was categorized separately from the University and was reported in the financial statements as a part of the University Related Organizations. The University’s discrete component units are the University of Massachusetts Foundation, Inc. (the “Foundation”) and the University of Massachusetts Dartmouth Foundation, Inc. (the “Dartmouth Foundation”). These foundations are tax-exempt organizations related to the University and established to foster and promote the growth, progress and general welfare of the University and to solicit, receive, and administer gifts and donations for such purposes. The Foundation manages the majority of the University’s endowments, including the endowment of the UMass Amherst Foundation. The Foundation and the Dartmouth Foundation are reported in the financial statements of the University as part of the University Related Organizations.

### **GOVERNANCE**

Under the General Laws of the Commonwealth (the “General Laws”), the University is governed by a Board of Trustees (the body herein called the “University Trustees”) under the coordinating authority of the Commonwealth’s Board of Higher Education (“BHE”) (successor to the Higher Education Coordinating Council). The day-to-day operations of the University are directed by a team of administrative officers of the University, the chief executive officer being the President.

The General Laws give the University Trustees the authority to govern the University and to appoint the President of the University, the Chancellors (the senior administrative officers of each campus) and other officers and members of the professional staff. The General Laws also grant to the University Trustees the legal right to establish and manage non-appropriated funds, which funds include, for example, certain student fees, grants and contracts and funds used to support certain self-sufficient operations within the University. See “University Revenues and Budgeting” below. The University Trustees consist of 19 voting members and three non-voting members. Seventeen voting members of the University Trustees are appointed by the Governor of the Commonwealth. At least five of those appointed must be alumni of the University and one must be a representative of organized labor. Two of the voting members are full-time students of the University, and three additional full-time students act as non-voting members. The student members are elected annually from each of the five campuses, and the two voting student positions are rotated annually among the members representing the five campuses. The University Trustees, except for the student members, serve five-year staggered terms. The student members serve one-year terms.

The President of the University is responsible for implementing the policies of the University Trustees and for providing leadership for the activities and operations of the University. The President’s Office is responsible for the development of academic and financial policy, over-all coordination of University activities and certain

University-wide operational activities, including Internal Audit, the Treasurer's and Controller's functions, Information Systems and Human Resources.

### **Education System Reorganization**

In January 2008, the Governor filed a reorganization plan with the General Court to reorganize the Commonwealth's educational agencies under a cabinet level Executive Office of Education headed by a Secretary of Education. The agencies affected include the Department of Early Education and Care, the Department of Education, and the Board of Higher Education. Under the plan, the Secretary of Education would become a voting member of the University's Board of Trustees and the Governor would appoint the chairperson of the Board.

### **Board of Higher Education**

The University is subject to the coordinating authority of the BHE, which has the statutory responsibility under Chapter 15A of the General Laws of the Commonwealth, to develop, foster and advocate for the public higher education system in Massachusetts (which consists of the University, nine state colleges and 15 community colleges), to review and approve tuition at the University, to review and establish tuition at the state colleges and the community colleges, to approve changes in academic programs at these institutions, and to collaborate with the boards of trustees of the public institutions of higher education in Massachusetts in order to identify and define institutional missions.

The BHE consists of 11 voting members; however, seven of the voting members are now appointed by the Governor, one of whom is the Commissioner of Education, *ex officio*, and three members are to be chosen to represent public institutions of higher education. Of the seven members appointed by the Governor, at least one must be a representative of organized labor, one must be a representative of the business community and one must be a full-time undergraduate student at a public institution of higher education. Of the three members chosen to represent public institutions of higher education, one shall be a member of the University Trustees selected by the chair of the University Trustees, one shall be a member of a board of trustees of a state college chosen by vote of the chairs of the boards of trustees of each of the state colleges, and one shall be a member of a board of trustees of a community college chosen by vote of the chairs of the boards of trustees of each of the community colleges. BHE members serve staggered terms of five years, except for the undergraduate student member, who serves for a term of one year. No member may be appointed for more than two consecutive terms, and a student member may serve only one term.

### **Board of Trustees**

The present members and officers of the University Trustees, their original appointment dates and the expiration dates of their respective current terms are set forth below. The term expiration date is September 1 of the applicable year, however University Trustees generally continue to serve until a successor University Trustee is appointed.

<b>Name and Position; Month and Year Initially Appointed</b>	<b>Current Term Expiration Date</b>
Robert J. Manning, <i>Board of Trustees Chair</i> , Swampscott <i>Appointed December 2007</i> President and CEO, MFS Investment Management	2011
James Karam, <i>Board of Trustees Vice Chair</i> , Tiverton, Rhode Island <i>Appointed September 2007</i> President and Founder, First Bristol Corporation	2009
Anthony B. Beatrice, Ayer <i>Non-Voting Student Member, elected September 2007</i> University of Massachusetts, Lowell	2008

Lawrence F. Boyle, Esq., Milton <i>Appointed January 2002</i> Senior Partner, Morrison, Mahoney & Miller, LLP	2011
Jennifer Braceras, Concord <i>Appointed September 2006</i> Attorney and Writer	2011
Matthew E. Carlin, Natick <i>Appointed July 2005</i> President, Resource Options Inc.	2009
Edward Collins, Springfield <i>Appointed September 2007</i> International Representative, IBEW	2012
John A. DiBiaggio, Snowmass Village, Colorado <i>Appointed October 2003</i> Former President, Tufts University (retired)	2008
Tamara Endich, Truro <i>Non-Voting Student Member, elected July 2006</i> University of Massachusetts, Dartmouth	2008
Phil Johnston, Marshfield <i>Appointed September 2007</i> President, Philip W. Johnston Associates	2012
Ruben J. King-Shaw, Jr., Carlisle <i>Appointed September 2005</i> Chairman & CEO, Mansa Equity Partners, Inc.	2010
Aleksandar Kulenovic, Boston <i>Non-Voting Student Member, elected July 2006</i> University of Massachusetts, Boston	2008
Richard J. Lawton, Esq., North Easton <i>Appointed September 2006</i> Attorney, Law Offices of Richard J. Lawton	2011
Kenneth A. Macafee II, D.M.D., Needham <i>Appointed September 2006</i> Oral and Maxillofacial Surgeon	2011
Bharath D. Nath, Worcester <i>Voting Student Member, elected September 2007</i> University of Massachusetts, Worcester	2008
William T. O'Shea, Basking Ridge, New Jersey <i>Appointed October 2003</i> President, Bell Laboratories/ CTO, Lucent Technologies (retired)	2008
Kerri Osterhaus-Houle, M.D., Hudson <i>Appointed September 2007</i> Obstetrics and gynecology physician, Women's Health of Central Massachusetts	2008
Janet D. Pearl, M.D., Wellesley <i>Appointed October 2004</i> Co-Director of the Pain Management Center, Caritas St. Elizabeth's Medical Center	2009

Alda Rego, Attleboro <i>Appointed September 2006</i> Deputy Commissioner for Administration, Massachusetts Department of Early Education and Care	2011
Henry M. Thomas, III., Springfield <i>Appointed September 2007</i> President and CEO, Urban League of Springfield	2012
Ruth Thompson, Cambridge <i>Voting Student Member, elected September 2007</i> University of Massachusetts, Amherst	2008
Stephen P. Tocco, Reading <i>Appointed September 2006</i> *President and CEO, ML Strategies	2011

\*ML Strategies, LLC, a limited liability company of which, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. is the sole member, is a multidisciplinary consulting firm. Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. is serving as bond counsel in connection with the 2008-1 Bonds.

### **Administrative Officers**

*Jack M. Wilson, President, age 62*

Jack M. Wilson was appointed President of the University on March 24, 2004. Since September 2003, he had served as the interim President. Previously he had served as the Vice President for Academic Affairs of the University and he was the founding Chief Executive Officer of UMassOnline, the University's system wide online education consortium. A physicist of national distinction, Mr. Wilson came to the University on January 21, 2001 after 11 years at Rensselaer Polytechnic Institute, where he was the J. Erik Jonsson '22 Distinguished Professor of Physics, Engineering Science, Information Technology, and Management and where he was the founding Director of the Anderson Center for Innovation in Undergraduate Education and Co-Director of the Severino Center for Technological Entrepreneurship. Mr. Wilson was also the co-founder and chairman of LearnLinc Corporation, a supplier of software systems for corporate training to Fortune 1000 corporations. Mr. Wilson received B.A. and M.A. degrees from Thiel College and a Ph.D. from Kent State University.

*James R. Julian, Jr., Executive Vice President and Chief Operating Officer, age 46*

James R. Julian, Jr. has been the Executive Vice President at the University since January 1996. Prior to joining the University, he served as Chief of Staff and Counsel for the former Massachusetts Senate President, William M. Bulger, from 1991 to 1996. He holds a B.S. degree in Political Science from Suffolk University in Boston, Massachusetts and a J.D. degree from the New England School of Law in Boston, Massachusetts.

*Marcellette G. Williams, Senior Vice President for Academic and Student Affairs and International Relations, age 66*

Marcellette G. Williams has been appointed to the position of Senior Vice President for Academic and Student Affairs and International Relations. Ms. Williams assumed her duties on a full-time basis in July 2005. Ms. Williams served as interim Chancellor of the Amherst campus from July 2001 through July 2002. Prior to becoming interim Chancellor, Ms. Williams was deputy chancellor and professor of English and Comparative Literature at the Amherst campus. Prior to joining the University, Ms. Williams served in a variety of academic and administrative positions at Michigan State University, where she earned her bachelor's, master's and doctoral degrees.

*Thomas Chmura, Vice President for Economic Development, age 58*

Thomas Chmura has been Vice President for Economic Development at the University since January 1993. He also served as Chief of Staff for the President's Office in 1995. Previously, Mr. Chmura was Director of

Economic Development for the Greater Baltimore Committee, the business leadership organization for the Baltimore metropolitan area from 1989 to 1992. Mr. Chmura received a B.S. degree in Engineering and an M.S. degree in Urban and Environmental Studies from Rensselaer Polytechnic Institute in Troy, New York.

*David J. Gray, Chief Information Officer and Vice President for Information Services and Chief Executive Officer of UMassOnline, age 53*

David J. Gray was hired as Chief Information Officer and Vice President for Information Services in September 2000. In addition, on May 19, 2004, Mr. Gray was appointed by President Wilson to the position of Chief Executive Officer (“CEO”) of UMassOnline. Since September 2003, he had served as interim CEO of UMassOnline. Prior to joining the University, he served as Vice Chancellor for Information Technology for the Pennsylvania State System of Higher Education from 1995 to 2000 and as the Assistant Vice Chancellor for Financial Management from 1990 to 1995. Mr. Gray received a B.A. degree in political science and a Master of Public Administration degree from The Pennsylvania State University.

*Stephen W. Lenhardt, Sr., Vice President for Management and Fiscal Affairs and Treasurer, age 66*

Stephen W. Lenhardt, Sr. has been Vice President for Management and Fiscal Affairs since 1987 and University Treasurer since 1991. Prior to assuming his present duties, Mr. Lenhardt served in several executive positions for the New York City Health and Hospitals Corporation, ultimately as Vice President for Facilities Management and Operations. He received a B.A. degree in Social Welfare from The Pennsylvania State University, University Park, Pennsylvania and M.S.W. and M.P.A. degrees from the University of Pittsburgh.

*Katherine V. Smith, Vice President for University Advancement and COO, University of Massachusetts Foundation, age 44*

Katherine V. Smith became Vice President for Advancement and Chief Operating Officer for the UMass Foundation in September 2007. Prior to joining the UMass Foundation she was Associate Vice President for School Relations and Corporate and Foundation Fundraising at Boston College. She worked for many years at Brown University, serving as Associate Vice President of Research and Associate Vice President of Development. She received a bachelor’s degree from Cleveland State University in 1986 and a master’s from the Rhode Island School of Design in 1988.

*Lawrence T. Bench, Interim General Counsel, age 63*

Lawrence T. Bench was appointed Interim General Counsel at the University of Massachusetts effective November 28, 2005. He has served as Associate Counsel for the University of Massachusetts advising the University and its officers and employees and representing them in civil litigation since 1974. Mr. Bench held the position of Assistant Attorney General for the Massachusetts Department of the Attorney General in Boston from 1971 to 1974. He previously served as law clerk to Justice Paul G. Kirk of the Supreme Judicial Court of Massachusetts. Mr. Bench received a B.A. degree in History from Boston College in Chestnut Hill, Massachusetts in 1966. He received a Juris Doctor degree from Boston College Law School in 1969. He also served on the Board of Editors of the Boston College Law Review.

*Thomas W. Cole, Interim Chancellor Amherst campus, age 67*

Thomas W. Cole became Interim Chancellor at Amherst in September 2007. He was the first President of Clark Atlanta University, a historically black, four-year liberal arts college, created in 1988 when Atlanta University merged with Clark College. He led the school from 1989 to 2002, when he retired and was named President Emeritus. Cole previously served as Chancellor of the West Virginia Board of Regents, President of West Virginia State College, and President and CEO of Great Schools Atlanta. He holds a B.A. from Wiley College and a Ph.D. in organic chemistry from the University of Chicago. Currently the University of Massachusetts is conducting a national search to select a permanent chancellor at the Amherst campus.

*J. Keith Motley, Chancellor Boston campus, age 52*

J. Keith Motley became the Chancellor of the Boston campus in July 2007. Previously, Mr. Motley held the position of Vice President for Business and Public Affairs since 2005. Mr. Motley served as Interim Chancellor of the Boston campus from August 2004 until June 5, 2005. Prior to becoming Interim Chancellor, Mr. Motley served as the Vice Chancellor for Student Affairs at the Boston campus. Previously, Mr. Motley held a variety of student-service positions at Northeastern University including Dean of Student Services, Associate Dean/Director of the John D. O'Bryant African-American Institute, and Assistant Dean/Director of the Office of Minority Student Affairs. Mr. Motley is the founder of the Roxbury Preparatory Charter School and chairs the school's board of trustees. He also serves as chairman of the board of trustees of Newbury College in Brookline. Mr. Motley holds B.S. and M.Ed. degrees from Northeastern University, and a Ph.D. degree from Boston College.

*Jean F. MacCormack, Chancellor Dartmouth campus, age 61*

Jean F. MacCormack became the Chancellor of the Dartmouth campus in February 2001. Ms. MacCormack previously served as the Interim Chancellor of the Dartmouth campus from September 1999. Ms. MacCormack also previously served as Deputy Chancellor and Vice Chancellor for Administration and Finance on the University's Boston campus. Ms. MacCormack holds a Master's and Doctorate in Education from the University of Massachusetts, Amherst and a Bachelor of Arts from Emmanuel College.

*Martin T. Meehan, Chancellor Lowell campus, age 51*

Martin T. Meehan became the Chancellor of the Lowell Campus in July 2007. Mr. Meehan previously represented the Fifth Congressional District of Massachusetts in the U.S. House of Representatives since 1993. He has also served as the First Assistant District Attorney for Middlesex County from 1991-1992. Mr. Meehan was also the Director of Public Affairs for the Massachusetts Secretary of the Commonwealth and the Deputy Secretary of State for Securities and Corporations from 1986-1990. Mr. Meehan earned his B.S. degree from the University of Massachusetts, Lowell, an M.P.A. from Suffolk University and a J.D. from Suffolk University Law School.

*Michael F. Collins, Interim Chancellor Worcester campus and Senior Vice President for Health Services, age 51*

Michael F. Collins became the Interim Chancellor of the Worcester campus and Senior Vice President for Health Services in July 2007. Dr. Collins previously served as Chancellor of the Boston campus from 2005 through 2007 and as President and Chief Executive Officer of Caritas Christi Health Care from 1994 to 2004. From 1994 to 2001, Dr. Collins served as President of St. Elizabeth's Medical Center in Brighton, a university academic medical center affiliated with Tufts University School of Medicine. Dr. Collins has held faculty positions for the past 21 years, first at Texas Tech University Health Sciences Center, where his posts included Assistant Professor of Internal Medicine and Assistant Dean for Patient Care Resources. He currently serves as Clinical Professor of Internal Medicine at Tufts University School of Medicine and is a Senior Fellow at the University College of Citizenship and Public Service. Dr. Collins received a B.A. degree from the College of the Holy Cross and earned an M.D. degree from Tufts University School of Medicine. Currently the University of Massachusetts has established a committee that will guide the search for a permanent Chancellor for the University of Massachusetts Medical School.

### **Faculty and Staff**

The University had approximately 4,715 faculty members in the fall of 2007, including approximately 3,377 full-time faculty. Of the full-time faculty (excluding Worcester faculty), approximately 59 percent were tenured, approximately 27.5 percent were on track for tenure and the remaining approximately 13.5 percent were not on tenure track. In addition, the University had approximately 6,399 professional and 4,912 classified staff members in the fall of 2007, of which approximately 91.3 percent and 84.4 percent were full-time, respectively. The University faculty have received some of the world's most prestigious awards and honors, including the MacArthur Fellowship, the Pulitzer Prize, the National Book Award, and the Nobel Prize. The University faculty also includes National Science Foundation grant winners and Fulbright Scholars. The University student FTE to faculty FTE ratios, excluding continuing education, are 17:1, 15:1, 17:1 and 15:1 for the Amherst, Boston, Dartmouth and

Lowell campuses, respectively. The Worcester campus ratio is not presented because the delivery of graduate medical education is not comparable to that of campuses offering a traditional range of undergraduate and graduate programs.

### Academic Programs and Accreditation

The University offers a broad spectrum of academic programs, granting Bachelor of Arts degrees in over 60 fields, Bachelor of Science degrees in over 50 fields and bachelor degrees in a number of other areas, including fine arts and business administration. Master of Arts degrees are granted in more than 25 fields, Master of Science degrees in over 45 academic fields and a variety of other master's degrees are granted in specialized areas including education, teaching, business administration and public health. In addition to the foregoing, the University grants Doctor of Philosophy degrees in 54 fields, as well as Doctor of Education, Doctor of Science, Doctor of Engineering and Doctor of Medicine degrees. The academic resources of the University are also accessible to part-time students, to local, national and international businesses and to the general community through the continuing education programs.

Each campus of the University is accredited by the New England Association of Schools and Colleges, Inc. ("NEASC"), the major accrediting body for institutions of higher education in New England. In addition, the Center for Professional Education is accredited as a branch campus of the University's Amherst and Lowell campuses by NEASC and the Massachusetts Board of Higher Education. The Medical School at the Worcester campus is a member of the Association of American Medical Colleges and was given full accreditation through the 2011-2012 academic year by the Liaison Committee on Medical Education, the major accrediting body for programs leading to the M.D. degree. In addition to the foregoing, individual schools and academic programs are accredited by the appropriate agencies in their particular fields.

The University is also an institutional member of numerous organizations of higher learning and professional societies, including, among others, the Association of American Colleges, the National Association of State Universities and Land Grant Colleges, the American Council on Education, the American Association of Colleges for Teacher Education, the American Association of Colleges of Nursing, the Council of Colleges of Arts and Sciences and the New England Board of Higher Education.

### Enrollment

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99), admission to the University is open to residents and non-residents of the Commonwealth on a competitive basis. In the fall 2007 semester, Massachusetts residents accounted for approximately 86 percent and 58 percent of the University's total undergraduate and graduate fall enrollment, respectively.

The University's enrollment has been fairly level over the last five years. In the fall of 2007, total full-time equivalent enrollment at the University (including continuing education) was 51,069, representing an increase of approximately eight percent over the five-year period.

### Total Full-Time Equivalent Enrollment

	<u>2003</u>	<u>2004</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
Undergraduate	35,763	35,588	38,287	39,282	40,805
Graduate	8,698	8,702	<u>9,628</u>	<u>9,883</u>	<u>10,264</u>
Continuing Education*	<u>2,687</u>	<u>2,647</u>			
Total	47,148	46,937	47,915	49,165	51,069

The following tables show opening fall head count enrollment for each of the five campuses since 2003.

***Amherst Campus***

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
In-state undergraduate	14,646	14,738	15,670	15,820	16,018
Out-of-state undergraduate	3,338	3,401	3,724	4,003	4,096
In-state graduate	2,373	2,300	2,270	2,342	2,357
Out-of-state graduate	3,219	3,380	<u>3,429</u>	<u>3,428</u>	<u>3,402</u>
Continuing Education*	<u>736</u>	<u>827</u>			
Total	24,312	24,646	25,093	25,593	25,873

***Boston Campus\*\*\****

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
In-state undergraduate	7,976	7,397	7,797	8,219	8,890
Out-of-state undergraduate <sup>†</sup>	749	630	1,161	1,027	1,118
In-state graduate	1,970	1,995	2,204	2,352	2,514
Out-of-state graduate	429	378	<u>700</u>	<u>764</u>	<u>911</u>
Continuing Education*	<u>1,982</u>	<u>1,837</u>			
Total	13,106	11,682	11,862	12,362	13,433

<sup>†</sup>In 2006, Boston campus undergraduate unknown residency (326) and graduate unknown residency (219) included in out-of-state total.

***Dartmouth Campus***

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
In-state undergraduate	6,231	6,181	7,114	7,245	7,586
Out-of-state undergraduate	377	354	405	381	341
In-state graduate	421	397	657	707	769
Out-of-state graduate	352	329	<u>373</u>	<u>423</u>	<u>384</u>
Continuing Education*	<u>1,395</u>	<u>1,407</u>			
Total	8,776	8,299	8,549	8,756	9,080

***Lowell Campus***

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
In-state undergraduate	5,683	5,665	7,407	7,640	7,715
Out-of-state undergraduate	678	651	902	1,009	1,164
In-state graduate	1,667	1,557	1,671	1,814	1,857
Out-of-state graduate	703	615	<u>686</u>	<u>745</u>	<u>899</u>
Continuing Education*	<u>3,303</u>	<u>2,873</u>			
Total	12,034	11,089	10,666	11,208	11,635

***Worcester Campus***

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
Medical School	425	419	412	423	435
Other	<u>350</u>	<u>452</u>	<u>596</u>	<u>597</u>	<u>578</u>
Total <sup>++</sup>	775	871	1,008	1,020	1013

<sup>++</sup>Does not include the head count of registrants in the various continuing medical education programs offered at the Worcester campus.

**Total Headcount Enrollment**

	<u>2003</u>	<u>2004**</u>	<u>2005*</u>	<u>2006*</u>	<u>2007*</u>
In-state undergraduate	34,536	33,981	37,988	38,924	40,209
Out-of-state undergraduate	5,142	5,036	6,192	6,420	6,719
In-state graduate	7,206	6,918	7,552	7,970	8,223
Out-of-state graduate	4,703	4,929	<u>5,446</u>	<u>5,625</u>	<u>5,883</u>
Continuing Education*	<u>7,416</u>	<u>6,944</u>			
Total	59,003	56,587	57,178	58,939	61,034

\*Beginning in 2005, continuing education enrollment numbers have been included in the undergraduate and graduate enrollment totals.

\*\*Duplicate headcounts in continuing education and state-supported programs have been removed from the 2004 totals.

\*\*\*The enrollment decline at the Boston campus in fall 2004 was primarily due to increased admission standards. Beginning in fall 2002, the Boston campus raised the minimum Grade Point Average for both freshmen and transfer admission. The admitted student population is now stronger academically and also more competitive, which has reduced the freshmen and transfer yield at the Boston campus.

From fall 2006 to fall 2007, total new freshmen enrollees increased by 3.0 percent, while total new transfer enrollees increased by 3.7 percent for the system as a whole. The number of total new freshmen enrollees reflected a 2.3 percent increase in the size of the entering class at the Amherst campus, a 2.4 percent increase in new freshmen at the Boston campus, a 6.8 percent increase at the Dartmouth campus, and a 0.7 percent increase at the Lowell campus. The number of total new transfer enrollees reflected a 5.4 percent increase at the Amherst campus, a 4.2 percent increase at the Boston campus, an 8.6 percent increase at the Dartmouth campus and a 2.8 percent decrease at the Lowell campus.

The University saw an increase in freshmen applications in fall 2007 compared with fall 2006. The increase in total freshmen applications included a 20.9 percent increase at the Amherst campus, a 14.9 percent increase at the Boston campus, a 6.5 percent increase at the Dartmouth campus, and an 8.3 percent increase at the Lowell campus. Transfer applications included a 5.0 percent increase at the Amherst campus, no change at the Boston campus, a 5.3 percent increase at the Dartmouth campus, and a 7.2 percent decrease at the Lowell campus.

The following tables provide aggregate data for the campuses (except the Worcester campus) on University applications, acceptances and matriculations for first year undergraduates and for transfer students:

**First Year Applicants, Acceptances and Matriculants, Fall 2003-2007**

	<u>2003</u>	<u>2004<sup>+</sup></u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Applications Received	29,543	31,200	34,571	37,627	43,688
Number of Acceptances	21,920	22,835	25,904	26,099	28,098
Percent of Applicants Accepted	74%	73%	75%	69%	64%
Number of Matriculants	7,099	7,126	7,840	7,990	8,226
Percent Matriculated of Those Accepted	32%	31%	30%	31%	29%

**Transfer Student Applicants, Acceptances and Matriculants, Fall 2003-2007**

	<u>2003</u>	<u>2004<sup>+</sup></u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Applications Received	8,072	8,313	8,183	8,258	8,341
Number of Acceptances	6,191	5,895	5,971	6,148	6,190
Percent of Applicants Accepted	77%	71%	73%	74%	74%
Number of Matriculants	3,706	3,588	3,601	3,753	3,891
Percent Matriculated of Those Accepted	60%	61%	60%	61%	63%

<sup>+</sup>The 2004 application and matriculant numbers have been revised based on updated information.

The following tables show the latest retention and graduation rates for freshmen entering the University. The level and changes in retention and graduation rates reflect the diversity of the entering students.

#### One Year Retention Rates - Fall Term (%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Range of Campus Averages	70-83	70-84	71-82	71-84	70-83	75-84

#### Six Year Graduation Rates (%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Year of Entry	1996	1997	1998	1999	2000	2001
Graduation After: 6 Years - range of campus averages(1)	28-61	34-64	28-62	34-65	36-66	33-67

(1) The low-end averages of the University data are the result of the Boston campus, which focuses on the needs of non-traditional students.

The following table shows the average Scholastic Aptitude Test ("SAT") scores for entering University freshmen.

#### SAT Scores for Incoming Freshmen

Academic Year	<u>2005-06</u>	<u>2006-2007</u>	<u>2007-2008</u>
Range of Campus Averages	1,064-1,143	1,046-1,146	1053-1142

#### Degrees Awarded

The University awards four levels of degrees, associate, bachelor, master and doctoral/professional degrees. Trends in University degrees and certificates awarded for the past five years are shown in the following table.

#### Trends in Degrees Awarded

	Academic Year					
	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-2006</u>	<u>2006-2007</u>
Associate/ Certificate	229	184	192	148	242	162
Bachelor	7,535	7,651	7,773	8,206	8,091	8,191
Master/ CAGS*	2,274	2,424	2,578	2,731	2,642	2,765
Doctorate/Professional	461	442	536	528	488	566

\*CAGS means Certificate of Advanced Graduate Studies

## Tuition and Fees

The University strives to provide students with the opportunity to obtain a quality education. In this effort, between fiscal years 1995 and 2001, the average student charge (tuition and mandatory fees) for undergraduate students was actually reduced by approximately 3.4 percent. Steady increases in Commonwealth appropriations during this period supported University efforts to stabilize tuition and fees relative to other institutions in New England. Accordingly, tuition and fees are not in the highest national or regional ranks. However, a series of reductions in Commonwealth appropriations beginning in the fall of 2000 required that the University take actions to stabilize the finances of the University, including student fee increases approved by the University Trustees for fiscal years 2002, 2003 and 2004. More recently, the University has adopted a near-term policy of no greater than estimated inflation based increases for mandatory student charges (the combined total of tuition and mandatory fees). In February 2004, the University Trustees approved mandatory tuition and fee increases for fiscal year 2005. The mandatory student fee increases (with the exception of the new Ph.D./MD program rates for non-residents at the Worcester campus) were inflation based increases of no more than 2.8 percent (the consumer price index for the Northeast Urban Region as of October 2003) over the annualized fiscal year 2004 spring semester rates. As of December 2004, inflation was estimated at 3.5 percent as measured by the consumer price index for the Northeast Urban Region. In February 2005, the University Trustees approved inflation -based increases, of approximately 3.2 percent, for the fiscal year 2006 mandatory student charges for resident students at the Amherst, Boston, Dartmouth and Lowell campuses (the Worcester campus' only fee increase for fiscal year 2006 was a \$32 equipment fee increase for all medical and graduate students). In February 2006, the University Trustees approved the President's recommendation for continuing this program of inflation -based increases in mandatory student charges for fiscal year 2007. The rate increase approved for fiscal year 2007 averages 3.4 percent over current rates for resident undergraduate students. In March 2007, the University Trustees approved inflation -based increases, of approximately 3.4%, in mandatory student charges for resident undergraduate students for the fiscal year 2008. In March 2008, the University Trustees approved a 3.1 percent increase in mandatory student charges for resident undergraduate students for fiscal year 2009. The University is hopeful that an "at or below inflation" approach to future student charge increases can continue to be maintained to provide reasonable stability and predictability for students, their families and institutional planners. For additional information see "University Revenues and Budgeting – Management of Appropriated Funds" below.

The following tables show tuition and mandatory fees for full-time graduate and undergraduate students in effect at the Amherst, Boston, Dartmouth, Lowell and Worcester campuses for fiscal years 2005 through 2009.

**AMHERST CAMPUS**  
*Tuition & Mandatory Fees: FY 2005 – 2009*

	Actual <u>2005*</u>	Actual <u>2006**</u>	Actual <u>2007***</u>	Actual <u>2008****</u>	Actual <u>2009*****</u>
<b>TUITION</b>					
Undergraduate (MA resident)	\$1,714	\$1,714	\$1,714	\$1,714	\$1,714
Undergraduate (non-resident)	9,937	9,937	9,937	9,937	9,937
Graduate (MA resident)	2,640	2,640	2,640	2,640	2,640
Graduate (non-resident)	9,937	9,937	9,937	9,937	9,937
<b>CURRICULUM &amp; OTHER MANDATORY FEES</b>					
Undergraduate (MA resident)	\$7,294	\$7,564	\$7,881	\$8,207	\$8,518
Undergraduate (non-resident)	7,924	8,460	9,380	10,562	11,792
Graduate (MA resident)	6,639	6,917	7,242	7,455	7,766
Graduate (non-resident)	7,544	8,069	8,969	9,241	10,471
<b>TOTAL MANDATORY FEES &amp; TUITION</b>					
Undergraduate (MA resident)	\$ 9,008	\$ 9,278	\$ 9,595	\$9,921	\$10,232
Undergraduate (non-resident)	17,861	18,397	19,317	20,499	21,729
Graduate (MA resident)	9,279	9,557	9,882	10,095	10,406
Graduate (non-resident)	17,481	18,006	18,906	19,178	20,408
<b>DORMITORY RESIDENTS ONLY</b>					
Average Room & Board	\$6,189	\$6,517	\$6,989	\$7,478	\$8,114
<b>MANDATORY FEES, TUITION, ROOM &amp; BOARD</b>					
Undergraduate (MA resident)	\$15,197	\$15,795	\$16,584	\$17,399	\$18,346
Undergraduate (non-resident)	24,050	24,914	26,306	27,977	29,843
Graduate (MA resident)	15,468	16,074	16,871	17,573	18,520
Graduate (non-resident)	23,670	24,523	25,895	26,656	28,522

---

\*Includes an increase in fees approved by the University Trustees on February 4, 2004.

\*\*Includes an increase in fees approved by the University Trustees on February 16, 2005.

\*\*\*Includes an increase in fees approved by the University Trustees on February 15, 2006.

\*\*\*\*Includes an increase in fees approved by the University Trustees on March 14, 2007.

\*\*\*\*\*Includes an increase in fees approved by the University Trustees on March 19, 2008.

**BOSTON CAMPUS**  
*Tuition & Mandatory Fees: FY 2005 – 2009*

	<u>Actual</u> <u>2005*</u>	<u>Actual</u> <u>2006**</u>	<u>Actual</u> <u>2007***</u>	<u>Actual</u> <u>2008****</u>	<u>Actual</u> <u>2009*****</u>
<b>TUITION</b>					
Undergraduate (MA resident)	\$1,714	\$1,714	\$1,714	\$1,714	\$1,714
Undergraduate (non-resident)	9,758	9,758	9,758	9,758	9,758
Graduate (MA resident)	2,590	2,590	2,590	2,590	2,590
Graduate (non-resident)	9,758	9,758	9,758	9,758	9,758
<b>CURRICULUM &amp; OTHER MANDATORY FEES</b>					
Undergraduate (MA resident)	\$6,310	\$6,551	\$ 6,832	\$ 7,123	\$ 7,397
Undergraduate (non-resident)	8,999	9,562	10,219	10,898	11,539
Graduate (MA resident)	6,322	6,589	7,238	7,572	7,887
Graduate (non-resident)	9,011	9,574	10,231	10,911	11,551
<b>TOTAL MANDATORY FEES &amp; TUITION</b>					
Undergraduate (MA resident)	\$ 8,023	\$ 8,265	\$ 8,546	\$ 8,837	\$ 9,111
Undergraduate (non-resident)	18,757	19,320	19,977	20,656	21,297
Graduate (MA resident)	8,912	9,179	9,828	10,162	10,477
Graduate (non-resident)	18,769	19,332	19,989	20,669	21,309

---

\*Includes an increase in fees approved by the University Trustees on February 4, 2004.

\*\*Includes an increase in fees approved by the University Trustees on February 16, 2005.

\*\*\*Includes an increase in fees approved by the University Trustees on February 15, 2006.

\*\*\*\*Includes an increase in fees approved by the University Trustees on March 14, 2007.

\*\*\*\*\*Includes an increase in fees approved by the University Trustees on March 19, 2008.

**DARTMOUTH CAMPUS**  
Tuition & Mandatory Fees: FY 2005 – 2009

	<u>Actual</u> <u>2005*</u>	<u>Actual</u> <u>2006**</u>	<u>Actual</u> <u>2007***</u>	<u>Actual</u> <u>2008****</u>	<u>Actual</u> <u>2009*****</u>
<b>TUITION</b>					
Undergraduate (MA resident)	\$1,417	\$1,417	\$1,417	\$1,417	\$1,417
Undergraduate (non-resident)	8,099	8,099	8,099	8,099	8,099
Graduate (MA resident)	2,071	2,071	2,071	2,071	2,071
Graduate (non-resident)	8,099	8,099	8,099	8,099	8,099
<b>CURRICULUM &amp; OTHER MANDATORY FEES</b>					
Undergraduate (MA resident)	\$6,385	\$6,619	\$6,892	\$7,175	\$7,441
Undergraduate (non-resident)	9,203	9,539	9,710	10,075	10,462
Graduate (MA resident)	6,868	7,117	7,375	7,658	7,946
Graduate (non-resident)	9,203	9,539	9,710	10,075	10,462
<b>TOTAL MANDATORY FEES &amp; TUITION</b>					
Undergraduate (MA resident)	\$ 7,802	\$ 8,036	\$ 8,309	\$8,592	\$8,858
Undergraduate (non-resident)	17,302	17,638	17,809	18,174	18,561
Graduate (MA resident)	8,939	9,188	9,446	9,729	10,017
Graduate (non-resident)	17,302	17,638	17,809	18,174	18,561
<b>DORMITORY RESIDENTS ONLY</b>					
Average Room & Board	\$7,740	\$8,268	\$8,893	\$9,163	\$9,428
<b>MANDATORY FEES, TUITION, ROOM &amp; BOARD</b>					
Undergraduate (MA resident)	\$15,542	\$16,304	\$17,202	\$17,755	\$18,286
Undergraduate (non-resident)	25,042	25,906	26,702	27,337	27,989
Graduate (MA resident)	16,679	17,456	18,339	18,892	19,445
Graduate (non-resident)	25,042	25,906	26,702	27,337	27,989

---

\*Includes an increase in fees approved by the University Trustees on February 4, 2004.

\*\*Includes an increase in fees approved by the University Trustees on February 16, 2005.

\*\*\*Includes an increase in fees approved by the University Trustees on February 15, 2006.

\*\*\*\*Includes an increase in fees approved by the University Trustees on March 14, 2007.

\*\*\*\*\*Includes an increase in fees approved by the University Trustees on March 19, 2008.

**LOWELL CAMPUS**  
*Tuition & Mandatory Fees: FY 2005 – 2009*

	<u>Actual 2005*</u>	<u>Actual 2006**</u>	<u>Actual 2007***</u>	<u>Actual 2008****</u>	<u>Actual 2009*****</u>
<b>TUITION</b>					
Undergraduate (MA resident)	\$1,454	\$1,454	\$1,454	\$1,454	\$1,454
Undergraduate (non-resident)	8,567	8,567	8,567	8,567	8,567
Graduate (MA resident) <sup>+</sup>	2,183	2,183	1,637	1,637	1,637
Graduate (non-resident) <sup>+</sup>	8,567	8,567	6,425	6,425	6,425
<b>CURRICULUM &amp; OTHER MANDATORY FEES</b>					
Undergraduate (MA resident)	\$6,437	\$ 6,712	\$ 6,990	\$7,277	\$7,552
Undergraduate (non-resident)	9,857	10,499	11,147	11,817	12,459
Graduate (MA resident) <sup>++</sup>	5,811	6,070	6,332	6,603	6,862
Graduate (non-resident) <sup>++</sup>	8,297	8,810	9,328	10,037	10,805
<b>TOTAL MANDATORY FEES &amp; TUITION</b>					
Undergraduate (MA resident)	\$ 7,891	\$ 8,166	\$ 8,444	\$8,731	\$9,006
Undergraduate (non-resident)	18,424	19,066	19,714	20,384	21,026
Graduate (MA resident)	7,994	7,707	7,969	8,240	8,499
Graduate (non-resident)	16,864	15,235	15,753	16,462	17,230
<b>DORMITORY RESIDENTS ONLY</b>					
Average Room & Board	\$6,011	\$6,311	\$6,520	\$6,978	\$7,519
<b>MANDATORY FEES, TUITION, ROOM &amp; BOARD</b>					
Undergraduate (MA resident)	\$13,902	\$14,477	\$14,964	\$15,709	\$16,525
Undergraduate (non-resident)	24,435	25,377	26,234	27,362	28,545
Graduate (MA resident)	14,005	14,018	14,489	15,218	16,018
Graduate (non-resident)	22,875	21,546	22,273	23,440	24,749

---

\*Includes an increase in fees approved by the University Trustees on February 4, 2004.

\*\*Includes an increase in fees approved by the University Trustees on February 16, 2005.

\*\*\*Includes an increase in fees approved by the University Trustees on February 15, 2006.

\*\*\*\*Includes an increase in fees approved by the University Trustees on March 14, 2007.

\*\*\*\*\*Includes an increase in fees approved by the University Trustees on March 19, 2008.

+Fiscal year 2006, 2007, 2008 and 2009 graduate tuition charges at UMass Lowell are on a 9-credit load basis.

++Fiscal year 2005, 2006, 2007, 2008 and 2009 graduate fee charges at UMass Lowell are on a 9-credit load basis.

**WORCESTER CAMPUS**  
*Tuition & Mandatory Fees: FY 2005 – 2009*

	Actual <u>2005*</u>	Actual <u>2006**</u>	Actual <u>2007***</u>	Actual <u>2008****</u>	Actual <u>2009*****</u>
<b>TUITION</b>					
Medical School	\$8,352	\$8,352	\$8,352	\$8,352	\$8,352
Graduate (MA resident)	2,640	2,640	2,640	2,640	2,640
Graduate (non-resident)	9,856	9,856	9,856	9,856	9,856
<b>CURRICULUM &amp; OTHER MANDATORY FEES</b>					
Medical School	\$ 5,653	\$ 5,685	\$ 5,710	\$5,735	\$5,886
Graduate School of Nursing	5,653	5,685	5,710	\$5,735	\$5,788
Graduate School of Biomedical Sciences	3,942	3,942	3,942	3,942	3,975
Ph.D./MD (non-resident)	N/A	N/A	N/A	N/A	N/A
Ph.D./MD (MA resident) <sup>†</sup>	20,626	20,508	20,508	20,508	20,541
Ph.D./MD Years 1-2 (non-resident) <sup>†</sup>	35,626	35,508	35,508	35,508	35,541
Ph.D./MD Years 3 plus (non-resident) <sup>†</sup>	25,770	25,652	25,652	25,652	25,685
<b>TOTAL MANDATORY FEES &amp; TUITION</b>					
Medical School	\$14,005	\$14,037	\$14,062	\$14,087	\$14,238
Graduate School of Nursing (MA resident)	8,293	8,325	8,350	8,375	8,428
Graduate School of Biomedical Sciences (MA resident)	6,582	6,582	6,582	6,582	6,615
Graduate School of Nursing (non-resident)	15,509	15,541	15,566	15,591	15,644
Graduate School of Biomedical Sciences (non-resident)	13,798	13,798	13,798	13,798	13,831
Ph.D./MD (non-resident)	N/A	N/A	N/A	N/A	N/A
Ph.D./MD (MA resident)	23,266	23,148	23,148	23,148	23,181
Ph.D./MD Years 1-2 (non-resident)	45,482	45,364	45,364	45,364	45,397
Ph.D./MD Years 3 plus (non-resident)	35,626	35,508	35,508	35,508	35,541

\*Includes an increase in fees approved by the University Trustees on February 4, 2004.

\*\*Includes an increase in fees approved by the University Trustees on February 16, 2005.

\*\*\*Includes an increase in fees approved by the University Trustees on February 15, 2006.

\*\*\*\*Includes an increase in fees approved by the University Trustees on March 14, 2007.

\*\*\*\*\*Includes an increase in fees approved by the University Trustees on March 19, 2008.

<sup>†</sup>The University Trustees established and approved three separate fees for the Ph.D./MD program on February 4, 2004 for fiscal year 2005: "MA resident", "Years 1-2 (non-resident)" and "Years 3 plus (non-resident)".

### **Student Financial Aid**

Eligible University students receive financial aid packages primarily awarded from the federal government, with varying combinations of grants and scholarships, loans, and part-time employment. Grants and scholarships represent financial aid that does not require repayment by the student. The primary federal grants and scholarships awarded to eligible University students were Federal Pell Grants of approximately \$26,519,340 and Federal Supplemental Education Opportunity Grants of approximately \$3,998,725 for the year ended June 30, 2007. Federal Pell Grants and Federal Supplemental Education Opportunity Grants have increased from approximately \$8,600,000 and \$1,900,000, respectively, for the year ended June 30, 1996. New loans processed by the University for eligible students under federal student loan programs and federally guaranteed loan programs totaled approximately \$114,821,957 for the year ended June 30, 2007. Eligible University students also received approximately \$4,022,698 through the Federal Work-Study Program for the year ended June 30, 2007.

### **University Revenues and Budgeting**

In general, the University receives revenues from three major sources: Commonwealth appropriations, student fees and self-supporting activities for which fees are charged to cover the cost of providing the service, and federal and state contracts. In fiscal year 2007, Commonwealth appropriations (net of tuition) provided approximately 25 percent of all operating and non-operating revenues of the University (not including University Related Organizations), tuition and fees accounted for approximately 19 percent of all operating and non-operating revenues, and other non-appropriated funds provided the remaining 56 percent.

The University's internal accounting is maintained on a budgetary basis. Additionally, the University prepares annual audited financial statements in accordance with generally accepted accounting principles on an accrual basis. The financial statements of the University as of June 30, 2007 and 2006 and for each of the fiscal years then ended, as included in Appendix C to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report which references the reports of other auditors. The combined audited financial statements of the University should be read in their entirety, including the footnotes and the Management Discussion and Analysis attached thereto.

### **Current and Future Capital Plans**

The University must follow certain procedures for state capital spending as defined by the Commonwealth's Executive Office for Administration and Finance. Such spending may be financed through the issuance of Commonwealth general or special obligation bonds or other designated revenue, including transfers from budgeted funds. The Commonwealth's Division of Capital Asset Management and Maintenance ("DCAM") manages a five-year capital-spending limit, which is assigned by the Commonwealth's Secretary of Administration and Finance. The University works closely with DCAM to ensure that the priorities of the University are included in the five-year capital plan for state funding.

The University Trustees approved a five-year, approximately \$2.9 billion capital plan for fiscal years 2008-2012, including projects already in process with prior approval of the University Trustees as well as new projects recommended by the University Trustees' Committee on Administration and Finance. The University generally has funded its capital plans through a combination of moneys received from University operations, bonds issued by the Massachusetts Health and Educational Facilities Authority ("HEFA"), bonds issued by the Authority, Commonwealth appropriations, and private fund raising.

The major projects in the 2008-2012 capital plan and their estimated total project cost include (a) at the Amherst campus, planned replacement of the central heating plant for approximately \$120,100,000, the construction of a recreation center for approximately \$53,300,000, phase 1 of the construction of an integrated science building to provide modern teaching laboratory facilities for chemistry and life sciences for approximately \$109,000,000, the replacement of a laboratory science building for approximately \$100,000,000, the construction of an art building to provide essential replacement space for a number of art programs currently housed in obsolete space for approximately \$27,000,000, repairs to W.E.B. Du Bois Library interior for approximately \$13,000,000, the construction of a Modular Lab Swing building for approximately \$11,000,000, housing repairs and renovations for

approximately \$22,500,000, renovations to the nursing building for approximately \$18,900,000, an energy conservation project for approximately \$44,842,200, Life Safety/Code Compliance for approximately \$11,000,000, renovations to the Goodell building for approximately \$16,000,000, the construction of an academic classroom, office and swing building for approximately \$24,000,000, repairs to the W.E.B. Du Bois Library for approximately \$31,000,000, steam line replacement for approximately \$10,000,000, renovations to the Morrill Science Building phase II for approximately \$24,000,000 and phase III for approximately \$27,000,000, renovations to Boyden Gym for approximately \$20,000,000, Graduate Research Center renovations for approximately \$22,000,000, a classroom addition to the Isenberg School of Management for approximately \$20,000,000, replacement to the Bartlett Façade Phase I for approximately \$15,600,000, new construction of a police facility for approximately \$10,500,000, Housing Fire Protection-Sprinklers Compliance for approximately \$32,000,000, repairs to the Bartlett Façade Phase II for approximately \$19,000,000, roadway repairs and improvements for approximately \$14,800,000, renovation of Housing/Auxiliary Facilities, and deferred maintenance and modernization for approximately \$20,000,000; (b) at the Boston campus, the construction of a classroom building for approximately \$100,000,000, upgrades and replacements to information technology and instructional and scientific equipment for approximately \$30,800,000, deferred maintenance repairs, interim substructure stabilization and support for approximately \$25,000,000, construction of a 1,000 vehicle parking garage for approximately \$25,000,000, electrical system upgrades for approximately \$10,000,000, deferred maintenance repairs for McCormack Hall, Wheatley Hall, and Science Center for approximately \$16,000,000, \$12,800,000, and \$14,900,000, respectively, and HVAC project campus wide for approximately \$10,100,000; (c) at the Dartmouth campus, the construction of an addition to the campus center for approximately \$15,750,000, classroom and laboratory upgrades and learning space improvements for approximately \$11,000,000, replacement of Cedar Dell Student Housing for approximately \$22,000,000, library renovations for approximately \$18,010,000, an energy/water conservation project for approximately \$14,000,000, repairing the four oldest dormitories for approximately \$75,000,000, basic infrastructure repairs for approximately \$60,000,000, new construction of a central facilities building and retrofit of vacated spaces for approximately \$11,000,000, new construction of a Biomanufacturing building for approximately \$10,000,000, an ATMC acquisition for approximately \$13,860,000, new construction of Charlton College of Business, Phase II for approximately \$12,000,000, and the construction/rehabilitation of a multipurpose field house for approximately \$20,000,000; (d) at the Lowell campus, academic, library and administrative technology equipment for approximately \$30,000,000, the construction of a new parking garage (UML North) for approximately \$23,000,000, the construction of an emerging technologies innovation center for approximately \$80,000,000, the construction of an academic building (UML South) for approximately \$40,000,000, laboratory upgrades for approximately \$19,250,000, building rehabilitation of Wannalancit Mills for approximately \$15,500,000, and renovations to modernize the north quadrangle for approximately \$21,900,000; and (e) at the Worcester campus, network infrastructure for approximately \$10,000,000, the power plant expansion for approximately \$30,500,000, new construction of the Advanced Education and Clinical Practice Center for approximately \$100,000,000, new construction of a new science facility for approximately \$235,000,000, purchases of departmental equipment for approximately \$10,000,000, deferred maintenance list – priority 3 for approximately \$28,000,000, new construction of MBL – Mattapan R&D and office building for approximately \$50,000,000, new construction of MBL – Mattapan new vaccine production & warehouse for approximately \$35,000,000, HVAC upgrades and replacements for approximately \$30,000,000 and a new parking garage for approximately \$13,000,000.

In 1996, the University initiated an active program to address deferred maintenance needs at its campuses. As a result, the University has expended approximately \$1.5 billion since fiscal year 2000 to repair and renovate facilities from a combination of University sources, including bonds issued by the Authority and bonds issued by HEFA, and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2008-2012 capital plan includes approximately \$645,199,000 of deferred maintenance projects.

### **Budget Process**

The University's fiscal year, like that of the Commonwealth, is from July 1 through June 30. A key source of University revenues is the annual state appropriation determined in the Commonwealth's annual budget process. This process begins approximately one year in advance of each fiscal year. The University prepares its consolidated state budget request and forwards it to the Governor and the House and Senate Committees on Ways and Means. A copy of the University's request is also forwarded to the BHE, which incorporates the University's request in whole or in part into its state budget request for the entire public higher education system. The Governor makes funding

recommendations to the Legislature. The Legislature in turn appropriates funds to the University Trustees, who distribute the funds to the five campuses.

The Commonwealth budget process, however, is only one of several ongoing budgetary and review processes that culminate in production and presentation to the University Trustees of the overall annual University operating budget. For purposes of the operating budget, the University's revenues are divided into three separate components: General Operations, Sales and Services, and Restricted Funds. Annual budgeted revenues and expenditures not related to Commonwealth appropriations are reviewed and approved by the University Trustees prior to the beginning of each fiscal year.

#### General Operations

Revenues from general operations are derived from a variety of sources and may be expended on activities furthering the general education, research, and public service mission of the University, including teaching and related student support services, research, public service, institutional support, and general maintenance activities. Funding sources for this category include state appropriations, general student fees, interest income, unrestricted giving and administrative overhead.

#### Sales and Services (Designated Funds)

Revenues generated from certain sales and/or services are presented in the budget separately from general operations and by law may be used to support only the operations of those services. An example of a designated fund is a trust fund established to receive revenues from a parking garage. By law, this revenue may be used only for expenses relating to parking and transportation. Other examples in this category are: auxiliary enterprises such as dining halls, dormitories, and bookstores; student fee-based activities (other than the general student fee), such as continuing education and international programs; and educational activities such as counseling services.

#### Restricted Funds

In addition to the two foregoing categories of revenue, the University receives revenue from non-campus sources, which, like the designated funds, are limited in their uses. These funds include: state and federal student financial aid funds; state, federal and private grants and contracts; restricted endowment and scholarship funds; and land grant funds for the Amherst campus. Generally, these funds are available for debt service, except to the extent they are earmarked or restricted as to use by the grantor or donor.

### **Management of Appropriated Funds**

All Commonwealth appropriated funds are managed through the Massachusetts Management Accounting and Reporting System ("MMARS"). MMARS is a complete financial management system specifically designed to support the financial functions performed by the Commonwealth for all appropriations. The State Comptroller exercises oversight over MMARS. Approximately 25 percent of the University's operating and non-operating revenues are currently monitored through MMARS.

Unless otherwise permitted by the Massachusetts Legislature, the University is required to remit tuition collected by it to the Commonwealth. Therefore, the University collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. Beginning in fiscal year 2004, the Amherst campus was permitted by the Commonwealth to retain tuition for non-resident students. In fiscal year 2005, fiscal year 2006, and fiscal year 2007, the Amherst campus retained approximately \$28,100,000, \$27,800,000, and \$30,850,000, respectively, of tuition.

The following details the Commonwealth appropriations received by the University for fiscal years ended June 30 (in thousands of dollars):

	<u>2003</u>	<u>2004**</u>	<u>2005**</u>	<u>2006**</u>	<u>2007**</u>
Gross Commonwealth Appropriations	\$443,375	\$365,086	\$413,779	\$450,324	\$474,909
Plus: Fringe Benefits*	88,365	85,348	114,173	123,949	151,106
Less: Tuition Remitted*	<u>(84,303)</u>	<u>(52,280)</u>	<u>(49,139)</u>	<u>(47,524)</u>	<u>(46,599)</u>
Net Commonwealth Appropriations	<u>\$447,437</u>	<u>\$398,154</u>	<u>\$478,813</u>	<u>\$526,749</u>	<u>\$579,416</u>

\*The Commonwealth pays the fringe benefit cost for University employees paid from Commonwealth appropriations. Therefore, such fringe benefit support is added to the "State Appropriations" financial statement line item as presented in the above table. The University pays the Commonwealth for the fringe benefit cost of the employees paid from funding sources other than Commonwealth appropriations. The University includes tuition collected in the line item in its financial statements captioned "Tuition and Fees" under "Combined Statements of Revenue, Expenses, and Changes in Net Assets" and removes the equal amount from the "State Appropriations" line item through the netting process presented in the above table.

\*\*The Massachusetts Legislature beginning in the fiscal year 2004 State Budget allowed the Amherst campus to retain tuition for non-resident students. The state appropriation was reduced by \$28,005,556 to compensate for the program.

In fiscal year 2007, the net state appropriation increased \$52.7 million over fiscal year 2006 amounts. This increase is attributed to the state funding of collective bargaining agreements, increased state fringe benefit support as well as an increase for general operations. The fiscal year 2008 state budget passed in July of 2007 included an increase of approximately 2.8% to the University's base state appropriation. The University has also received approximately \$15 million of supplemental appropriations from the state in FY08 to fund recently settled collective bargaining agreements. The fiscal year 2009 budget filed by Governor Deval Patrick would increase the University's base state appropriation by 1.2% over the FY2008 amounts including the collective bargaining funds. This is the first step in the fiscal year 2009 state budget process. Governor Patrick has filed a 10-year, \$2 billion higher education bond bill that calls for \$1 billion for large scale capital improvements at the five University campuses. The Governor and Legislature are considering a 10-year life sciences bill that will assist the Commonwealth in increasing its competitive position in the life sciences. The proposed legislation would provide \$500 million of capital funding and \$25 million annually for the Massachusetts Life Sciences Center to award grants to universities and other ventures to stimulate this important industry. It is anticipated that some portion of this funding, possibly as much as \$250 million, will be used to support University life sciences research facilities improvements and programs including a major research complex at the University of Massachusetts Medical School in Worcester. The research complex would include the Massachusetts Stem Cell Bank, which will be the world's largest repository of new stem cell lines available to all sectors, both public and private, of the life sciences sector and facilities supporting groundbreaking RNAi and gene therapy research.

### **Management of Non-Appropriated Funds**

All non-appropriated funds are managed and grouped for budgetary purposes into several trust funds. Non-appropriated funds include, for example, student fees, gifts, grants, contracts, and sponsored programs. The University Trustees establish and collect certain student fees and charges, including charges for room and board. Non-appropriated funds are retained by the University. Approximately 75 percent of the University's operating and non-operating revenues for fiscal year 2007 were non-appropriated.

University trust funds are financial accounts that are established by the University Trustees under authority granted by the legislature in connection with self-supporting operations, such as student services, parking, and certain research and public service activities. Revenues received from these self-supporting activities are expended by law for the purpose for which the fund was established. The University Trustees exercise oversight and control over these funds through official policy guidelines, annual budget review and approval and periodic internal audits of certain accounts. Beginning with fiscal year 1992, the University Trustees have required that external audits of the accounts and fund groups be performed by certified public accountants on a combined basis.

The University's financial operations consist of two major expense categories: Educational and General, and Auxiliary Enterprises. The Educational and General expense budget includes research, academic programs, public service programs, student services programs, academic and institutional support programs, physical plant operations and financial aid. These activities are funded from student fees (not tuition), Commonwealth appropriations, the federal government and certain unrestricted grants and contracts. Auxiliary enterprises are a set of self-sufficient services ancillary to the general educational mission of the University. These include such items as dining and residence halls, student health services, and parking facilities. The Auxiliary Enterprises budget is a revenue-based trust fund. No assurance can be given that future trust fund revenues will continue to be sufficient to support self-amortizing projects or other Auxiliary Enterprises.

### **Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. These statements are reported on a combined basis, and all intra-University transactions are eliminated. In accordance with GASB Statement No. 20, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board ("FASB") pronouncements Issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Operating revenues consist of tuition and fees, grants and contracts, sales and services of educational activities (including royalties from licensing agreements) and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, subcontracts on grants and contracts, supplies and services, and depreciation and amortization. All other revenues and expenses of the University are reported as non-operating revenues and expenses including state general appropriations, non-capital gifts, short term investment income, endowment income used in operations, interest expense, and capital additions and deductions. Capital items represent all other changes in long term plant and endowment net assets. Revenues are recognized when earned and expenses are recognized when incurred with the exception of revenue earned on certain public service activities. Restricted grant revenue is recognized only when all eligibility requirements have been met, that is to the extent grant revenues are expended or in the case of fixed price contracts, when the contract terms are met or completed. Contributions, including unconditional promises to give (pledges) for non-endowment or non-capital purposes, are recognized as revenues in the period received. Promises of additions to non-expendable endowments are not recognized until cash or other assets are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The University applies restricted net assets first when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Significant estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts, valuation of certain investments and depreciation expense. Actual results could differ from those estimates.

The University reports its financial statements as a "business-type activity" ("BTA") under GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* (GASB 35). BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the University are maintained internally in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are maintained in separate funds in accordance with the activities or objectives specified. GASB 35 requires that external financial statements to be reported on a

consolidated basis and establishes standards for external financial reporting by public colleges and universities that resources be classified into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, at historical cost, or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted Nonexpendable:** Net assets subject to externally imposed stipulations that they be maintained permanently by the University.
- **Restricted Expendable:** Net assets whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants and contracts, the accumulated net gains/losses on true endowment funds, as well as restricted funds loaned to students, restricted gifts and endowment income, and other similar restricted funds.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

Revenues are reported net of discounts and allowances. As a result, student financial aid expenditures are reported as an allowance against tuition and fees revenue while stipends and other payments made directly to students are recorded as scholarship and fellowship expenditures on the statement of revenues, expenses, and other changes to net assets, and included in supplies and services on the statement of cash flows. Discounts and allowances for tuition and fees and auxiliary enterprises are calculated using the Alternate Method.

For more detailed information, including the Statement of Cash Flows, see the University's financial statements included as Appendix C of this Official Statement.

## Summary of Operations

### Combined and Condensed Statement of Net Assets As of June 30 (in thousands of dollars)

	2003	2004	2005	2006	2007
	University	University	University	University	University
<b>ASSETS</b>					
Current Assets	\$359,428	\$464,582	\$526,739	\$504,691	\$475,147
Noncurrent Assets					
Investment in Plant Net of Accumulated Depreciation	1,109,079	1,163,700	1,330,410	1,499,607	1,719,316
All Other Noncurrent Assets	602,133	929,967	891,988	900,789	964,875
<b>Total Assets</b>	<b>\$2,070,640</b>	<b>\$2,558,249</b>	<b>\$2,749,137</b>	<b>\$2,905,087</b>	<b>\$3,159,338</b>
<b>LIABILITIES</b>					
Current Liabilities	\$320,040	\$348,643	\$383,772	\$508,972	\$473,375
Noncurrent Liabilities	695,902	1,040,976	1,073,836	1,046,337	1,121,646
<b>Total Liabilities</b>	<b>\$1,015,942</b>	<b>\$1,389,619</b>	<b>\$1,457,608</b>	<b>\$1,555,309</b>	<b>\$1,595,021</b>
<b>NET ASSETS</b>					
Invested in Capital Assets Net of Related Debt	\$685,453	\$713,903	\$739,312	\$804,053	\$884,138
Restricted					
Nonexpendable	14,390	14,433	15,559	16,136	16,264
Expendable	101,738	124,272	160,116	146,903	216,207
Unrestricted	253,117	316,022	376,542	382,686	447,708
<b>Total Net Assets</b>	<b>\$1,054,698</b>	<b>\$1,168,630</b>	<b>\$1,291,529</b>	<b>\$1,349,778</b>	<b>\$1,564,317</b>

### Combined Statement of Revenues, Expenses, and Changes in Net Assets For The Years Ended June 30 (in thousands of dollars)

	2003	2004	2005	2006	2007
	University	University	University	University	University
<b>REVENUES</b>					
<i>Operating Revenues</i>					
Tuition and Fees (net of scholarship allowances of \$101,855 at June 30, 2007, \$88,628 at June 30, 2006, \$66,887 at June 30, 2005, \$63,185 at June 30, 2004 and \$52,271 at June 30, 2003)	\$288,690	\$361,762	\$388,385	\$401,636	\$435,806
Federal Grants and Contracts	256,579	277,166	289,527	300,685	297,647
State Grants and Contracts	55,294	53,788	59,142	66,172	66,775
Local Grants and Contracts	3,240	3,123	3,266	3,746	2,815
Private Grants and Contracts	61,895	67,673	72,249	82,234	92,653
Sales & Service, Educational	14,454	15,978	17,284	17,780	17,150
Auxiliary Enterprises	153,263	163,894	172,745	196,957	206,021
Other Operating Revenues					
Sales & Service, Independent Operations	51,595	61,245	66,346	78,899	99,344
Sales & Service, Public Service Activities	143,115	249,950	399,958	333,997	381,214
Other	35,038	35,362	41,125	44,142	54,858
<b>Total Operating Revenues</b>	<b>\$1,063,163</b>	<b>\$1,289,941</b>	<b>\$1,510,027</b>	<b>\$1,526,248</b>	<b>\$1,654,283</b>

Source: Annual Audited Financial Report for Fiscal Years 2003-2007. (Certain prior year amounts have been reclassified to conform with the current year presentation.)

(continued)  
**Combined Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Years Ended June 30 (in thousands of dollars) (continued)**

EXPENSES	2003	2004	2005	2006	2007
	University	University	University	University	University
<i>Operating Expenses</i>					
Educational and General					
Instruction	\$376,264	\$401,307	\$452,409	\$499,403	\$526,049
Research	268,700	276,595	301,422	316,667	320,889
Public Service	66,284	59,581	63,327	76,867	75,058
Academic Support	95,263	86,976	103,803	112,021	120,240
Student Services	70,285	70,848	75,724	79,229	87,085
Institutional Support	116,785	116,043	131,470	153,071	155,520
Operation and Maintenance of Plant	101,908	121,698	134,246	157,683	166,082
Depreciation and Amortization	103,981	101,465	118,649	121,567	141,360
Scholarships and Fellowships	24,198	26,743	29,832	26,590	29,215
Auxiliary Enterprises	131,499	126,602	151,113	149,986	162,134
Other Expenditures					
Independent Operations	26,777	25,757	37,329	46,546	66,870
Public Service Activities	115,981	207,967	327,416	316,854	330,331
<i>Total Operating Expenses</i>	<b>\$1,497,925</b>	<b>\$1,621,582</b>	<b>\$1,926,740</b>	<b>\$2,056,484</b>	<b>2,180,833</b>
<i>Operating Loss</i>	<b>(\$434,762)</b>	<b>(\$331,641)</b>	<b>(\$416,713)</b>	<b>(\$530,236)</b>	<b>(526,550)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>					
Federal Appropriations	\$5,139	\$6,849	\$7,016	\$7,044	\$5,777
State Appropriations	447,437	398,154	478,813	526,749	579,416
Gifts	13,359	16,731	25,289	25,646	18,621
Investment Income	20,660	26,806	35,072	42,981	87,106
Endowment Income	1,202	1,047	1,661	5,903	7,031
Interest on Indebtedness	(27,145)	(30,230)	(37,077)	(39,331)	(36,737)
Other Nonoperating Income	5,315	13,373	10,721	8,967	9,639
<i>Net Nonoperating Revenues</i>	<b>\$465,967</b>	<b>\$432,730</b>	<b>\$521,495</b>	<b>\$577,959</b>	<b>\$670,853</b>
<i>Income/(Loss) Before Other Revenues, Expenses, Gains and Losses</i>	<b>\$31,205</b>	<b>\$101,089</b>	<b>\$104,782</b>	<b>\$47,723</b>	<b>\$144,303</b>
Capital Appropriations	\$30,491	\$19,135	\$27,417	\$27,147	\$73,590
Capital Grants and Contracts	30,800				4,000
Additions to Permanent Endowments					
University Related Organization Transactions	10,391	676		593	
Disposal of Plant Facilities	(10,733)	(14,099)	(11,990)	(11,276)	(6,964)
Gain from Disposal of Previously Discontinued Operations					
Other Additions/Deductions	6,326	7,131	2,690	(5,938)	(390)
<i>Total Other Revenues, Expenses, Gains, and Losses</i>	<b>\$67,275</b>	<b>\$12,843</b>	<b>\$18,117</b>	<b>\$10,526</b>	<b>\$70,236</b>
<i>Total Increase in Net Assets</i>	<b>\$98,480</b>	<b>\$113,932</b>	<b>\$122,899</b>	<b>\$58,249</b>	<b>\$214,539</b>
<b>NET ASSETS</b>					
Net Assets at Beginning of Year, as reported	\$956,218	\$1,054,698	\$1,168,630	\$1,291,529	\$1,349,778
Net Assets at Beginning of Year, restated					
<i>Net Assets at End of Year</i>	<b>\$1,054,698</b>	<b>\$1,168,630</b>	<b>\$1,291,529</b>	<b>\$1,349,778</b>	<b>\$1,564,317</b>

Source: Annual Audited Financial Report for Fiscal Years 2003-2007. (Certain prior year amounts have been reclassified to conform with the current year presentation.)

## SUMMARY OF FINANCIAL RESULTS, FISCAL YEARS 2005 THROUGH 2007

### Fiscal Year 2007

#### Financial Highlights

The University's net assets (not including University Related Organizations) increased approximately \$214,540,000 from \$1.35 billion in fiscal year 2006 to approximately \$1.56 billion in fiscal year 2007. The major components of these increases relate to increases in student fee revenues across the University campuses and physical plant improvements.

The University expended approximately \$166,000,000 on plant operations and maintenance activities during fiscal year 2007.

#### Summary of Assets and Liabilities

At June 30, 2007, the University's total assets (not including University Related Organizations) were approximately \$3.2 billion, an increase of approximately \$254,000,000 over the approximately \$2.9 billion in assets recorded for fiscal year 2006. The University's largest asset continues to be its net investment in its physical plant of approximately \$1.72 billion at June 30, 2007 (approximately \$1.50 billion in fiscal year 2006). Other significant University assets include current and noncurrent investments and cash and securities held by the University Trustees.

University liabilities (not including University Related Organizations) totaled approximately \$1.60 billion at June 30, 2007, an increase of approximately \$39,700,000 over fiscal year 2006. Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to approximately \$1.1 billion at June 30, 2007. This represents an increase of approximately \$91,100,000 over long-term debt obligations of approximately \$1.01 billion in fiscal year 2006. This increase reflects the new borrowing through HEFA.

The University's current assets of approximately \$475,100,000 were sufficient to cover current liabilities of approximately \$473,400,000, as the current ratio was 1.004 dollars in assets to every one-dollar in liabilities. In fiscal year 2006 the current ratio was 0.99 (approximately \$504,700,000 in current assets and \$509,000,000 in current liabilities).

The University's unrestricted and restricted expendable net assets totaled approximately \$663,900,000, which represents approximately 30.4 percent of total operating expenditures of approximately \$2.18 billion during fiscal year 2007.

In fiscal year 2007, the University's unrestricted net assets (referred to as Expendable Fund Balance under the Former Financial Reporting Model) totaled approximately \$447,700,000. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

#### Summary of Operating Revenues and Operating Expenditures

The University's total operating revenues for fiscal year 2007 were approximately \$1.65 billion. This is an increase of approximately \$128,000,000 over fiscal year 2006 operating revenues of \$1.53 billion. The most significant sources of revenue for the University are tuition and fees of approximately \$435,800,000, grants and contracts of approximately \$459,900,000, and auxiliary services of approximately \$206,000,000. Tuition and fees, grants and contracts, and auxiliary services represent 26 percent, 28 percent and 13 percent, respectively, of total operating revenues.

In fiscal year 2007, University operating expenditures, including depreciation and amortization of approximately \$141,400,000, totaled approximately \$2.18 billion. Of this total, approximately \$1.04 billion or 48 percent was used to support the academic core activities of the University, including approximately \$320,900,000 in research.

### State Appropriations

State appropriations represent approximately 25 percent of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees,

In fiscal year 2007, the net state appropriation increased \$52,700,000 over fiscal year 2006 amounts. This increase is attributed to the state funding of collective bargaining agreements, increased state fringe benefit support as well as an increase for general operations. Beginning in late fiscal year 2004, state appropriations to the University increased after three years of cuts.

### **Fiscal Year 2006**

#### Financial Highlights

The University's net assets (not including University Related Organizations) increased approximately \$58,250,000 from \$1.29 billion in fiscal year 2005 to approximately \$1.35 billion in fiscal year 2006. The major components of these increases relate to increases in student fee revenues across the University campuses and physical plant improvements.

The University expended approximately \$158,000,000 on plant operations and maintenance activities during fiscal year 2006.

#### Summary of Assets and Liabilities

At June 30, 2006, the University's total assets (not including University Related Organizations) were approximately \$2.9 billion, an increase of approximately \$156,000,000 over the approximately \$2.7 billion in assets recorded for fiscal year 2005. The University's largest asset continues to be its net investment in its physical plant of approximately \$1.50 billion at June 30, 2006 (approximately \$1.33 billion in fiscal year 2005). Other significant University assets include current and noncurrent investments and cash and securities held by the University Trustees.

University liabilities (not including University Related Organizations) totaled approximately \$1.56 billion at June 30, 2006, an increase of approximately \$97,700,000 over fiscal year 2005. Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to approximately \$1.01 billion at June 30, 2006. This represents a decrease of approximately \$15,100,000 over long-term debt obligations of approximately \$1.02 billion in fiscal year 2005. This decrease reflects the pay down in debt through debt service payments.

The University's had current assets of approximately \$504,700,000 and current liabilities of approximately \$509,000,000. The current ratio was 0.99 dollars in assets to every one-dollar in liabilities. In fiscal year 2005 the current ratio was 1.37 (approximately \$526,700,000 in current assets and \$383,800,000 in current liabilities).

The University's unrestricted and restricted expendable net assets totaled approximately \$529,600,000, which represents approximately 25.7 percent of total operating expenditures of approximately \$2.06 billion during fiscal year 2006.

In fiscal year 2006, the University's unrestricted net assets (referred to as Expendable Fund Balance under the Former Financial Reporting Model) totaled approximately \$382,700,000. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

## Summary of Operating Revenues and Operating Expenditures

The University's total operating revenues for fiscal year 2006 were approximately \$1.53 billion. This is an increase of approximately \$20,000,000 over fiscal year 2005 operating revenues of \$1.51 billion. The most significant sources of revenue for the University are tuition and fees of approximately \$401,600,000, grants and contracts of approximately \$452,800,000, and auxiliary services of approximately \$197,000,000. Tuition and fees, grants and contracts, and auxiliary services represent 26 percent, 30 percent and 13 percent, respectively, of total operating revenues.

In fiscal year 2006, University operating expenditures, including depreciation and amortization of approximately \$121,600,000, totaled approximately \$2.06 billion. Of this total, approximately \$1.0 billion or 49 percent was used to support the academic core activities of the University, including approximately \$316,600,000 in research.

### State Appropriations

State appropriations represent approximately 25 percent of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees,

In fiscal year 2006, the net state appropriation increased \$47,900,000 over fiscal year 2005 amounts. This increase is attributed to the state funding of collective bargaining agreements, increased state fringe benefit support as well as an increase for general operations. Beginning in late fiscal year 2004, state appropriations to the University increased after three years of cuts.

## **Fiscal Year 2005**

### Financial Highlights

In fiscal year 2005, the University's operating cash and cash equivalents (not including University Related Organizations) increased by \$19,000,000 from approximately \$37,900,000 in fiscal year 2004 to approximately \$56,900,000 in fiscal year 2005.

The University's net assets (not including University Related Organizations) increased approximately \$122,900,000 from \$1.17 billion in fiscal year 2004 to approximately \$1.29 billion in fiscal year 2005. The major components of the increase are increases in public service activities at the Worcester campus; increases in student fees at all campuses; increases in grant and contract activity; and physical plant improvements.

The University expended approximately \$134,200,000 on plant operations and maintenance activities during fiscal year 2005.

### Summary of Assets and Liabilities

At June 30, 2005, the University's total assets (not including University Related Organizations) were approximately \$2.7 billion, an increase of approximately \$190,900,000 over the approximately \$2.56 billion in assets recorded for fiscal year 2004. The University's largest asset is its net investment in its physical plant of approximately \$1.33 billion at June 30, 2005 (approximately \$1.16 billion in fiscal year 2004). Other significant University assets include current and noncurrent investments and cash and securities held by the University Trustees.

University liabilities (not including University Related Organizations) totaled approximately \$1.46 billion at June 30, 2005, an increase of approximately \$68,000,000 over fiscal year 2004. Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to approximately \$1.02 billion at June 30, 2005. This represents an increase of approximately \$15,100,000 over long-term debt obligations of approximately \$1.01 billion in fiscal year 2004. This increase reflects new master lease debt on the Amherst campus.

The University's current assets of approximately \$526,700,000 were sufficient to cover current liabilities of approximately \$383,800,000, as the current ratio was 1.37 dollars in assets to every one-dollar in liabilities. In fiscal year 2004 the current ratio was 1.33 (approximately \$464,600,000 in current assets and \$348,600,000 in current liabilities).

The University's unrestricted and restricted expendable net assets totaled approximately \$536,700,000, which represents approximately 27.9 percent of total operating expenditures of approximately \$1.93 billion during fiscal year 2005.

In fiscal year 2005, the University's unrestricted net assets (referred to as Expendable Fund Balance under the Former Financial Reporting Model) totaled approximately \$376,500,000. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

#### Summary of Operating Revenues and Operating Expenditures

The University's total operating revenues for fiscal year 2005 were approximately \$1.51 billion. This is an increase of approximately \$220,100,000 over fiscal year 2004 operating revenues of \$1.29 billion. The most significant sources of revenue for the University are tuition and fees of approximately \$388,400,000, grants and contracts of approximately \$424,200,000, and auxiliary services of approximately \$172,700,000. Tuition and fees, grants and contracts, and auxiliary services represent 26 percent, 28 percent and 11 percent, respectively, of total operating revenues.

In fiscal year 2005, University operating expenditures, including depreciation and amortization of approximately \$118,600,000, totaled approximately \$1.93 billion. Of this total, approximately \$921,000,000 or 48 percent was used to support the academic core activities of the University, including approximately \$301,400,000 in research.

#### State Appropriations

State appropriations represent approximately 24 percent of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees,

In fiscal year 2005, the net state appropriation increased \$80,700,000 over fiscal year 2004 amounts. This increase is attributed to the state funding of previously unfunded collective bargaining agreements and increased state fringe benefit support. The increase came after a number of years of state appropriation cuts.

#### **Endowment and Fundraising**

The combined University and Foundation endowment has increased to approximately \$372,000,000 at June 30, 2007, from approximately \$70,000,000 at June 30, 1995. The University raised approximately \$90,931,775 in cash, pledges, gifts-in-kind, and private research grants in fiscal year 2007. The number of endowed chairs has grown from four in 1995 to 56 in 2007, enhancing the University's academic reputation.

At June 30, 2007, the Foundation held approximately \$307,000,000 of the total endowments reported below. The Foundation's total investment return for fiscal year 2007, including realized and unrealized activity was a net gain of approximately \$37,800,000. The University contributed \$40.0 million to the quasi-endowment in 2007. The Foundation utilizes the pooled investment concept whereby all invested funds are included in one investment pool, except for investments of certain funds that are otherwise restricted. Additions, redemptions and transfers to pooled investment funds are assigned a number of shares based upon their market value at the date of receipt or withdrawal. The actual spending rate for Foundation endowment funds was four percent for fiscal year 2007.

The University realized significant increases in endowment assets over the last five years. The following details the University and Foundation endowment assets (excluding the University of Massachusetts Dartmouth Foundation, Inc. endowments) at June 30 (in thousands):

**University and Foundation Endowment Assets\***

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$171,944	\$197,505	\$226,410	\$260,961	\$371,599

\*The above presentation of total University and Foundation Endowment Assets has been changed to no longer include current funds.

**Indebtedness of the University**

The University is obligated, under various contractual arrangements, to make payments on indebtedness issued on its behalf.

The Authority

As of June 30, 2007, the Authority had outstanding bonds of approximately \$629,100,000 for which the University is contractually obligated to provide for the payment of debt service or act as the Authority's agent to collect rates, rents, fees and other charges. Approximately \$603,660,000 principal amount of the Authority's bonds are payable from, in addition to other moneys, all funds of the University permitted by law to be applied thereto. With respect to these bonds, the University has contracted with the Authority annually to set aside moneys from its unrestricted net assets to cover debt service and other expenses not otherwise paid.

Certain of the revenues reported on the University's audited financial statements are pledged to secure its contractual obligations to the Authority. Such revenues include: (i) mandatory fees on graduate and undergraduate students (with certain exceptions) at the Amherst campus of the University, which amounted to approximately \$3,050,000 in the 12-months ended June 30, 2007; (ii) amounts paid on account of the engineering building on the Amherst campus from monies in the research trust fund at the Amherst campus, which amounted to approximately \$629,000 in the 12-months ended June 30, 2007; (iii) parking fees assessed for users of the Worcester parking facilities financed by the Authority, which amounted to approximately \$3,900,000 in the 12-months ended June 30, 2007; and (iv) revenues of a research building, a student union, a health center and dormitory, dining facility projects, and residence halls at the Lowell and Dartmouth campuses, which aggregated approximately \$39,700,000 for the 12-months ended June 30, 2007.

On August 7, 2003, the Authority issued its \$137,970,000 Project Revenue Bonds, Senior Series 2003-1 Bonds. The projects to be financed by these bonds are expected to consist of the construction of parking garages at the Boston and Lowell campuses, the renovation of a building for the Charlton College of Business and the improvements of the athletic fields at the Dartmouth campus, and the construction of an integrated science facility and swing space/art building along with many other improvements and renovations at the Amherst campus.

On May 25, 2004, the Authority issued its \$183,965,000 Project and Refunding Revenue Bonds, Senior Series 2004-1 (the "2004-1 Bonds"), \$96,025,000 Facilities Revenue Bonds, Senior Series 2004-A (the "2004-A Bonds"), and \$25,875,000 Taxable Refunding Revenue Bonds, Senior Series 2004-2 (the "Taxable 2004-2 Bonds"). The projects to be financed by the 2004-1 Bonds are expected to consist primarily of the construction of new residence halls and the renovation and equipping of the Health Center at the Amherst campus, the renovation and construction of an addition to a research facility and the construction of a new building for the Charlton College of Business at the Dartmouth campus, completion of the parking garage at the Lowell campus and a number of renovations at the Boston campus. The 2004-A Bonds will be used to finance the construction of new residence halls at the Dartmouth campus.

In conjunction with the issuance of the 2004-1 Bonds, the 2004-A Bonds and the Taxable 2004-2 Bonds, the Authority issued its \$25,595,000 Refunding Revenue Bonds, Senior Series 2005-1 (the "2005-1 Delayed

Delivery Bonds”) on February 3, 2005. The proceeds of the 2005-1 Delayed Delivery Bonds were used to refund the Taxable 2004-2 Bonds.

On August 3, 2005, the Authority issued its \$212,550,000 Refunding Revenue Bonds Senior Series 2005-2, which refunded a portion of several series of the Authority’s outstanding bonds.

On April 20, 2006, the Authority issued its \$243,830,000 Project and Refunding Revenue Bonds Senior Series 2006-1 (the “2006-1 Bonds”), and its \$21,240,000 Taxable Refunding Revenue Bonds Senior Series 2006-2 (the “2006-2 Bonds”). The Series 2006-1 Bonds were issued to refund certain outstanding bonds of the Authority and to finance the construction of a science and technology research room, assessment of the present network infrastructure and the repair, renovation and equipping of various facilities all at the Lowell campus of the University, and other projects which meet certain conditions set forth in the Series Resolution (collectively, the “2006-1 Projects”). The Series 2006-2 Bonds were issued to refund certain outstanding bonds of the Authority. The 2006-1 Bonds are variable rate demand obligations insured by Ambac Assurance Corporation, subject to optional and mandatory tender for purchase under certain circumstances. The Authority obtained a standby bond purchase agreement to fund the tender of such bonds upon a failed remarketing. Following the downgrade of Ambac’s rating by Fitch to “AA” and other market developments, portions of the 2006-1 Bonds have been tendered and not remarketed. Such tenders have been funded by draws on the standby bond purchase agreement. In connection with the issuance of the 2006-1 Bonds, the Authority entered into an interest rate swap agreement with Citibank, N.A. (“Citi”) in a notional amount equal to the principal amount of the 2006-1 Bonds, pursuant to which the Authority pays to Citi an amount equal to 3.482% per annum of the notional amount and receives from Citi the product of (a) the sum of 60% of one-month LIBOR plus 0.18%, times (b) the notional amount. The swap agreement is intended to hedge against the variable rate exposure on the 2006-1 Bonds, with the amounts paid to the Authority from Citi offsetting the variable rate payments to the holders of the 2006-1 Bonds. Due to recent market conditions and because portions of the 2006-1 Bonds are being held by the provider of the standby bond purchase agreement, the amount accruing from Citi is less than the variable payments due to the bondholders and the standby bond purchase bank. Accordingly, the net amount received under the swap will be less than the amount payable on the 2006-1 Bonds on the next payment date. The Authority is considering a refunding of the 2006-1 Bonds. See “THE AUTHORITY - General” in the forepart of this Official Statement.

The 2008-1 Bonds are being issued in the principal amount and for the purposes and are payable from the sources described in the forepart of this Official Statement. See “APPLICATION OF PROCEEDS OF THE BONDS AND OTHER AVAILABLE FUNDS,” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” in the forepart of this Official Statement.

#### Massachusetts Health and Educational Facilities Authority

##### *University of Massachusetts Series D*

In January 2007, HEFA issued its \$10,435,000 Revenue Bonds, University of Massachusetts Issue, Series D (the “Series D Bonds”) for the purpose of partially refunding the University of Massachusetts Issue, Series B (the “Series B Bonds”) (defined below). The Series D Bonds are a general obligation of the University payable from all funds of the University permitted to be applied thereto. The University’s unrestricted net assets, previously referred to as the expendable fund balance sheet, secure the obligations of the University with respect to the Series D Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Series D Bonds.

##### *University of Massachusetts Series C*

In June 2002, HEFA issued its \$35,000,000 Revenue Bonds, University of Massachusetts Issue, Series C (the “Series C Bonds”) for the purpose of financing a portion of the construction and related costs of a new campus center on the Boston campus. The Commonwealth’s Division of Capital Asset Management and Maintenance managed the project and the Commonwealth provided funding for the project in addition to the Series C Bonds. The campus center opened in April 2004. The Series C Bonds are a general obligation of the University payable from all funds of the University permitted to be applied thereto. The University’s unrestricted net assets, previously referred

to as the expendable fund balance, secure the obligations of the University with respect to the Series C Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Series C Bonds.

*University of Massachusetts Series B*

In June 2001, HEFA issued its \$11,970,000 Revenue Bonds, University of Massachusetts Issue, Series B (the “Series B Bonds”) for the purpose of constructing and equipping a new student center on the Lowell campus. The facility was opened in September 2002. The Commonwealth’s Division of Capital Asset Management managed the project and the Commonwealth provided funding for the project in addition to the Series B Bonds. The Series B Bonds are a general obligation of the University payable from all funds of the University permitted to be applied thereto. The University’s unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the Series B Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Series B Bonds. Pursuant to and as specified in the Refunding Trust Agreement, dated as September 12, 2006, by and between HEFA and Flagship Bank and Trust Company, (the “Refunded Bond Trustee”), there are held by the Refunded Bond Trustee, Government or Equivalent Obligations which will mature and bear interest payable in such amounts and at such times as will be sufficient, together with any uninvested moneys, to pay when due the principal, interest and redemption premium, as applicable, on the Series B Refunded Bonds on and until their respective maturity or redemption dates.

*University of Massachusetts Series A*

In March 2000, HEFA issued its \$40,000,000 Variable Rate Demand Revenue Bonds, University of Massachusetts Issue, Series A (the “Series A Bonds”) for the purpose of loaning the proceeds to the University to create a pool of funds from which the University finances and refinances the acquisition of telecommunications, electronic, computer, office, research, equipment and administrative systems and related renovation costs at the various University campuses on a revolving basis throughout the term of the pool. The Series A Bonds are a general obligation of the University payable from all funds of the University permitted to be applied thereto. The University’s unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the Series A Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Series A Bonds.

*WCCC Series F*

In January 2007, HEFA issued its \$101,745,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series F (the “WCCC Series F Bonds”) for the purpose of refunding the outstanding amount of the WCCC Series C Bonds (defined below). See “Defeasance of WCCC Series C” below for additional information. The proceeds will also finance and/or refinance the construction and equipping of a four-story, 180,000 square-foot building containing wet research and development laboratories, vivarium and office space and a structured parking facility to be located on the parcel of land in the city of Boston, Massachusetts, known as Lot 3A on the West Campus of the former Boston State Hospital. WCCC entered into a sublease with the University that requires the University to make semi-annual rental payments sufficient to pay, among other things, debt service on the WCCC Series F Bonds. The University’s rental payments to WCCC are payable from any funds legally available for application thereto other than moneys appropriated by Massachusetts legislature. The obligations of WCCC to make payments under the Series F Loan and Trust Agreement (including, without limitation, payments to HEFA, the Paying Agent and the Trustee) shall be a special obligation of WCCC, payable only from Project Revenues.

*WCCC Series E*

In January 2007, HEFA issued its \$118,750,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series E (the “WCCC Series E Bonds”) for the purpose of partially refunding the WCCC Series B Bonds (defined below). The proceeds will also finance and/or refinance the construction of a seven-story, approximately 260,000 square-foot advanced education and clinical practice center to be located at the Institution’s facility at 55 Lake Avenue in Worcester, Massachusetts. The obligations of WCCC to

make payments under the Series E Loan and Trust Agreement (including, without limitation, payments to HEFA, the Paying Agent and Trustee) shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to abatement, offset, diminution, setoff, recoupment or counterclaim and shall be a general obligation of WCCC to which the full faith and credit of WCCC is pledged. The University is obligated under certain financing agreements with the Authority to make payments from any funds of the University permitted to be applied thereto of amounts due on the WCCC Series E Bonds otherwise unpaid by WCCC. The University's unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the Series E Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service on the Series E Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service not otherwise paid on the WCCC E Bonds.

#### *WCCC Series D*

In April 2005, HEFA issued its \$99,325,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (the "WCCC Series D Bonds") for the purpose of refunding the outstanding amount of the WCCC Series A Bonds (defined below). The University is obligated under certain financing agreements with the HEFA to make payments from any funds of the University permitted to be applied thereto of amounts due on the WCCC Series D Bonds otherwise unpaid by WCCC. The trust agreement securing the WCCC Series D Bonds provides that the trustee may declare all of the WCCC Series D Bonds due and payable prior to maturity, at par plus accrued interest, upon the occurrence of an event of default under such trust agreement. However, the University's obligation under the aforesaid financing agreements to make payments on account of the WCCC Series D Bonds is not subject to acceleration. The University's unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the WCCC Series D Bonds. The University is required to certify annually that there are sufficient funds in the unrestricted net assets to cover the debt service not otherwise paid on the WCCC Series D Bonds. See "Defeasance of WCCC Series A" below for additional information.

#### *Defeasance of WCCC Series C*

In April 2002, HEFA issued its \$70,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series C (the "WCCC Series C Bonds") for the purpose of constructing and equipping an approximately 75,000-square foot aseptic filling and manufacturing facility to be located on the former Boston State Hospital site in Mattapan. The WCCC Series C Bonds were advance refunded and legally defeased with the issuance of the above-described WCCC Series F Bonds. Pursuant to and as specified in the Refunding Trust Agreement, dated as September 12, 2006, by and between HEFA and Flagship Bank and Trust Company, (the "Refunded Bond Trustee"), there are held by the Refunded Bond Trustee, Government or Equivalent Obligations which will mature and bear interest payable in such amounts and at such times as will be sufficient, together with any uninvested moneys, to pay when due the principal, interest and redemption premium, as applicable, on the WCCC Series C Refunded Bonds on and until their respective maturity or redemption dates.

#### *WCCC Series B*

In June 2001, HEFA issued its \$52,020,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series B (the "WCCC Series B Bonds"). Concurrently with the issuance of the WCCC Series B Bonds, the Foundation transferred ownership of its medical research facility ("Biotech II") to WCCC. In exchange for Biotech II, WCCC assumed from the Foundation the remaining debt of \$17.8 million, net (the "Foundation Bonds"), and acquired the related debt service funds associated with Biotech II. WCCC deposited approximately \$17 million of the proceeds of the WCCC Series B Bonds in an irrevocable trust fund, which was used to provide for the payment of interest and principal on the Foundation Bonds through their redemption date of July 1, 2002. The remaining approximately \$35 million of the WCCC Series B Bonds financed the construction of a parking garage and the acquisition and installation of equipment at the Worcester campus. The University is obligated under certain financing agreements with the HEFA to make payments from any funds of the University permitted to be applied thereto of amounts due on the WCCC Series B Bonds otherwise unpaid by WCCC. The University's unrestricted net assets, previously referred to as the expendable fund balance, secure the obligations of the University with respect to the WCCC Series B Bonds. The University is required to certify annually that there

are sufficient funds in the unrestricted net assets to cover the debt service not otherwise paid on the WCCC Series B Bonds. Pursuant to and as specified in the Refunding Trust Agreement, dated as September 12, 2006, by and between HEFA and Flagship Bank and Trust Company, (the "Refunded Bond Trustee"), there are held by the Refunded Bond Trustee, Government or Equivalent Obligations which will mature and bear interest payable in such amounts and at such times as will be sufficient, together with any uninvested moneys, to pay when due the principal, interest and redemption premium, as applicable, on the WCCC Series B Refunded Bonds on and until their respective maturity or redemption dates.

#### *Defeasance of WCCC Series A*

In March 2000, HEFA issued its \$100,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A (the "WCCC Series A Bonds") for the purpose of financing the site development, construction and equipping of an approximately 362,000 gross square foot research facility located on the University's Medical School campus in Worcester. The WCCC Series A Bonds were advance refunded and legally defeased with the issuance of the above-described WCCC Series D Bonds. Pursuant to and as specified in the Refunding Trust Agreement, dated as of March 8, 2005, by and between HEFA and J.P. Morgan Trust Company, National Association (the "Refunded Bond Trustee"), there are held by the Refunded Bond Trustee, Government Obligations which will mature and bear interest payable in such amounts and at such times as will be sufficient, together with any uninvested moneys, to pay when due the principal, interest and redemption premium, as applicable, on the WCCC Series A Refunded Bonds on and until their respective maturity or redemption dates.

#### **Unrestricted Net Assets (Referred to as Expendable Fund Balance Under the Former Financial Reporting Model)**

As of June 30, 2007, the outstanding principal amount of Authority and HEFA debt secured by the University's unrestricted net assets was approximately \$917,339,000. The chart below details the unrestricted net assets (not including University Related Organizations) in fiscal years 2003-2007.

<b>Fiscal Year</b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Unrestricted Net Assets	\$253,117,000	\$316,022,000	\$376,542,000	\$382,686,000	\$447,708,000

#### **Additional Indebtedness**

Under the terms of the trust agreements and financing agreements securing the above-referenced indebtedness issued by HEFA, the University may, without limit, issue additional indebtedness or request the Authority or HEFA to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all funds of the University permitted by law to be applied thereto. With certain exceptions described below, the University may not pledge, or permit to exist any lien on, any of its funds or revenues. The University may request the Authority to issue additional indebtedness on behalf of the University that is not payable from all funds of the University permitted by law to be applied thereto, provided (i) the additional indebtedness is secured by (a) pledged revenues derived from the project or projects being financed, (b) new or increased student fees whether imposed by the University or the Authority, (c) existing pledged revenues, or (d) any combination of the foregoing and (ii) the maximum annual debt service on all revenue indebtedness then outstanding, including the proposed additional indebtedness, does not exceed 10% of the amount shown in the then most recent audited financial statements of the University as total available revenues. Indebtedness of the University may not be subject to acceleration.

#### **Capitalized Leases**

The University is also obligated under certain capital lease agreements, primarily relating to telecommunications, software and co-generation systems, for future minimum capital lease payments having a present value of approximately \$54,600,000 at June 30, 2007.

## **Insurance**

The University, as an agency of the Commonwealth, is self-insured for property loss exposure, subject to appropriation from the state legislature. However, properties owned by the Authority located on a campus of the University, such as the Mullins Center, dining commons, and most dormitories, are insured by the Authority. In addition, certain properties owned by University Related Organizations and leased to the University are insured by the related organization. The University and its employees are protected against tort claims through sovereign immunity under Chapter 258 of the Massachusetts General Laws. The University maintains certain liability insurance policies, including Commercial General Liability, leased Automotive Liability, Directors and Officers and Comprehensive Crime. Employees of the University are covered for Worker's Compensation protection under Chapter 152 of the Massachusetts General Laws.

## **Technological Initiatives**

The University has completed the final phase of its complex, multi-year project to replace its legacy mainframe-based Student and Administration and Finance systems with "PeopleSoft" application systems. The campuses and the President's Office have undertaken a variety of planning and organizing activities designed to establish project structures, roles and responsibilities, and collaborative plans and processes for the University. In July 2004, the University added the Asset Management system to its Human Resources/Payroll ("HR") application (the HR application was implemented in March 2002) and to its financial system (the new financial system was implemented July 2002). The University completed the implementation of the final phase of the Student Administration suite for Boston, Dartmouth and Lowell campuses in March 2006. In addition, the University will continue to secure these assets by staying as current as fiscally feasible with vendor releases, i.e., upgrades that will enable additional functionality and incorporate major changes in functionality and technology. As such, the University initiated in May 2005 and completed in January 2007 the upgrade of its financial systems to the latest release and concurrently implements the PeopleSoft e-procurement product suite as well as the new Grants Management product suite. These systems will continue to enhance business functions by further consolidating processing, streamlining operations, and increasing utilization through new features and self-service offerings. A major focus in fiscal year 2006, 2007 and 2008 will be upgrading the Human Resource and Student Administration applications and consolidating the University's Advancement applications to one common platform, as well as increasing the reporting services and capabilities of the University's systems to better support operational and management planning efforts through a significant Business Intelligence initiative.

In 2004, the University also invested in new systems to support its UMassOnline e-learning initiative and, as a result, implemented a new WebCT-based learning management system. The University completed its migration to this new system at the end of August 2006 resulting in and now students and faculty benefiting from increased functionality, improved performance and a consistent look and feel for the University's growing customer base (over 28,000 course enrollments in academic year 2007).

During fiscal year 2007, the University has continued to invest in existing infrastructure to address growth and obsolescence. These areas include additional investments in its existing storage solutions, retirement of aged servers and services, and upgrades to key systems. Planning began in fiscal year 2007 to begin a multiyear shift in the underlying database architecture that will improve performance, availability and the disaster recovery profile of core applications for the University. Spending for this initiative will begin in mid fiscal year 2008.

The University continues to invest in its statewide inter-campus network, known as the Massachusetts Information Turnpike Initiative ("MITI"). This effort, originally seeded through the Commonwealth, provides a high-speed fiber optic network that significantly enhances the University's telecommunications capacity, assists in promoting inter-campus information linkages, assists in the development and widespread deployment of public information services, and stimulates collaborative research and development efforts among University, industry, and governmental laboratory researchers across the Commonwealth. The University began a redesign and upgrade of this network in fiscal year 2007 with a planned completion mid to late fiscal year 2008. The investment will improve upon service availability and the investment in this asset will increase the capacity of the network to continue to provide much needed services in the Commonwealth.

During fiscal year 2004, the Legislature passed comprehensive statewide science and emerging technology legislation that among other things established the Massachusetts Technology Transfer Center (“MTTC”) at the University. The purpose of the center is to promote the transfer of technology from Massachusetts public and private universities to Massachusetts industries. The University consulted with state officials, business leaders, private universities, venture capitalists, and others in designing this new center. The MTTC will develop improved mechanisms to connect the technology assets of the state’s universities with the needs of the state’s technology-based industries (e.g., medical devices, marine technologies, plastics, and other materials).

### **Litigation**

The University is a defendant in various lawsuits; however, University management is of the opinion that the ultimate outcome of all such litigation will not have any material effect on the financial position or financial results of the University.

### **Employee Relations**

The University employs approximately 16,026 full and part-time faculty, professional and clerical support staff, of which approximately 9,838 are covered by collective bargaining units. Of those covered, approximately 3,155 are faculty, approximately 2,427 are professional staff, approximately 3,719 are clerical and maintenance support staff, and approximately 162 are police officers. In total, the University has 33 collective bargaining units (including three graduate employee units). The majority of the University’s collective bargaining contracts expire on June 30, 2008. Negotiations will get underway for successor agreements to most of these contracts in the early part of calendar year 2008. New agreements, when negotiated, are expected to cover the period from July 1, 2008 through June 30, 2011. Employees covered by University collective bargaining units cannot strike. The Commonwealth appropriates supplemental funds to support collective bargaining wage increases and other economic benefits for state funded employees. During fiscal year 2002, approximately 360 Amherst campus undergraduate resident assistants received the right from the Massachusetts Labor Relations Commission (“MLRC”) to negotiate for terms and conditions of their employment, and the resident assistants voted to have the United Auto Workers (“UAW”) as their bargaining agent. The current contract between the University and UAW expires June 30, 2008.

University employees are covered by a contributory Massachusetts retirement system set up by Chapter 32 of the Massachusetts General Laws. The state retirement plan provides retirement benefits based upon age at retirement, years and months of service, and the average of the highest three consecutive years of base salary. Employees can also participate in various optional supplemental retirement programs, such as the University of Massachusetts 403(b) and the Commonwealth of Massachusetts 457(b) programs.

Employees generally are eligible to participate in various fringe benefit plans such as the dependent care assistance program and the health, dental, life and disability insurance plans.

UNIVERSITY OF MASSACHUSETTS

By:           /s/ Stephen W. Lenhardt, Sr.            
Vice President for Management and  
Fiscal Affairs and Treasurer

Dated: April 15, 2008

[Intentionally Left Blank]

**APPENDIX B**

**FINANCIAL STATEMENTS OF THE AUTHORITY**

[Intentionally Left Blank]

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY  
(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**WITH**

**INDEPENDENT AUDITORS' REPORT**



**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Table of Contents

---

	Page Number
Independent Auditors' Report on Financial Statements	1 - 2
Management's Discussion and Analysis (Required Supplementary Information)	3 - 9
Financial Statements:	
Statements of Net Assets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 35



1400 Computer Drive | Westborough, MA 01581 | 508.926.2200 | 508.616.2943 fax | www.ccrgroup.com

## INDEPENDENT AUDITORS' REPORT

To the Members  
**University of Massachusetts Building Authority**  
 Boston, Massachusetts

We have audited the accompanying statements of net assets of the **University of Massachusetts Building Authority** (the Authority or UMBA) as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **University of Massachusetts Building Authority** as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit did not include the maintenance and operating accounts and funds for projects financed or refinanced by bonds issued by the Authority under the UMBA Trust Agreement or the Project Trust Agreement (each as defined in Note 1 to the financial statements), because such accounts and funds are under the control and responsibility of the Trustees of the University of Massachusetts pursuant to the contracts for financial assistance, management and services pertaining to such projects between the Authority and the Commonwealth of Massachusetts, acting by and through said Trustees, as described in Notes 1 and 2 to the financial statements.

Continued -

WESTBOROUGH

BOSTON

GLASTONBURY

PROVIDENCE

Members of CCR Advisory Group:  
 Carlin, Charron & Rosen, LLP; CCR Corporate Revitalization, LLC; CCR Cost Recovery Services, LLC;  
 CCR Retirement Plan Services, LLP; CCR Technology Services; CCR Wealth Management, LLC

A Founding Member of the Leading Edge Alliance

Management's discussion and analysis presented on pages 3 through 9 is not a required part of the basic financial statements of the Authority, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

*Carlin, Charron & Rosen LLP*

Westborough, Massachusetts  
November 1, 2007

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
 June 30, 2007 and 2006

---

This section of the annual financial statements of University of Massachusetts Building Authority (the Authority) presents a discussion and analysis of the Authority's financial activity for the fiscal years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with and is qualified in its entirety by the Authority's financial statements and related note disclosures.

**Introduction**

The Authority is an independent body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the Commonwealth), which was created by Chapter 773 of the Acts of 1960 of the Commonwealth, as amended (the Enabling Act). The Authority was created with the general purposes of providing dormitories, dining commons and other buildings and structures for use by the University of Massachusetts (the University), its students, staff and their dependents and other entities associated with the University as specified in the Enabling Act, as requested by authority of the Trustees of the University (the Trustees).

The Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct, remodel and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Enabling Act authorizes the Authority to acquire property from the Commonwealth or others (but the Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons, to enter into contracts, to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes therefore which are payable solely from its revenues. The Authority's assets and projects are located on all five campuses of the University. The 11 members of the Authority are appointed by the Governor. Five of the members must be Trustees. Two of the other members must be graduates of the University. Non-trustee members serve terms of approximately six years. Trustee members serve as long as they are Trustees. Members whose terms expire continue as members until they are reappointed or replaced.

**Financial Highlights**

- Net assets of the Authority continued to grow, reaching \$199,972,715 in fiscal 2007 and \$130,382,861 in fiscal 2006.
- The Authority opened a new parking garage on the Lowell campus adding parking for 630 cars, opened the first new on campus housing since the early 1970's on the Amherst campus and completed an award winning renovation of the Berkshire Dining Hall at the Amherst campus in fiscal 2007.

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
 June 30, 2007 and 2006

---

**Financial Highlights (Continued)**

- The Authority closed a \$35 million tax-exempt revolving line-of-credit with Bank of America in fiscal 2007, providing the Authority with short-term, inexpensive liquidity to bridge the financing needs between issues of long-term bonds.
- The Authority issued its Series 2005-2, 2006-1 and 2006-2 Bonds in fiscal 2006 which refunded most of the Authority's outstanding debt and provided a small amount of new project funds. The 2006-1 bonds were issued as variable rate bonds and then swapped for a synthetic fixed rate.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements comprise two primary components: 1) the financial statements and 2) the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

*The Financial Statements*

The financial statements are designed to provide readers with a broad overview of the Authority's finances and are comprised of three basic statements.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information that shows how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payments to vendors after year end for services prior to year end).

The *statement of cash flows* is reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts (e.g., income from contracts) and disbursements (e.g., cash paid to vendors for services). The Governmental Accounting Standards Board (GASB) Statements 34 and 35 require this method to be used.

The financial statements can be found on pages 10 to 13 of this report.

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
June 30, 2007 and 2006

**Overview of the Financial Statements (Continued)**

The Authority reports its activity as a business-type activity using the economic resources measurement focus and the full accrual basis of accounting. The Authority is a blended component unit of the University. Therefore, the results of the Authority's operations, its net assets and cash flows are also summarized in the University's financial statements.

*Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes provide information regarding the accounting policies the Authority has adopted as well as additional details of certain amounts contained in the financial statements.

The notes to the financial statements can be found on pages 14 to 35 of this report.

**Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$199,972,715 at the close of the most recent fiscal year.

A portion of the Authority's net assets reflects its investment in capital assets (e.g. buildings, equipment and furnishings) less any related debt used to acquire those assets that is still outstanding for the most recent fiscal year. The Authority uses these capital assets to provide services to students, faculty and administration; consequently, these assets are *not* available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Authority's primary sources of funds needed to repay the debt are receipts related to the Authority's financial contracts with the University.

University of Massachusetts Building Authority's Net Assets

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets	\$ 22,270,644	\$ 30,787,984	\$ 13,126,771
Non-current assets	<u>837,530,840</u>	<u>799,377,188</u>	<u>774,740,280</u>
Total assets	<u>859,801,484</u>	<u>830,165,172</u>	<u>787,867,051</u>
Current liabilities	61,471,102	72,086,416	35,566,835
Non-current liabilities	<u>598,357,667</u>	<u>627,695,895</u>	<u>635,320,819</u>
Total liabilities	<u>659,828,769</u>	<u>699,782,311</u>	<u>670,887,654</u>

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
June 30, 2007 and 2006

**Financial Analysis (Continued)**

University of Massachusetts Building Authority's Net Assets (Continued)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Net Assets:			
Invested in capital assets, net of related debt	60,966,292	42,700,333	21,894,795
Restricted	122,125,622	63,158,486	87,826,711
Unrestricted	<u>16,880,801</u>	<u>24,524,042</u>	<u>7,257,891</u>
Total net assets	<u>\$199,972,715</u>	<u>\$130,382,861</u>	<u>\$116,979,397</u>

Restricted net assets primarily relates to assets restricted to capital projects and debt service. The capital project restricted net assets are funds provided, primarily, by debt financing for the completion of University projects. The debt service restricted net assets are funds provided, primarily, as additional collateral to the bond holders (e.g. debt service reserve funds).

Current assets increased between FY 2005 and FY 2006 as certain funds were released from their restrictions due to bond refundings in FY 2006. These funds, primarily associated with the bond issue reserves, were then used in FY 2007 for certain campus initiatives which reduced current assets for that period. Non-current assets increased between FY 2005 and FY 2006 due to the issuance of new bonds that provided an additional \$10,000,000 in new funds for projects and significantly increased the amount of unamortized bond issuance expenses. Non-current assets increased between FY 2006 and FY 2007 primarily due to two cash appropriations from the Commonwealth to the Authority totaling \$54,000,000.

The most significant influence on current liabilities relates to amounts due by the Authority to contractors and sub-contractors as either payables or retainage at year end. There was a larger amount of these liabilities at the end of fiscal 2006 due to the status of several projects which were in mid-construction at that time. At the end of fiscal 2007 these liabilities returned to more usual levels. This reduction was somewhat offset by an increase in current portion in long-term debt and borrowings under the Authority's new revolving line-of-credit with Bank of America.

The large increase in restricted net assets in FY 2007 primarily relates to the \$54,000,000 in appropriations received during the year. Bond related restricted net assets continued to be converted into net assets invested in capital assets as the Authority's construction projects come into operations. Unrestricted net assets increased in FY 2006 due to the release of restrictions on bond reserves achieved by the various refundings undertaken during the year and they decreased as the Authority put these funds to work at the campus level.

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
June 30, 2007 and 2006

**Financial Analysis (Continued)**

University of Massachusetts Building Authority's Changes in Net Assets

	For the year ended <u>June 30, 2007</u>	For the year ended <u>June 30, 2006</u>	For the year ended <u>June 30, 2005</u>
Operating revenues:			
Income from contracts and other income	\$ 50,293,320	\$ 49,802,526	\$ 54,470,114
Grants and in-kind contributions	<u>75,684</u>	<u>75,682</u>	<u>75,684</u>
Total operating revenues	<u>50,369,004</u>	<u>49,878,208</u>	<u>54,545,798</u>
Operating expenses:			
Facilities operating costs	8,629,772	9,973,358	23,389,499
Depreciation and amortization	16,159,383	12,786,721	11,398,497
Grant refund, net	-	-	700,000
Insurance	861,925	838,171	782,283
Professional fees	527,472	404,425	568,631
Other operating expenses	<u>38,991</u>	<u>22,216</u>	<u>24,854</u>
Total operating expenses	<u>26,217,543</u>	<u>24,024,891</u>	<u>36,863,764</u>
Net operating income	<u>24,151,461</u>	<u>25,853,317</u>	<u>17,682,034</u>
Non-operating revenues (expenses)			
State appropriations	54,000,000	-	-
Interest income	15,213,242	17,104,694	18,058,385
Realized and unrealized losses on investments	1,274,261	(1,518,020)	(339,054)
Interest expense, net	(22,288,641)	(23,831,551)	(21,206,478)
U.S. Treasury rebate expense	<u>(25,568)</u>	<u>(431,723)</u>	<u>(894,422)</u>
Total non-operating revenues (expenses)	<u>48,173,294</u>	<u>(8,676,600)</u>	<u>(4,381,569)</u>
Special Item			
Removal of certain campus operating activities	<u>(2,734,901)</u>	<u>(3,773,253)</u>	<u>-</u>
Change in net assets	69,589,854	13,403,464	13,300,465
Net assets at the beginning of the year	<u>130,382,861</u>	<u>116,979,397</u>	<u>103,678,932</u>
Net assets at the end of the year	<u>\$199,972,715</u>	<u>\$130,382,861</u>	<u>\$116,979,397</u>

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
June 30, 2007 and 2006

---

**Financial Analysis (Continued)**

Income from contracts is primarily related to contracts the Authority has with the University. The amounts fluctuate based on the debt service requirements on Authority bonds in any particular year.

Facility operating costs primarily reflect the operations of the Authority owned dormitories and dining facilities on the campuses of the University and the operations of the UMass Club. Certain bonds were refunded in FY 2006 and that refunding allowed the Authority to discontinue reflecting the operations of those dormitories and dining halls.

The Authority received two state appropriations in FY 2007. The first, for \$50,000,000, represented funds designated for deferred maintenance issues at the University. The second, for \$21,000,000, was designated for the construction of a nano-bio manufacturing facility on the Lowell campus. \$4,000,000 of this appropriation was paid to the Authority in fiscal 2007.

**Capital Assets and Debts of the Authority**

The Authority's investment in capital assets as of June 30, 2007 amounts to \$566,837,149 net of accumulated depreciation. This investment in capital assets includes buildings (including improvements), furnishings and equipment. Capital assets increased during the year by \$164,839,193 or 41% in fiscal 2007. This increase was due to capital improvements and construction in progress outpacing depreciation expenses as follows:

- Buildings and improvements increased by \$151,218,960 in fiscal 2007 as the Authority placed two new buildings in service.
- Construction in progress increased by \$23,273,999 from fiscal 2006 to fiscal 2007
- Furnishings and equipment increased by \$4,828,338 in fiscal 2007

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Management's Discussion and Analysis  
 June 30, 2007 and 2006

---

**Capital Assets and Debts of the Authority (Continued)**

The Authority's investment in capital assets as of June 30, 2006 amounts to \$401,997,956 net of accumulated depreciation. This investment in capital assets includes buildings (including improvements), furnishings and equipment. Capital assets increased during the year by \$128,104,340 or 47% in fiscal 2006. This increase was due to capital improvements and construction in progress outpacing depreciation expenses as follows:

- Construction in progress increased by \$77,682,019 from fiscal 2005 to fiscal 2006
- Buildings and improvements increased by \$60,726,718 in fiscal 2006
- Furnishings and equipment increased by \$1,111,564 in fiscal 2006.

The Authority carries debt in the form of bond obligations and a revolving line-of-credit. These debts totaled \$629,125,364 and \$648,178,699 at June 30, 2007 and 2006, respectively. Additionally, the Authority records a liability to the U.S. Treasury related to rebate of interest earned on bond proceeds in excess of the allowable or arbitrage yield. The liability at June 30, 2007 and 2006 was \$492,763 and \$467,196, respectively. The Authority made deposits with the United States Treasury totaling \$4,086,594 during fiscal 2006 related to its rebate liability.

**The University of Massachusetts Club**

During fiscal 2006 the Authority opened the University of Massachusetts Club (the Club). The Club is a private club open to membership for alumni, faculty, staff and friends of the University and is located on the 33<sup>rd</sup> floor of 225 Franklin Street in downtown Boston, Massachusetts. The club is managed by UMass Club Management, LLC, a wholly owned subsidiary of ClubCorp USA, a nationally known business club management company. More information can be found on the Club's web site, [www.umassclub.com](http://www.umassclub.com).

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in them. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, University of Massachusetts Building Authority, 225 Franklin Street, 12<sup>th</sup> Floor, Boston, Massachusetts, 02110. Additional information on the Authority can be found on its web site, [www.umassba.net](http://www.umassba.net).

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Statements of Net Assets  
June 30, 2007 and 2006

	Assets		2007	2006
Current assets				
Cash and cash equivalents (Notes 2 and 3)			\$ 10,842,654	\$ 15,957,474
Investments, at fair value (Notes 2 and 3)			8,534,151	10,047,251
Accounts receivable, net of allowance of \$5,100 and \$194,700, Respectively			269,329	591,881
Interest receivable			2,329,497	3,895,352
Prepaid expenses and other current assets			<u>295,013</u>	<u>296,026</u>
Total current assets			<u>22,270,644</u>	<u>30,787,984</u>
Non-current assets				
Restricted				
Cash and cash equivalents (Notes 2 and 3)			192,761,756	22,282,935
Investments, at fair value (Notes 2 and 3)			69,021,674	365,781,316
Capital assets, net of accumulated depreciation (Note 4)			566,837,149	401,997,956
Bond issuance costs, net of amortization of \$970,600 and \$562,800 respectively			8,802,973	9,207,693
Other assets			<u>107,288</u>	<u>107,288</u>
			<u>837,530,840</u>	<u>799,377,188</u>
Total assets			<b><u>859,801,484</u></b>	<b><u>830,165,172</u></b>
	Liabilities			
Current liabilities				
Accounts payable			16,094,780	38,789,908
Retainage payable to contractors			7,820,215	5,497,728
Bonds payable, current portion (Note 5)			27,190,000	20,950,000
Due to Bank of America (Note 6)			4,070,460	-
Accrued bond interest payable			4,598,727	5,135,123
Other liabilities			<u>1,696,920</u>	<u>1,713,657</u>
Total current liabilities			<u>61,471,102</u>	<u>72,086,416</u>
Non-current liabilities				
Bonds payable, net of current portion, unamortized bond premium and deferred amount from refundings (Note 5)			597,864,904	627,228,699
U.S. Treasury rebate payable			<u>492,763</u>	<u>467,196</u>
			<u>598,357,667</u>	<u>627,695,895</u>
Total liabilities			<b><u>659,828,769</u></b>	<b><u>699,782,311</u></b>
	Net Assets (Note 7)			
Invested in capital assets, net of related debt			60,966,292	42,700,333
Restricted for:				
Capital projects			120,207,736	61,626,323
Debt service			1,917,886	1,532,163
Unrestricted			<u>16,880,801</u>	<u>24,524,042</u>
Total net assets			<b><u>\$ 199,972,715</u></b>	<b><u>\$ 130,382,861</u></b>

See notes to financial statements.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Operating revenues		
Income from contracts for financial assistance, management and services and other income	\$ 50,293,320	\$ 49,802,526
HUD grant	<u>75,684</u>	<u>75,682</u>
Total operating revenues	<b><u>50,369,004</u></b>	<b><u>49,878,208</u></b>
Operating expenses		
Facility operating costs	8,629,772	9,973,358
Depreciation and amortization	16,159,383	12,786,721
Insurance	861,925	838,171
Professional fees	527,472	404,425
Office, administration and miscellaneous	<u>38,991</u>	<u>22,216</u>
Total operating expenses	<b><u>26,217,543</u></b>	<b><u>24,024,891</u></b>
Net operating income	<b><u>24,151,461</u></b>	<b><u>25,853,317</u></b>
Non-operating revenues and expenses		
State appropriations (Note 8)	54,000,000	-
Interest income	15,213,242	17,104,694
Realized and unrealized losses on investments	1,274,261	(1,518,020)
Interest expense, net of amortization of premium of \$2,478,800 and \$2,672,500, respectively	(22,288,641)	(23,831,551)
U.S. Treasury rebate	<u>(25,568)</u>	<u>(431,723)</u>
Net non-operating revenues (expenses)	<b><u>48,173,294</u></b>	<b><u>(8,676,600)</u></b>
Change in net assets before special item	72,324,755	17,176,717
Special item		
Removal of certain campus operating activities (Note 13)	<u>(2,734,901)</u>	<u>(3,773,253)</u>
Change in net assets	<b><u>69,589,854</u></b>	<b><u>13,403,464</u></b>
Net assets at beginning of year	<u>130,382,861</u>	<u>116,979,397</u>
Net assets at end of year	<b><u>\$199,972,715</u></b>	<b><u>\$130,382,861</u></b>

See notes to financial statements.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Statements of Cash Flows  
For the Years Ended June 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Cash flows from operating revenues		
Cash received from contracts for financial assistance, management and services and other income	\$ 50,347,350	\$ 49,829,008
HUD grant received	75,684	75,682
Payments to vendors and suppliers	(8,265,333)	(7,284,610)
Payments of salaries and benefits	<u>(1,404,104)</u>	<u>(3,605,199)</u>
Net cash provided by operating activities	<b><u>40,753,597</u></b>	<b><u>39,014,881</u></b>
Cash flows from noncapital financing activities		
State appropriations	<b><u>54,000,000</u></b>	<u>-</u>
Cash flows from capital and related financing activities		
Capital asset expenditures	(200,042,312)	(107,235,256)
Repayment of bond obligations	(20,950,000)	(21,085,000)
Proceeds from line of credit obligation	4,070,460	-
Proceeds from bond obligations	-	10,000,000
Interest paid on bond obligations	<u>(26,024,633)</u>	<u>(18,447,336)</u>
Net cash used for capital and related financing activities	<b><u>(242,946,485)</u></b>	<b><u>(136,767,592)</u></b>
Cash flows from investing activities		
Purchase of investments	(2,660,653)	(182,974,538)
Proceeds from sale of investments	302,207,655	285,395,931
Payment of U.S. Treasury rebate	-	(4,086,594)
Interest earned from investments	<u>16,779,097</u>	<u>17,252,579</u>
Net cash provided by investing activities	<b><u>316,326,099</u></b>	<b><u>115,587,378</u></b>
Net increase in cash and cash equivalents before special item	168,133,211	17,834,667
Cash reduction as a result of charge for special item	<u>(2,769,210)</u>	<u>(2,190,571)</u>
Net increase in cash and cash equivalents	<b>165,364,001</b>	<b>15,644,096</b>
Cash and cash equivalents – beginning of year	<u>38,240,409</u>	<u>22,596,313</u>
Cash and cash equivalents – end of year	<b><u>\$203,604,410</u></b>	<b><u>\$ 38,240,409</u></b>

Continued –

See notes to financial statements.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Reconciliation of operating income to net cash provided by operating activities		
Net operating income	\$ 24,151,461	\$ 25,853,317
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	16,159,383	12,786,721
Changes in operating assets and liabilities net of special item charge:		
(Increase) decrease in:		
Prepaid expenses	1,013	(64,978)
Accounts receivable	54,030	26,482
Other assets	-	(107,288)
Increase (decrease) in:		
Accounts payable – non-construction related	(94,930)	(4,379)
Other liabilities	<u>482,640</u>	<u>525,006</u>
Net cash provided by operating activities	<u>\$ 40,753,597</u>	<u>\$ 39,014,881</u>
Supplemental disclosure of cash flow information:		
Non-cash capital and related financing activities:		
Proceeds from refunding bonds issued including premium of \$20,341,561 and \$505,125, respectively	\$ -	\$ 487,961,561
Amounts paid through refunding bonds issued:		
Retirement of bonds payable through refunding bonds issued	-	(433,225,000)
Bonds issuance costs paid	-	(4,106,535)
Interest paid	-	(8,462,506)
Deferred amount from refunding	-	(42,622,352)
Proceeds available for investment	-	454,832

See notes to financial statements.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**1. Operations of the Authority**

The University of Massachusetts Building Authority (the Authority or UMBA) is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the Commonwealth) and was created by Chapter 773 of the Acts of 1960 of the Commonwealth, as amended (the Enabling Act). The purposes of the Authority are to provide dormitories, dining commons and other buildings and structures for use by the University of Massachusetts (the University), its students, staff and their dependents and other entities associated with the University as requested by authority of the Trustees of the University (the Trustees).

The Authority's financial statements are included by the University in its financial statements as a blended component unit.

The Enabling Act provides that the Authority shall have eleven members, five of whom shall also be trustees of the University. Members of the Authority are appointed by the Governor of the Commonwealth. Non-trustee members serve terms of approximately six years while trustee members serve until they are no longer trustees of the University. Members whose terms have expired continue to be members until reappointed or replaced.

The major functions of the Authority include the issuance of bonds to finance projects requested by the Trustees; the planning and construction or renovations related to those projects; the setting and collection of fees, rents, rates and other charges related to such projects; debt service administration; and maintenance and repair of its projects. In conjunction with its financings, the Authority has entered into contracts with the Commonwealth, acting by and through the Trustees, with respect to its projects that provide for payments for debt service and other costs of the financings as well as the operating costs of the Authority and its projects.

As stated in the Enabling Act, the Authority may sell bonds and notes, in either a public or private sale, at a price and with such terms as it may determine are in the best interest of the Authority, provided that the bonds of each issue mature no later than fifty years from their date and the sale and terms thereof have been approved by the Treasurer and Receiver-General and the Secretary of Administration and Finance of the Commonwealth or their designees.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
 June 30, 2007 and 2006

---

**2. Summary of Significant Accounting Policies**

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

*Basis of Accounting*

The Authority's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of when the related cash flow takes place.

The Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses result primarily from providing, operating and maintaining Authority facilities for use by the University. The principal sources of operating revenues are income from contracts for financial assistance, management and services and various grants. Grants and similar items are recognized when all eligibility requirements imposed by the grantor have been met. Operating expenses include facility operating costs, depreciation of capital assets, professional fees and other administrative costs. All revenues and expenses not categorized as operating revenues and expenses are reported as non-operating, and these relate primarily to interest and other investment income and interest expense.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

*Restricted Assets*

Certain proceeds of the Authority's bonds as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net assets because their use is limited by applicable bond trust agreements.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

**2. Summary of Significant Accounting Policies (Continued)**

*Restricted Assets (Continued)*

The following sets forth the cash and cash equivalent and investment balances in the above restricted funds as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents		
Capital projects fund	\$192,663,983	\$ 22,222,370
Debt service fund	<u>97,773</u>	<u>60,565</u>
	<u>\$192,761,756</u>	<u>\$ 22,282,935</u>
Investments		
Capital projects fund	\$ 62,660,868	\$359,235,344
Debt service fund	<u>6,360,806</u>	<u>6,545,972</u>
	<u>\$ 69,021,674</u>	<u>\$365,781,316</u>

*Capital Assets and Depreciation*

Buildings and equipment are stated at historical cost. Construction in progress is included as a capital asset. Construction in progress is stated at cost, which includes direct construction costs and other expenditures related to construction including capitalized interest, if any. All construction costs related to projects which are not yet completed are charged to construction in progress until such time as the projects are completed and placed in operation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets from the date the property is placed in operation. The useful lives applicable to the Authority are as follows:

Buildings	40 to 50 years
Building and leasehold improvements	10 to 20 years
Equipment	5 to 10 years
Residential furnishings	3 years

*Capitalized Interest*

The Authority capitalizes interest costs incurred during the construction period of qualifying property assets. The amount of interest costs capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings consists of all interest costs of the borrowing less any interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings from the date of the borrowing until the assets are ready for their intended use. Interest capitalized during the years ended June 30, 2007 and 2006 totaled approximately \$3,240,000 and \$4,181,200, respectively.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
 June 30, 2007 and 2006

---

**2. Summary of Significant Accounting Policies (Continued)**

*Cash and Cash Equivalents*

Cash and cash equivalents include cash balances maintained in checking accounts, overnight repurchase agreements and amounts held by the University in the University's cash pool on behalf of the Authority.

*Contracts with the University*

The Authority has entered into various contracts with the Commonwealth, acting by and through the Trustees, related to the management of certain Authority projects and the payment to the Authority of certain fees and operating costs. The Authority fixes fees, rents, rates and other charges for the use of its projects in amounts sufficient to provide for the debt service and other payments related to the Authority's obligations and for the Authority's operating expenses. These contracts generally call for the Trustees to bill and collect all revenue derived from the projects and remit to the Authority or to the trustee under the Authority's trust agreements (the Bond Trustee) funds sufficient to cover debt service on its bonds and its costs of operations and financial obligations with respect to the projects.

In certain cases, these contracts require the Trustees to hold any excess revenues of Authority projects for the account of and on behalf of the Authority for application to, among other things, the expenses of maintaining, repairing and operating the Authority projects. Accordingly, such excess revenues are included in the Authority's financial statements. These projects are primarily located at the Dartmouth and Lowell campuses of the University and are associated with the UMBA Series 2000-A and the UMBA Series 2004-A bonds and bonds associated with two Authorities that were merged with UMBA in the mid-1990's. These Authorities; Southeastern Massachusetts University Building Authority (SMUBA) and University of Lowell Building Authority (ULBA), no longer have any outstanding bonds other than those that have been refunded and are awaiting call. The Authority does not reflect the activity related to these excess revenues in its financial statements. See Note 13

The contracts relating to all other Authority financed projects require the Trustees to maintain, repair and operate the Authority's projects. As a result, the Authority has only a limited and general responsibility with respect to the operation and maintenance of these projects and, accordingly, the financial statements of the Authority do not include the maintenance and operating accounts for these projects.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**2. Summary of Significant Accounting Policies (Continued)**

*Investments*

Investments in marketable securities are stated at fair value.

Investments in repurchase agreements are non-participating interest earning investment contracts and are recorded at cost. These repurchase agreements are secured by cash or investments with a fair market value between 100% and 105% of the repurchase price, depending on the type of asset used as security and the specific repurchase agreement. These repurchase agreements can be redeemed at any time for the repurchase price provided the redemption proceeds are used for a purpose permitted by the respective repurchase agreement.

Realized and unrealized gains (losses) on investments include the net changes in the fair value of investments.

*Net Assets*

Net assets are reported in three categories:

Invested in capital assets, net of related debts - This category consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This category consists of net assets which do not meet the definition of the two preceding categories.

*Risk Management*

Significant losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage, and settlement amounts have not exceeded insurance coverage, for the current year or the two prior years.

*Use of Estimates*

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

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

### 3. Cash Deposits and Investments

#### *Cash Deposits – Custodial Credit Risk*

The Authority holds a majority of its cash and cash equivalents in high quality money market mutual funds that invest in securities that are permitted investments under the Authority's Enabling Act or in money market mutual funds that have been specifically permitted by state legislation. The Authority's cash and cash equivalents consist of the following as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Fully insured bank accounts	\$ 115,629	\$ 75,201
Permitted money market accounts (MMA)	203,488,781	35,395,998
University of Massachusetts cash pool	-	<u>2,769,210</u>
	<u>\$203,604,410</u>	<u>\$38,240,409</u>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2007 and 2006, the Authority's cash deposits of \$115,629 and \$75,201, respectively, were not subject to custodial credit risk as they were fully insured. For purposes of disclosure under GASB Statement No. 40, Deposit and Investment Risk Disclosures, money market accounts investing in debt securities and the University of Massachusetts cash pool are considered investments and therefore, are included in the investment disclosures that follow.

#### *Investments*

As of June 30, 2007, the Authority's investments consisted of the following:

<u>Investment type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt Securities					
US Treasuries	\$ 13,122,993	\$ 1,674,547	\$ 11,448,446	\$ -	\$ -
US Agencies	59,114,776	43,353,632	10,502,510	5,258,634	-
Repurchase	5,318,056	-	-	-	5,318,056
Agreements					
MMA	<u>203,488,781</u>	<u>203,488,781</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$281,044,606</u>	<u>\$248,516,960</u>	<u>\$ 21,950,956</u>	<u>\$ 5,258,634</u>	<u>\$5,318,056</u>

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

**3. Cash Deposits and Investments (Continued)**

As of June 30, 2006, the Authority's investments consisted of the following:

<u>Investment type</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Debt Securities					
US Treasuries	\$ 51,428,632	\$ 40,049,189	\$ 11,379,443	\$ -	\$ -
US Agencies	214,617,297	197,964,282	10,294,357	6,358,658	-
Repurchase Agreements	109,782,638	104,256,325	-	-	5,526,313
Cash Pool	2,769,210	2,769,210	-	-	-
MMA	<u>35,395,998</u>	<u>35,395,998</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$413,993,775</u>	<u>\$380,435,004</u>	<u>\$ 21,673,800</u>	<u>\$6,358,658</u>	<u>\$5,526,313</u>

Because the University of Massachusetts cash pool and money market funds are highly liquid, they are presented as investments with maturities of less than one year.

*Interest Rate Risk*

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the Authority holds its investments until maturity.

*Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Enabling Act specifies the permitted investments of the Authority. They include direct obligations of or obligations which are unconditionally guaranteed by the United States of America (Treasuries), obligations of an agency or organization created pursuant to an act of Congress of the United States as an agency or instrumentality thereof (Agencies), time deposits or certificates of deposits fully secured by Treasuries or Agencies, and Treasuries and Agencies subject to repurchase agreements. Other legislation allows the Authority to invest in the Massachusetts Municipal Depository Trust (MMDT), a money market account sponsored by the Treasurer of the Commonwealth and managed by Fidelity Investments. Additionally, the Authority's Bond Trustee invests some of the Authority's funds in money market accounts that are permitted and are collateralized by Treasuries.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**3. Cash Deposits and Investments (Continued)**

*Credit Risk (Continued)*

No credit risk disclosures are required under GASB 40 related to the Authority's investment in Treasuries. The Authority's investments in Agencies are rated at the highest level by Standard & Poor's Rating Services and Moody's Investors Service, Inc. The Authority's investments in repurchase agreements are fully collateralized by Treasuries and Agencies but are not themselves rated. The MMDT is unrated.

*Custodial Credit Risk*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's Enabling Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk except that interest-bearing time deposits or certificates of deposit of banking institutions or trust companies must be continuously and fully secured by Treasuries or Agencies.

Custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to indirect investment in securities through the use of mutual funds or government investment pools (such as MMDT). Direct investments in marketable securities are held by the Authority's Bond Trustee as the Authority's agent. In accordance with the Authority's repurchase agreements, collateral for the agreements is held in segregated accounts with market values between 100% and 105% of the repurchase price, depending on the type of asset used as security and the specific repurchase agreement.

*Concentrations of Credit Risk*

The Authority places no limit on the amount it may invest in any one issuer. As of June 30, 2007 there were no investments in any one issuer greater than 10% of its total investments. As of June 30, 2006 the Authority had invested 32% and 16% of its total investments in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, respectively.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

#### 4. Changes in Capital Assets

A summary of changes in capital assets follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2007</u>
Buildings	\$312,309,539	\$ 53,649,748	\$365,959,287	\$ 112,789,853	\$478,749,140
Building improvements	66,288,536	7,076,970	73,365,506	38,429,107	111,794,613
Equipment and furnishings	11,917,039	1,111,564	13,028,603	4,828,338	17,856,941
Construction in progress	<u>77,538,844</u>	<u>77,682,019</u>	<u>155,220,863</u>	<u>23,273,399</u>	<u>178,494,262</u>
	468,053,958	139,520,301	607,574,259	179,320,697	786,894,956
Less: accumulated depreciation	<u>194,160,342</u>	<u>11,415,961</u>	<u>205,576,303</u>	<u>14,481,504</u>	<u>220,057,807</u>
	<u>\$273,893,616</u>	<u>\$ 128,104,340</u>	<u>\$401,997,956</u>	<u>\$164,839,193</u>	<u>\$566,837,149</u>

The Authority has outstanding purchase commitments with contractors for the construction of certain facilities as of June 30, 2007 and 2006 of \$473,869,000 and \$138,640,000, respectively.

#### 5. Bonds Payable

The following is a summary of bond transactions of the Authority for the years ended June 30, 2007 and 2006:

	<u>Bonds payable</u>	<u>Unamortized</u> <u>Original issue</u> <u>premiums</u>	<u>Unamortized</u> <u>deferred amount</u> <u>from refundings</u>	<u>Total</u>
Beginning balance – July 1, 2005	\$642,390,000	\$ 9,564,209	\$ (2,665,457)	\$649,288,752
Increases	477,620,000	20,341,561	(42,622,352)	455,339,209
Decreases	<u>454,310,000</u>	<u>2,672,549</u>	<u>533,287</u>	<u>456,449,262</u>
Ending balance – June 30, 2006	<u>\$665,700,000</u>	<u>\$ 27,233,221</u>	<u>\$(44,754,522)</u>	648,178,699
Less: Due within one year				<u>20,950,000</u>
				<u>\$627,228,699</u>
Beginning balance – July 1, 2006	\$665,700,000	\$ 27,233,221	\$(44,754,522)	\$648,178,699
Decreases	<u>20,950,000</u>	<u>2,779,046</u>	<u>605,251</u>	<u>23,123,795</u>
Ending balance – June 30, 2007	<u>\$644,750,000</u>	<u>\$24,454,175</u>	<u>\$(44,149,271)</u>	625,054,904
Less: Due within one year				<u>27,190,000</u>
				<u>\$597,864,904</u>

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

**5. Bonds Payable (Continued)**

Aggregate annual maturities of principal and interest on long-term debt as of June 30, 2007 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 27,190,000	\$ 27,111,782	\$54,301,782
2009	28,200,000	26,070,633	54,270,633
2010	29,380,000	24,908,036	54,288,036
2011	30,710,000	23,602,885	54,312,885
2012	31,620,000	22,157,724	53,777,724
2013-2017	153,415,000	87,906,858	241,321,858
2018-2022	154,450,000	50,418,173	204,868,173
2023-2027	109,100,000	23,163,753	132,263,753
2028-2032	62,030,000	7,397,857	69,427,857
2033-2035	<u>18,655,000</u>	<u>990,368</u>	<u>19,645,368</u>
	<u>\$644,750,000</u>	<u>\$293,728,069</u>	<u>\$938,478,069</u>

*Project Revenue Bonds, Senior Series 2000-1*

In fiscal year 2001 UMBA issued its Series 2000-1 bonds. The bonds were issued in the amount of \$24,145,000 and the proceeds were to be used for various construction and renovation projects for the University. As of June 30, 2007 and 2006 the bonds payable amount was \$4,300,000 and \$5,265,000, respectively. The bonds are payable annually on November 1 through 2010. The bonds carry interest rates that range from 4.50% to 5.25%. In fiscal year 2004 \$8,185,000 of these bonds were advance refunded by the Series 2004-1 bonds (described below). In fiscal year 2006 \$7,000,000 of these bonds were advance refunded by the Series 2005-2 bonds (described below). The bonds are guaranteed by the Commonwealth (see Note 9).

*Project Revenue Bonds, Senior Series 2000-2*

In fiscal year 2001 UMBA issued its Series 2000-2 bonds. The bonds were issued in the amount of \$132,155,000 and the proceeds were to be used for various construction and renovation projects for the University. As of June 30, 2007 and 2006 the bonds payable amount was \$21,150,000 and \$26,130,000, respectively. The bonds are payable annually on November 1 through 2010. The bonds carry interest rates that range from 4.50% to 5.50%. In fiscal year 2006 \$78,155,000 of these bonds were advance refunded by the Series 2005-2 bonds (described below). Principal and interest payments on the bonds have been insured by Ambac Assurance Corporation (AMBAC).

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Facilities Revenue Bonds, Senior Series 2000-A*

In fiscal year 2001 UMBA issued its Series 2000-A bonds. The bonds were issued in the amount of \$46,980,000 and the proceeds were to be used for various construction and renovation projects for the University. As of June 30, 2007 and 2006 the bonds payable amount was \$7,525,000 and \$8,850,000, respectively. The bonds are payable annually on November 1 through 2011. The bonds carry interest rates that range from 4.50% to 5.25% and are callable beginning November 1, 2010 at par. In fiscal year 2006 \$34,520,000 of these bonds were advance refunded by the Series 2005-2 bonds (described below). The bonds are guaranteed by the Commonwealth (see Note 9).

*Project Revenue Bonds, Senior Series 2003-1*

In fiscal year 2004 UMBA issued its Series 2003-1 bonds. The bonds were issued in the amount of \$137,970,000 and the proceeds were to be used for various construction and renovation projects for the University. As of June 30, 2007 and 2006 the bonds payable amount was \$42,740,000 and \$47,365,000, respectively. The bonds are payable annually on November 1 through 2014. The bonds carry interest rates that range from 2.25% to 5.25% and are callable beginning November 1, 2013 at par. The Authority was paid a premium of \$5,274,910 for these bonds. In fiscal year 2006 \$36,105,000 and \$49,965,000 of these bonds were advance refunded by the Series 2005-2 bonds and the Series 2006-1 bonds (described below), respectively. The principal and interest payments on the bonds have been insured by AMBAC.

*Project and Refunding Revenue Bonds, Senior Series 2004-1*

In fiscal year 2004 UMBA issued its Series 2004-1 bonds. The bonds were issued in the amount of \$183,965,000 and the proceeds were to be used for various construction and renovation projects for the University and to advance refund the SMUBA Refunding Revenue Bonds, 1986 Series B, the ULBA Facilities Bonds, Fourth Series B, the ULBA Fifth Series A bonds (partial refunding), the UMBA Project Revenue Bonds, Series 1995-A and the Series 2000-1 bonds (partial refunding). As of June 30, 2007 and 2006 the bonds payable amount was \$62,645,000 and \$64,485,000, respectively. The bonds are payable annually on November 1 through 2016. The bonds carry interest rates that range from 2.75% to 5.375% and are callable beginning November 1, 2014 at par. The Authority was paid a premium of \$5,077,137 for the bonds. In fiscal year 2006 \$24,545,000 and \$91,665,000 of these bonds were advance refunded by the Series 2005-2 bonds and the Series 2006-1 bonds (described below), respectively. The principal and interest payments on the bonds have been insured by AMBAC.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Facilities Revenue Bonds, Senior Series 2004-A*

In fiscal year 2004 UMBA issued its Series 2004-A bonds. The bonds were issued in the amount of \$96,025,000 and the proceeds were to be used for various construction projects for the University. As of June 30, 2007 and 2006 the bonds payable amount was \$17,940,000. The bonds are payable annually on November 1 from 2007 through 2015. The bonds carry interest rates that range from 2.75% to 4.50% and are callable beginning November 1, 2014 at par. The Authority was paid a premium of \$119,872 for the bonds. In fiscal year 2006 \$16,130,000 and \$61,955,000 of these bonds were advance refunded by the Series 2005-2 bonds and the Series 2006-1 bonds (described below), respectively. The bonds are guaranteed by the Commonwealth (see Note 9). Additionally, the principal and interest payments on the bonds have been insured by MBIA.

*Refunding Revenue Bonds, Senior Series 2005-1*

In fiscal year 2005 UMBA issued its Series 2005-1 bonds. The bonds were issued in the amount of \$25,595,000 and the proceeds were used to refund the UMBA Taxable Refunding Revenue Bonds, Senior Series 2004-2. As of June 30, 2007 and 2006 the bonds payable amount was \$20,935,000 and \$22,495,000, respectively. The bonds are payable annually on May 1 through 2016. The bonds carry an interest rate of 5.00% and are callable beginning May 1, 2015 at par. The Authority was paid a premium of \$505,125 for the bonds. The principal and interest payments on the bonds have been insured by AMBAC.

*Refunding Revenue Bonds, Senior Series 2005-2*

In fiscal year 2006 UMBA issued its Series 2005-2 bonds. The bonds were issued in the amount of \$212,550,000 and the proceeds were used to advance refund the ULBA Fifth Series A bonds and partially refund the Series 2000-1 bonds, the Series 2000-2 bonds, the Series 2000-A bonds, the Series 2003-1 bonds, the Series 2004-1 bonds and the Series 2004-A bonds. As of June 30, 2007 and 2006 the bonds payable amount was \$206,190,000 and \$208,100,000, respectively. The bonds are payable annually on November 1 through 2025. The bonds carry interest rates that range from 3.00% to 5.25% and are callable beginning November 1, 2015 at par. The Authority was paid a premium of \$20,341,561 for the bonds. The principal and interest payments on the bonds have been insured by AMBAC.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Project and Refunding Revenue Bonds, Senior Series 2006-1*

In fiscal year 2006 UMBA issued its Series 2006-1 bonds. The bonds were issued in the amount of \$243,830,000 and the proceeds were to be used for various construction and renovation projects for the University at its Lowell campus and to partially advance refund the Series 2003-1 bonds, the Series 2004-1 bonds and the Series 2004-A bonds. As of June 30, 2007 and 2006 the bonds payable amount was \$242,470,000 and \$243,830,000, respectively. The bonds are payable annually on November 1 through 2034. The bonds carry a variable interest rate and are callable at any time at par. The principal and interest payments on the bonds have been insured by AMBAC. The Authority also entered into a standby bond purchase agreement with Depfa Bank plc (the Bank) which requires the Bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 190 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Authority is required to pay the Bank in quarterly installments a facility fee in the amount of 9.5 basis points of the initial commitment. The initial commitment under the agreement was set at \$255 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2013 and may be extended at the option of the Bank. Fees accrued by the Authority in connection with the standby bond purchase agreement totaled \$248,600 and \$49,200 for the years ended June 30, 2007 and 2006, respectively. At the time of the bond closing the Authority entered into an interest rate swap agreement with Citigroup, N.A., as swap counterparty for the term of the bond issue. The agreement calls for the Authority to pay a fixed rate of 3.482% and receive a floating rate based on a percentage of London Interbank Offered Rate (LIBOR), plus a spread (see below).

*Taxable Refunding Revenue Bonds, Senior Series 2006-2*

In fiscal year 2006 UMBA issued its Series 2006-2 bonds. The bonds were issued in the amount of \$21,240,000 and the proceeds were used to advance refund the UMBA Refunding Revenue Bonds, Series 1995-B. As of June 30, 2007 and 2006 the bonds payable amount was \$18,855,000 and \$21,240,000, respectively. The bonds are payable annually on May 1 through 2014. The bonds carry interest rates that range from 5.24% to 5.49% and are not callable. The principal and interest payments on the bonds have been insured by AMBAC.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Bond Refundings*

In fiscal year 2006, the Authority refunded the ULBA Fifth Series A bonds and the UMBA Refunding Revenue Bonds, Series 1995-B and partially refunded the following bond issues: the Series 2000-1 bonds, the Series 2000-2 bonds, the Series 2000-A bonds, the Series 2003-1 Bonds, the Series 2004-1 Bonds and the Series 2004-A bonds. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds. Assets held in the trust accounts had an aggregate market value of approximately \$455,326,000 and \$459,656,300 as of June 30, 2007 and 2006, respectively. The unpaid principal amount of the refunded bonds totaled approximately \$417,385,000 and \$419,510,000 as of June 30, 2007 and 2006, respectively.

In fiscal year 2004, the Authority refunded the following bond issues: the SMUBA Refunding Revenue Bonds, Series 1986-B; the ULBA Facilities Bonds, Fourth Series B; the UMBA Project Revenue Bonds, Series 1995-A; the UMBA Series 2000-1 bonds (partial refunding); the ULBA Fifth Series A bonds (partial refunding) and the SMUBA Refunding Revenue Bonds 1995 Series A. Accordingly, the Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds. Assets held in the trust accounts had an aggregate market value of approximately \$8,375,800 and \$8,426,300 as of June 30, 2007 and 2006, respectively. The unpaid principal amount of the refunded bonds totaled \$8,185,000 as of June 30, 2007 and 2006.

In fiscal year 1984, the Authority refunded all outstanding bonds issued by the Authority prior to May 1, 1984 and deposited into a trust account funds sufficient to provide for all future debt service payments on the refunded bonds. Assets held in the trusts accounts had an aggregate market value of approximately \$5,780,900 and \$6,934,000 at June 30, 2007 and 2006, respectively. The outstanding amount of the refunded bonds at June 30, 2007 and 2006 totaled \$6,370,000 and \$7,695,000, respectively.

Refunded bonds are considered defeased and, accordingly, the liability for the bonds payable and the assets held to repay the debt have not been recorded in the Authority's financial statements.

*Bond Premium, Issuance Expenses and Deferred Loss on Refundings*

In connection with the Authority's Series 2003-1, Series 2004-1, Series 2004-A, Series 2005-1 and Series 2005-2 bond issues, the Authority received premiums at issuance totaling approximately \$31,318,600. The Authority will amortize the premiums received on each issue as a reduction in interest expense over the life of the respective bond issue.

Continued –

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
 June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Bond Premium, Issuance Expenses and Deferred Loss on Refundings (Continued)*

In connection with the Authority's Series 2003-1, Series 2004-1, Series 2004-2, Series 2004-A, Series 2005-1, Series 2005-2, Series 2006-1 and Series 2006-2 bonds, the Authority incurred certain issuance costs associated with the bond offerings totaling approximately \$9,773,600. These issuance costs have been capitalized by the Authority and will be amortized over the life of the applicable bond issues.

In connection with the Authority's bond refundings undertaken in fiscal 2006 as noted above, the Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$42,622,000. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in amortization expense over the original life of the refunded bonds. The refundings reduced the Authority's debt service payments in future years by approximately \$33,567,000 and resulted in an economic gain (the present value of the savings) of approximately \$21,643,000.

In connection with the Authority's bond refundings undertaken in fiscal 2004 and 2005 as noted above, the Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2,840,000. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in amortization expense over the original life of the refunded bonds. The refundings reduced the Authority's debt service payments in future years by approximately \$1,966,000 and resulted in an economic gain (the present value of the savings) of approximately \$786,000.

*Interest Rate Swap*

In connection with the Authority's Series 2006-1 bonds, the Authority entered into an interest rate swap. The intention of the swap is to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.482%.

*Terms.* The bonds and the related swap agreement mature on November 1, 2034, and the swap's notional amount of \$243,830,000 matches the amount of the variable rate bonds. The swap was entered at approximately the same time the bonds were issued (April 2006). Starting in fiscal year 2007, the notional value of the swap and the principal amount of the associated debt decline. Under the swap, the Authority pays the counterparty a fixed payment of 3.482% and receives a variable payment computed as 60% of the three-month London Interbank Offered Rate (LIBOR) plus .18%. Conversely, the variable interest rate on the bonds is based on actual weekly remarketing rates which roughly track the Bond Market Association Municipal Swap Index<sup>TM</sup> (BMA).

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**5. Bonds Payable (Continued)**

*Interest Rate Swap (Continued)*

*Fair value.* As of June 30, 2007 and 2006, the swap had a positive fair market value of approximately \$2,387,300 and \$2,704,000, respectively, due to an increase in interest rates since execution of the swap. Because the Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk.* As of June 30, 2007 and 2006 the Authority was exposed to credit risk in the amount of the swap's fair value. The swap's counterparty, Citibank, N.A., was rated Aa1, AA and AA+ by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively, as of June 30, 2007. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

*Basis risk.* The swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.482%) and the synthetic rate as of June 30, 2007 (3.826%) and 2006 (3.963%). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2007, the BMA rate was 3.73%, whereas 60% of LIBOR plus .18% was 3.40%. As of June 30, 2006, the BMA rate was 3.96%, whereas 60% of LIBOR plus .18% was 3.479%.

*Termination risk.* The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority if the counterparty's credit quality rating falls below Baa1 as issued by Moody's Investor Service or BBB+ as issued by Standard & Poor's or if the counterparty fails to have such a rating. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

**5. Bonds Payable (Continued)**

*Interest Rate Swap (Continued)*

*Swap payments and associated debt.* Using rates as of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same* for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2008	\$ 1,650,000	\$ 9,050,182	\$ 208,106	\$ 10,908,288
2009	1,715,000	8,962,455	206,088	10,883,543
2010	1,780,000	8,909,515	204,871	10,894,386
2011	1,845,000	8,841,737	203,313	10,890,050
2012	1,915,000	8,783,467	201,973	10,900,440
2013-2017	11,060,000	42,689,249	981,624	54,730,873
2018-2022	44,365,000	39,259,147	902,752	84,526,899
2023-2027	97,455,000	23,604,935	542,787	121,602,722
2028-2032	62,030,000	7,956,499	182,958	70,169,457
2033-2035	<u>18,655,000</u>	<u>944,050</u>	<u>21,708</u>	<u>19,620,758</u>
Total	<u>\$242,470,000</u>	<u>\$159,001,236</u>	<u>\$3,656,180</u>	<u>\$405,127,416</u>

**6. Due to Bank of America**

On January 5, 2007 the Authority closed on a \$35,000,000 Revolving Line of Credit (the Line) with Bank of America, N.A (the Bank). The Line matures on the first anniversary of the date of the agreement and can be extended or renewed at the option of the Bank. At the time of each draw on the Line the Authority must elect to have the interest on the draw calculated based on (a) 75% of the one-month, two-month or three-month LIBOR rate (LIBOR Rate) or (b) 75% of the higher of the Federal Funds Rate plus .5% or 75% the Bank's "prime rate" (Base Rate). Interest is due at the end of the one, two or three month period under a LIBOR Rate draw, the first business day of the calendar quarter for Base Rate draws or the Line's maturity date, whichever comes first. Except at the Line's maturity date, the Authority can elect to have the interest charges incorporated into a subsequent draw.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**6. Due to Bank of America (Continued)**

At the time Line was closed the Authority entered into a contract with the University that obligates the University to make payments to the Authority sufficient to cover the costs of the Line. The Authority expects to pay all principal and interest charges related to the Line prior to its maturity with the proceeds of the Authority's next long-term bond issue.

As of June 30, 2007 the Authority had \$4,070,460 outstanding under the Line in four separate draws. The interest terms on the draws were either one-month or three-month LIBOR and the interest rates ranged from 3.99% to 4.02%.

**7. Net Assets**

At June 30, 2007 and 2006, the net asset category "Invested in capital assets, net of related debt" is comprised of the following components:

	2007	2006
Cost of capital assets acquired	\$786,894,956	\$607,574,259
Less: Accumulated depreciation	220,057,807	205,576,303
Less: Outstanding debt related to capital assets	<u>505,870,857</u>	<u>359,297,623</u>
	<u>\$ 60,966,292</u>	<u>\$ 42,700,333</u>

The remaining outstanding debt is netted against the related proceeds which have not been expended in the computation of net assets restricted for capital projects.

**8. State Appropriations**

During fiscal 2007 the Authority received two appropriations from the Commonwealth totaling \$54,000,000. The first, for \$50,000,000 and authorized in November 2006, represented funds designated for rehabilitation, renovation and maintenance of infrastructure across the University's campuses. The second, for \$4,000,000 and authorized in May 2007, represented funds designated for the construction of facilities to promote nano-manufacturing and bio-manufacturing at the Lowell campus.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**9. Guaranty of the Commonwealth of Massachusetts**

Section 10 of the Enabling Act authorizes the Commonwealth, acting by and through the Trustees, to enter into contracts with the Authority for state financial assistance in the form of a guaranty by the Commonwealth of the payment of the principal and interest as they become due and payable up to a maximum of two hundred million dollars principal amount of outstanding bonds and notes of the Authority. The full faith and credit of the Commonwealth are pledged for the payment of the guaranty. As is generally the case with other full faith and credit obligations of the Commonwealth, funds with which to honor such guaranty are to be provided by appropriation.

**10. Contingencies**

The Authority is contesting certain tax liens and fees from government bodies. In the opinion of management the ultimate liability, if any, from these lawsuits and contested liens and fees would not have a material effect on the financial position of the Authority.

**11. Lease Obligations**

The Authority has executed long-term leases with the Commonwealth, acting by and through the Trustees, covering the land on which facilities owned by the Authority are located on the University's campuses. These leases call for nominal annual payments to the Commonwealth. Certain of these leases renew automatically for subsequent five or ten year periods unless the Authority notifies the University that it does not wish to renew. Other leases require the Authority to notify the University of its desire to renew. As of June 30, 2007 all leases with the Commonwealth were in good standing and any leases requiring action by the Authority during the year to facilitate their renewals were properly renewed.

As provided in the Enabling Act, each of the above-referenced leases also terminates when the Authority no longer has any bonds outstanding, at which time all Authority property becomes the property of the Commonwealth.

The Authority entered into a sublease agreement, as lessee, dated December 14, 2004 with SSB Realty, LLC, as lessor (the Lessor), for space at 225 Franklin Street, Boston, Massachusetts to be used primarily by the University, the Authority, The University of Massachusetts Foundation, Inc. and The University of Massachusetts Club. The agreement requires the Authority to pay a base rent plus a proportionate share of any increase over the base year of the Lessor's costs and taxes. The lease began April 1, 2005 and ends December 15, 2015 and includes an initial three month period of no rental payments. In July 2007 SSB Realty, LLC notified the Authority that the lease with the Authority had been assigned to Equity Office Management, LLC (Equity) and that Equity had assumed all rights under the lease.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

**11. Lease Obligations (Continued)**

For the year ended June 30, 2007 and 2006, lease operating costs were approximately \$1,475,200 and \$1,480,000, respectively, which are included in facility operating costs in the accompanying statement of revenues, expenses and changes in net assets.

The Authority also executed (in the capacity of paying agent for the lessee), a lease agreement dated as of September 1, 2003 between Baystate Medical Center, Inc., as lessor, and Pioneer Valley Life Sciences Institute of Baystate Medical Center and UMass Amherst, Inc., as lessee, for laboratory space to be used by the lessee. The lessee is an entity the activities of which are approved by the Trustees as furthering the purposes of the University. The lease terminates on September 30, 2007 and calls for the Authority to pay on behalf of the lessee \$46,068 per month during the term of the lease plus an annual allocation of laboratory costs; but such payments are to be made solely from funds specifically provided to the Authority for such purpose by appropriation from the Commonwealth, and not from any other source. Funds totaling \$2,500,000 and restricted for these lease payments have been provided by the Commonwealth through appropriation. Lease payments made for the years ended June 30, 2007 and 2006 totaled approximately \$634,000 and \$614,000, respectively.

Approximate future payments (excluding Lessor's costs and taxes) under the agreements are as follows:

Year Ending	
June 30,	
2008	\$ 1,613,000
2009	1,475,000
2010	1,520,000
2011	1,654,000
2012	1,654,000
2013-2016	<u>5,719,000</u>
	<u>\$13,635,000</u>

**12. The University of Massachusetts Club**

In August 2005 the Authority executed a contract with UMass Club Management, LLC (the Manager), a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for the University of Massachusetts Club (the Club), a private social club for alumni and friends of the University. The Club, located on the 33<sup>rd</sup> floor of 225 Franklin Street in Boston Massachusetts, was opened on October 31, 2005.

Continued --

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**12. The University of Massachusetts Club (Continued)**

Under the terms of the contract, the Authority, acting as owner of the Club, is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Authority is responsible for any operating shortfall and will benefit from any operating profits. The contract calls for a minimum annual management fee payable to the Manager of \$150,000 or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club's initiation fees and 25% of the operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Authority after 3 years if the Authority decides to close the Club for a minimum of 18 months. As tenant on the sublease for the 33<sup>rd</sup> floor, the Authority would be responsible for the rental charges should it decide to close the Club.

As of June 30, 2007 and 2006 the Authority had provided operating support for the Club of approximately \$760,000 and \$678,000 and also provided startup funding of approximately \$250,000.

**13. Special Item – Removal of Certain Campus Operating Activities**

During fiscal year 2007 the Authority received an opinion from the Authority's bond counsel that the Authority was no longer required to reflect the campus level activity related to the Authority's dorms at the Dartmouth campus. These amounts are reflected on the financial statements of the University of Massachusetts, of which the Authority is a component unit. The elimination of these accounts from the financial statements resulted in a charge to the statement of activities as a special item in the amount of \$2,734,901.

During fiscal year 2006 the Authority refunded the last remaining bonds issued by ULBA and in fiscal year 2005 the Authority refunded the last remaining bonds issued by SMUBA. During the period that those bonds were outstanding the Authority included in its financial statements the operating activities of the projects financed by such bonds.

The Authority is no longer obligated under the ULBA and SMUBA trust agreements to report such operating activities of those projects and has discontinued reporting such revenues and related facilities operating expenses. In addition, the Authority's financial statements for the year ended June 30, 2005 recorded certain assets and liabilities held by the Trustees related to excess revenues to be applied to future maintenance and operations of the projects. Since the maintenance and operations of the related projects have been transferred to the University, the Authority no longer recognizes such assets and liabilities and related net assets in the accompanying 2007 financial statements. The elimination of these accounts from the financial statements resulted in a charge to the statement of activities as a special item in the amount of \$3,773,253.

**UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF MASSACHUSETTS)**

Notes to Financial Statements  
June 30, 2007 and 2006

---

**14. Related Party Transaction**

Included in accounts payable at June 30, 2007 is an amount due to the University of Massachusetts – Lowell Campus of approximately \$1,526,000. This amount represents costs incurred by the campus prior to June 30 related to certain operating costs related to Authority projects. Payment was made to the campus for the amount due in July of 2007.

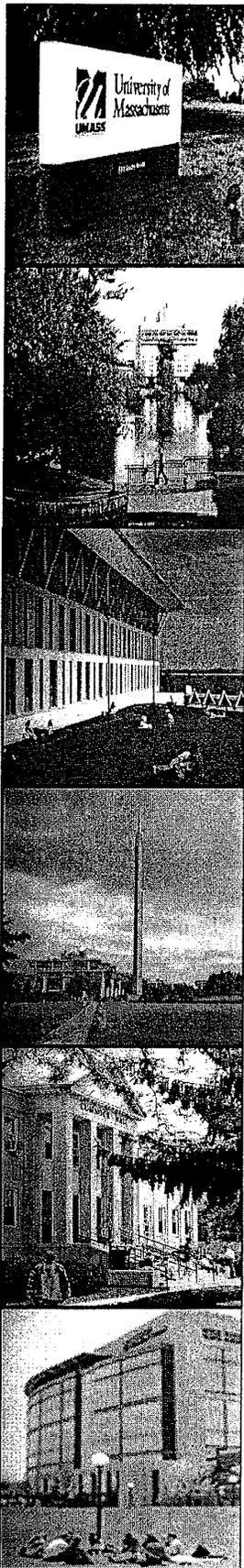
Included in accounts payable at June 30, 2006 is an amount due to the University of Massachusetts – Lowell Campus of approximately \$4,930,000. This amount represents costs incurred by the campus prior to June 30 related to the projects funded by the 2006-1 bond issue. Payment was made from the bond proceeds to the campus for the amount due in August of 2006.

[Intentionally Left Blank]

**APPENDIX C**

**FINANCIAL STATEMENTS OF THE UNIVERSITY**

[Intentionally Left Blank]



**UNIVERSITY OF MASSACHUSETTS**  
*Amherst • Boston • Dartmouth • Lowell • Worcester*



---

**Annual Financial Report**  
**June 30, 2007**

## University Administration

As of September 20, 2007

### Board of Trustees:

Stephen P. Tocco (Chair), Reading, MA  
 Robert J. Manning (Vice Chair), Swampscott, MA  
 Lawrence F. Boyle, Milton, MA  
 Jennifer C. Braceras, Concord, MA  
 Matthew E. Carlin, Sudbury, MA  
 Edward W. Collins, Jr., Springfield, MA  
 John A. Dibiaggio, Ph.D., Snowmass Village, CO  
 Ruben J. King-Shaw, Jr., Carlisle, MA  
 Richard J. Lawton, North Easton, MA  
 Philip W. Johnston, Marshfield, MA  
 James J. Karam, Tiverton, RI  
 Kenneth A. MacAfee, II, D.M.D., Needham, MA  
 William T. O'Shea, Basking Ridge, NJ  
 Kerri Osterhaus-Houle, M.D., Hudson, MA  
 Janet D. Pearl, M.D., Wellesley, MA  
 Alda Rego Weathers, Attleboro, MA  
 Henry M. Thomas, III, Springfield, MA

Anthony B. Beatrice, (UMass Lowell Student Trustee), Lowell, MA  
 (Non-Voting Student)  
 Tamara Endich, (UMass Dartmouth Student Trustee), Truro, MA  
 (Non-Voting Student)  
 Aleksandar Kulenovic, (UMass Boston Student Trustee), Boston, MA  
 (Non-Voting Student)  
 Bharath D. Nath, (UMass Worcester Student Trustee), Worcester, MA  
 (Voting Student)  
 Ruth Thompson (UMass Amherst Student Trustee), Cambridge, MA  
 (Voting Student)

### Officers of the University:

Jack M. Wilson, Ph.D., President  
 Thomas W. Cole, Jr., Ph.D., Interim Chancellor, UMass Amherst  
 J. Keith Motley, Ph.D., Chancellor, UMass Boston  
 Jean F. MacCormack Ed.D., Chancellor, UMass Dartmouth  
 Martin T. Meehan, J.D., Chancellor, UMass Lowell  
 Michael F. Collins, M.D., Interim Chancellor, UMass Worcester  
 and Senior Vice President for Health Sciences  
 James R. Julian, J.D., Executive Vice President  
 Marcellette G. Williams, Ph.D., Senior Vice President for Academic Affairs and International Relations  
 Thomas Chmura, Vice President for Economic Development  
 David J. Gray, Vice President for Information Services and Chief Information Officer  
 and CEO of UMass Online  
 Stephen W. Lenhardt, Vice President for Management & Fiscal Affairs and  
 University Treasurer  
 Katherine V. Smith, Vice President for University Advancement and  
 Chief Operating Officer of the University of Massachusetts Foundation, Inc.  
 Lawrence T. Bench, J.D., Interim General Counsel  
 Barbara F. DeVico, Secretary to the Board of Trustees

November 28, 2007

To the Board of Trustees  
 and President Jack M. Wilson

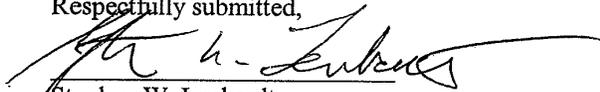
We are pleased to submit the annual Financial Report of the University of Massachusetts for the year ended June 30, 2007. The enclosed financial statements incorporate all financial activity of the University and its five campuses. This statement has been audited by an independent auditing firm and is fully represented in the financial report of the Commonwealth of Massachusetts. Detailed information about each campus is provided as supplemental information.

The financial information presented in the Financial Report is designed to aid a wide variety of readers to assess the effectiveness of the University's management of its resources in meeting its primary mission of instruction, research, and public service. This report is intended to form a comprehensive and permanent record of the finances of the University of Massachusetts, and it is submitted as the public accounting of the University's financial affairs for the fiscal year ended June 30, 2007 including comparative information as of June 30, 2006.

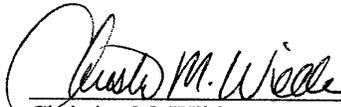
The University's net assets increased \$214.5 million from \$1.35 billion in fiscal year 2006 to \$1.56 billion in fiscal year 2007. The major components of the increase are related to increases in student fee revenues across the campuses, physical plant improvements, growth in programs, and favorable investment returns.

Each year, the Board of Trustees approves five-year targets for five key financial indicators that are likely to determine the success of the University over the long term. Those key indicators are operating margin, financial cushion, current ratio, debt service to operations, and endowment per student. During 2007, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2007 toward the achievement of its long-term financial objectives of growth and stability.

Respectfully submitted,



Stephen W. Lenhardt  
 Vice President, Management  
 and Fiscal Affairs & Treasurer



Christine M. Wilda  
 University Controller

**University of Massachusetts  
2007 Annual Financial Report  
Table of Contents**

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	2
Combined Statements of Net Assets as of June 30, 2007 and 2006	11
Combined Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	12
Combined Statements of Cash Flows for the Years Ended June 30, 2007 and 2006	13
Notes to Combined Financial Statements	14
Supplemental Financial Information	35



PricewaterhouseCoopers LLP  
 125 High Street  
 Boston MA 02110  
 Telephone (617) 530 5000  
 Facsimile (617) 530 5001

### Report of Independent Auditors

To the Board of Trustees of the  
 University of Massachusetts:

In our opinion, based on our audits and the report of other auditors the accompanying statements of net assets, and the related statements of revenues, expenses and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of the University of Massachusetts (the "University"), and its discretely presented component units, at June 30, 2007 and 2006, and its statements of revenues, expenses and changes in net assets, and of cash flows for the years 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 audits. We did not audit the financial statements of the University of Massachusetts Building Authority (a blended component unit included in the column titled "University") or the University of Massachusetts Dartmouth Foundation, Inc. (a discretely-presented component unit included in the column titled "University Related Organizations"), which reflect total net assets of \$200.0 million of the University and \$30.3 million of the University Related Organizations, and \$130.4 million of the University and \$23.86 million of the University Related Organizations as of June 30, 2007 and 2006, respectively, and total revenue of \$120.9 million of the University and \$9.0 million of the University Related Organizations and \$67.0 million of the University and \$5.4 million of the University Related Organizations for the years ended June 30, 2007 and 2006, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these components of the University, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

December 19, 2007

**University of Massachusetts  
Management's Discussion and Analysis  
June 30, 2007**

**Introduction**

This unaudited section of the University of Massachusetts (the "University") Annual Financial Report presents our discussion and analysis of the financial position and performance of the University and its component units during the fiscal year ended June 30, 2007 with comparative information as of June 30, 2006, and June 30, 2005. This discussion and analysis has been prepared by management along with the accompanying financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The accompanying financial statements, footnotes and this discussion are the responsibility of management.

The University of Massachusetts is a state coeducational institution for higher education with separate campuses at Amherst, Boston, Dartmouth, Lowell and Worcester all located in the Commonwealth of Massachusetts (the "Commonwealth"). The University was established in 1863 in Amherst, under the provisions of the 1862 Morrill Land Grant Acts, as the Massachusetts Agricultural College. It became known as the Massachusetts State College in 1932 and in 1947 became the University of Massachusetts. The Boston campus was opened in 1965 and the Worcester campus, Medical School, was opened in 1970. The Lowell and Dartmouth campuses (previously the University of Lowell and Southeastern Massachusetts University, respectively) were made a part of the University by a legislative act of the Commonwealth, effective September 1, 1991.

The University's mission is to provide an affordable and accessible education of high quality and to conduct programs of research and public service that advance knowledge and improve the lives of the people of the Commonwealth, the nation and the world. In the fall of 2006, the University enrolled approximately 49,165 full-time equivalent ("FTE") students. The University is committed to providing, without discrimination, diverse program offerings to meet the needs of the whole of the state's population. The University's five campuses are geographically dispersed throughout Massachusetts and possess unique and complementary missions.

**Basis of Presentation**

The annual financial report and statements include the University and certain other organizations that have a significant relationship with the University. The statements include the University's blended component units, which are the University of Massachusetts Building Authority (the "Building Authority"), a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960 of the Commonwealth, Worcester City Campus Corporation ("WCCC"), a not-for-profit 501(C)(3) organization and the University of Massachusetts Amherst Foundation, Inc. (the "UMass Amherst Foundation") which was established in fiscal year 2003. The purpose of the Building Authority is to provide dormitories, dining commons and other buildings and structures for use by the University and entities associated with the University and to issue bonds to finance such projects. On November 4, 1992, the University created WCCC as a Massachusetts not-for-profit corporation to purchase various assets of Worcester City Hospital, to operate as a real estate holding company and to foster and promote the growth, progress and general welfare of the University. WCCC includes the Worcester Foundation for Biomedical Research, Inc. (WFBR) as a subsidiary. The University's discrete component units are the University of Massachusetts Foundation, Inc. (the "Foundation") and the University of Massachusetts Dartmouth Foundation, Inc. (the "Dartmouth Foundation"). These foundations are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and to solicit, receive, and administer gifts and donations for such purposes. The University of Massachusetts Foundation manages the majority of the University's endowment.

**Financial Highlights**

The University's combined net assets increased \$214.5 million from \$1.35 billion in fiscal year 2006 to \$1.56 billion in fiscal year 2007. The major components of these increases relate to increases in student fee revenues across the University campuses, physical plant improvements, growth in programs, and favorable investment returns.

**Using the Annual Financial Report**

One of the most important questions asked about University finances is whether the University as a whole is better off or worse off as a result of the year's activities. The key to understanding this question are the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The University's net assets (the difference between assets and liabilities) are one indicator of the University's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of an institution's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The statement of net assets includes all assets and liabilities of the University. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the services are provided and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Net assets are further broken down into three categories: Investment in plant, net of debt, restricted and unrestricted. Invested in capital assets, net of related debt represents the historical cost of property and equipment, reduced by the balance of related debt outstanding and depreciation expense charged over the years. Net assets are reported as restricted when constraints are imposed by third parties, such as donors, or enabling legislation. Restricted net assets are either non-expendable, as in the case of endowment gifts to be held in perpetuity, or expendable, as in the case of funds to be spent on scholarships and research. All other assets are unrestricted; however, they may be committed for use under contract or designation by the Board of Trustees.

The statement of revenues, expenses and changes in net assets presents the revenues earned or received and expenses incurred during the year. Activities are reported as either operating or nonoperating. Operating revenues and expenses include tuition and fees,

grant and contract activity, auxiliary enterprises and activity for the general operations of the institution not including appropriations from state and federal sources. Non-operating revenues and expenses include appropriations, capital grants and contracts, endowment, gifts and investment income. All things being equal, a public University's dependency on state aid and gifts will result in operating deficits. That is because the financial reporting model classifies state appropriations and gifts as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of a capital asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the University's ability to meet financial obligations as they mature. The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and non-capital, financing and investing activities.

The footnotes provide additional information that is essential to understanding the information provided in the external financial statements.

### Reporting Entity

The financial statements report information about the University as a whole using accounting methods similar to those used by private-sector companies. The financial statements of the University are separated between University (including its blended component units) and its discretely presented Component Unit activities. The University's discretely presented Component Units (or Related Organizations) are the University of Massachusetts Foundation, Inc., and the University of Massachusetts Dartmouth Foundation, Inc.

### Condensed Financial Information

University of Massachusetts Condensed Statement of Net Assets As of June 30, 2007, 2006 and 2005 (in thousands of dollars)					
	University June 30, 2007	University June 30, 2006	Change	University June 30, 2005	Change
<b>ASSETS</b>					
Current Assets	\$475,147	\$504,691	(\$29,544)	\$526,739	(\$22,048)
Noncurrent Assets					
Investment In Plant Net of Accumulated Depreciation	1,719,316	1,499,607	219,709	1,330,410	169,197
All other noncurrent assets	964,875	900,789	64,086	891,988	8,801
<b>Total Assets</b>	<b>\$3,159,338</b>	<b>\$2,905,087</b>	<b>\$254,251</b>	<b>\$2,749,137</b>	<b>\$155,950</b>
<b>LIABILITIES</b>					
Current Liabilities	\$473,375	\$508,972	(\$35,597)	\$383,772	\$125,200
Noncurrent Liabilities	1,121,646	1,046,337	75,309	1,073,836	(27,499)
<b>Total Liabilities</b>	<b>\$1,595,021</b>	<b>\$1,555,309</b>	<b>\$39,712</b>	<b>\$1,457,608</b>	<b>\$97,701</b>
<b>NET ASSETS</b>					
Invested in Capital Assets Net of Related Debt	\$884,138	\$804,053	\$80,085	\$739,312	\$64,741
Restricted					
Nonexpendable	16,264	16,136	128	15,559	577
Expendable	216,207	146,903	69,304	160,116	(13,213)
Unrestricted	447,708	382,686	65,022	376,542	6,144
<b>Total Net Assets</b>	<b>\$1,564,317</b>	<b>\$1,349,778</b>	<b>\$214,539</b>	<b>\$1,291,529</b>	<b>\$58,249</b>

University of Massachusetts					
Condensed Statement of Net Assets for Related Organizations					
As of June 30, 2007, 2006 and 2005					
(in thousands of dollars)					
	University Related Organizations June 30, 2007	University Related Organizations June 30, 2006	Change	University Related Organizations June 30, 2005	Change
<b>ASSETS</b>					
Current Assets	\$6,841	\$4,594	\$2,247	\$5,716	(\$1,122)
Noncurrent Assets					
Investment In Plant Net of Accumulated Depreciation	992	1,003	(11)	1,006	(3)
All other noncurrent assets	289,812	249,525	40,287	218,860	30,665
<b>Total Assets</b>	<b>\$297,645</b>	<b>\$255,122</b>	<b>\$42,523</b>	<b>\$225,582</b>	<b>\$29,540</b>
<b>LIABILITIES</b>					
Current Liabilities	\$7,746	\$6,136	\$1,610	\$7,299	(\$1,163)
Noncurrent Liabilities	2,983	2,914	69	2,588	326
<b>Total Liabilities</b>	<b>\$10,729</b>	<b>\$9,050</b>	<b>\$1,679</b>	<b>\$9,887</b>	<b>(\$837)</b>
<b>NET ASSETS</b>					
Invested in Capital Assets Net of Related Debt					
Restricted	\$992	\$1,003	(\$11)	\$597	\$406
Nonexpendable	193,100	178,692	14,408	161,178	17,514
Expendable	85,809	61,091	24,718	49,334	11,757
Unrestricted	7,015	5,286	1,729	4,586	700
<b>Total Net Assets</b>	<b>\$286,916</b>	<b>\$246,072</b>	<b>\$40,844</b>	<b>\$215,695</b>	<b>\$30,377</b>

At June 30, 2007, total University assets were \$3.16 billion, an increase of \$254.3 million over the \$2.91 billion in assets recorded for fiscal year 2006. Much of the increase can be attributed to increases in investment in plant assets, accounts receivable and non-current investments. The University's largest asset continues to be its net investment in its physical plant of \$1.72 billion at June 30, 2007 (\$1.50 billion in fiscal year 2006).

At June 30, 2006, total University assets were \$2.91 billion, an increase of \$156.0 million over the \$2.75 billion in assets recorded for fiscal year 2005. Much of the increase can be attributed to increases in investment in plant assets, accounts receivable from UMass Memorial and non-current investments. The University's largest asset continues to be its net investment in its physical plant of \$1.50 billion at June 30, 2006 (\$1.33 billion in fiscal year 2005).

University liabilities totaled \$1.60 billion at June 30, 2007, an increase of \$39.7 million over fiscal year 2006 (\$1.56 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to \$1.10 billion at June 30, 2007. This represents an increase of approximately \$90.7 million over long-term debt obligations of \$1.01 billion in fiscal year 2006. This increase reflects new debt issued by WCCC and draw downs on a new line of credit at the Building Authority. Other Liabilities decreased \$54.2 million primarily due to a decline in payables to the Commonwealth of Massachusetts at Worcester in the amount of \$45.0 million. In addition, the liability for Securities on Loan decreased \$2.6 million.

University liabilities totaled \$1.56 billion at June 30, 2006, an increase of \$97.7 million over fiscal year 2005 (\$1.46 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to \$1.01 billion at June 30, 2006. This represents a decrease of approximately \$15.1 million over long-term debt obligations of \$1.02 billion in fiscal year 2005. This decrease reflects the pay down of debt through debt service payments. Other liabilities increased \$87.1 million due primarily to an outstanding liability to the Commonwealth of Massachusetts of \$80.0 million from the Commonwealth Medicine program at the Worcester campus.

The University's current assets as of June 30, 2007 of \$475.1 million were sufficient to cover current liabilities of \$473.4 million, as the current ratio was 1.00 dollars in assets to every one-dollar in liabilities. At June 30, 2006, the current ratio was 0.99 (\$504.7 million in assets for \$509.0 million in liabilities). At June 30, 2005, the current ratio was 1.37 (\$526.7 million in assets for \$383.8 million in liabilities).

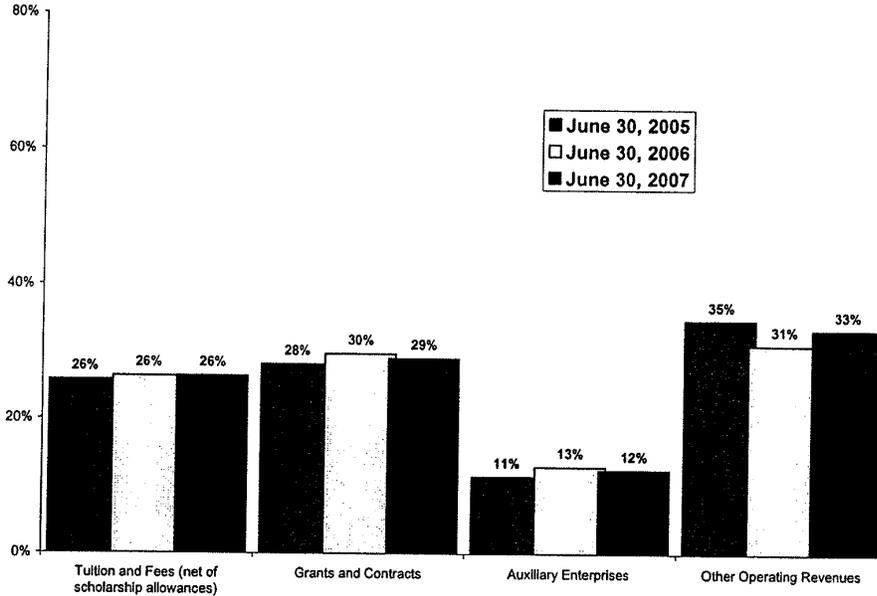
The unrestricted and restricted expendable net assets totaled \$680.2 million in fiscal year 2007, which represents 31.2% of total operating expenditures of \$2.18 billion. In fiscal year 2006, expendable net assets of \$545.7 million to \$2.06 billion of total operating expenditures resulted in a ratio of 26.5%. In fiscal year 2005, expendable net assets of \$536.7 million to \$1.93 billion of total operating expenditures resulted in a ratio of 27.9%.

University of Massachusetts					
Condensed Statement of Revenues, Expenses, and Changes in Net Assets					
For The Year Ended June 30, 2007, 2006 and 2005					
(in thousands of dollars)					
	University June 30, 2007	University June 30, 2006	Change	University June 30, 2005	Change
<b>Operating Revenues</b>					
Tuition and Fees (net of scholarship allowances of \$99,285 at June 30, 2007 and \$86,129 at June 30, 2006)	\$435,806	\$401,636	\$34,170	\$388,385	\$13,251
Grants and Contracts	459,890	452,837	7,053	424,184	28,653
Auxiliary Enterprises	206,021	196,957	9,064	172,745	24,212
Other Operating Revenues	552,566	474,818	77,748	524,713	(49,895)
<b>Total Operating Revenues</b>	<b>1,654,283</b>	<b>1,526,248</b>	<b>128,035</b>	<b>1,510,027</b>	<b>16,221</b>
<b>Operating Expenses</b>	<b>2,180,833</b>	<b>2,056,484</b>	<b>124,349</b>	<b>1,926,740</b>	<b>129,744</b>
<b>Operating Loss</b>	<b>(526,550)</b>	<b>(530,236)</b>	<b>3,686</b>	<b>(416,713)</b>	<b>(113,523)</b>
<b>Nonoperating Revenues</b>					
Federal Appropriations	5,777	7,044	(1,267)	7,016	28
State Appropriations	579,416	526,749	52,667	478,813	47,936
Other Nonoperating Income	85,660	44,166	41,494	35,666	8,500
<b>Net Nonoperating Revenues</b>	<b>670,853</b>	<b>577,959</b>	<b>92,894</b>	<b>521,495</b>	<b>56,464</b>
<b>Income Before Other Revenues, Expenses, Gains or Losses</b>	<b>144,303</b>	<b>47,723</b>	<b>96,580</b>	<b>104,782</b>	<b>(57,059)</b>
Capital Appropriations	73,590	27,147	46,443	27,417	(270)
Capital Grants and Contracts	4,000	-	4,000	-	-
University Related Organization Transactions	-	593	(593)	-	593
Disposal of Plant Facilities	(6,964)	(11,276)	4,312	(11,990)	714
Other	(390)	(5,938)	5,548	2,690	(8,628)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>70,236</b>	<b>10,526</b>	<b>59,710</b>	<b>18,117</b>	<b>(7,591)</b>
<b>Total Increase in Net Assets</b>	<b>214,539</b>	<b>58,249</b>	<b>156,290</b>	<b>122,899</b>	<b>(64,650)</b>
<b>Net Assets</b>					
Net Assets at Beginning of Year	1,349,778	1,291,529	58,249	1,168,630	122,899
<b>Net Assets at End of Year</b>	<b>\$1,564,317</b>	<b>\$1,349,778</b>	<b>\$214,539</b>	<b>\$1,291,529</b>	<b>58,249</b>

University of Massachusetts					
Condensed Statement of Revenues, Expenses, and Changes in Net Assets for University Related Organizations					
For The Year Ended June 30, 2007, 2006 and 2005					
(in thousands of dollars)					
	University Related Organizations June 30, 2007	University Related Organizations June 30, 2006	Change	University Related Organizations June 30, 2005	Change
<b>Operating Expenses</b>					
<b>Operating Loss</b>	<b>\$16,064</b>	<b>\$16,939</b>	<b>(\$875)</b>	<b>\$13,691</b>	<b>\$3,248</b>
	(16,064)	(16,939)	875	(13,691)	(3,248)
<b>Nonoperating Revenues</b>					
Other Nonoperating Income	36,646	28,844	7,802	21,830	7,014
<b>Net Nonoperating Revenues</b>	<b>36,646</b>	<b>28,844</b>	<b>7,802</b>	<b>21,830</b>	<b>7,014</b>
<b>Income Before Other Revenues, Expenses, Gains or Losses</b>	<b>20,582</b>	<b>11,905</b>	<b>8,677</b>	<b>8,139</b>	<b>3,766</b>
Additions to Permanent Endowments	19,684	14,401	5,283	16,312	(1,911)
University Related Organization Transactions	-	(593)	593	-	(593)
Gain from Disposal of Previously Discontinued Operations	-	-	-	-	-
Other	578	4,664	(4,086)	(355)	5,019
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>20,262</b>	<b>18,472</b>	<b>1,790</b>	<b>15,957</b>	<b>2,515</b>
<b>Total Increase in Net Assets</b>	<b>40,844</b>	<b>30,377</b>	<b>10,467</b>	<b>24,096</b>	<b>6,281</b>
<b>Net Assets</b>					
Net Assets at Beginning of Year	246,072	215,695	30,377	191,599	24,096
<b>Net Assets at End of Year</b>	<b>\$286,916</b>	<b>\$246,072</b>	<b>\$40,844</b>	<b>\$215,695</b>	<b>\$30,377</b>

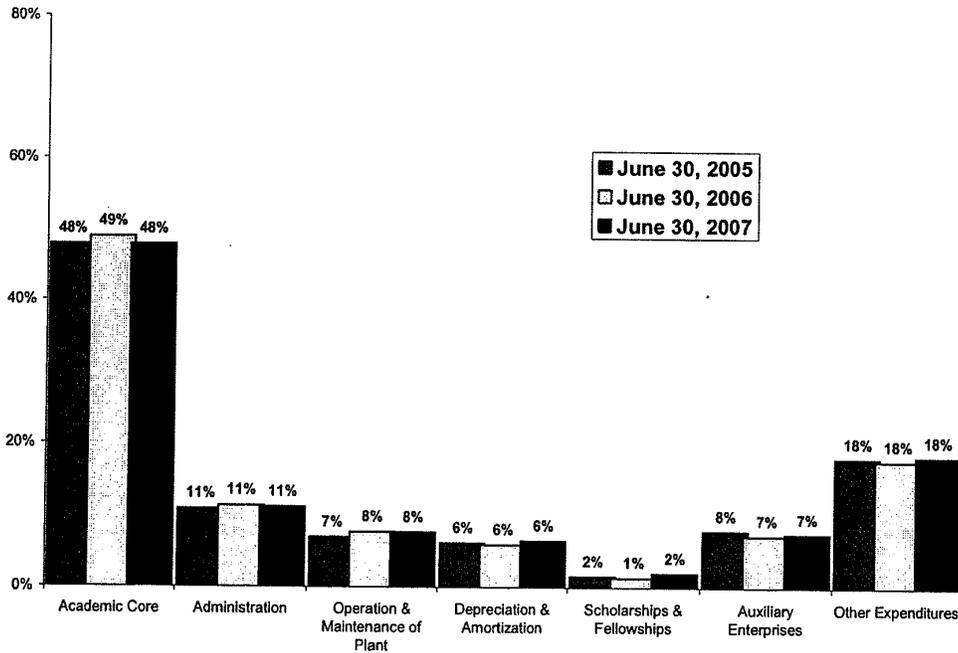
Total operating revenues for fiscal year 2007 were \$1.65 billion. This is an increase of \$128.0 million over fiscal year 2006 operating revenues of \$1.53 billion. The most significant sources of revenue for the University are tuition and fees, grants and contracts, auxiliary services and public service activities at the Worcester Medical School campus. The following chart displays operating revenues by source for the University in fiscal years 2007, 2006 and 2005. Total operating revenues for fiscal year 2006 were \$1.53 billion, \$20.0 million over fiscal year 2005 operating revenues of \$1.51 billion.

**Sources of Operating Revenues in Relation to Total Revenues, Fiscal Year 2005 to Fiscal Year 2007**



In fiscal year 2007, operating expenditures, including depreciation and amortization of \$141.4 million, totaled \$2.18 billion. Of this total, \$1.04 billion or 48% was used to support the academic core activities of the University, including \$320.9 million in research. The chart below displays fiscal year 2007, 2006 and 2005 operating spending.

**Operating Expenses in Relation to Total Expenses, Fiscal Year 2005 to Fiscal Year 2007**



### Public Service Activities

Public service activities consist primarily of sales and services to third parties that are provided by the UMass Medical School campus under its Commonwealth Medicine programs which provide public health consulting services to state and local agencies. In addition, educational services provided to UMass Memorial are included in public service activities. Included in revenues are Commonwealth Medicine revenues of \$324.6 million and \$274.1 million for the years ended June 30, 2007 and 2006, respectively. Included in expenditures are Commonwealth Medicine expenditures of \$296.5 million and \$307.3 million for the years ended June 30, 2007 and 2006, respectively. Educational services revenues included in public service revenues were \$143.7 million and \$133.0 million for the years ended June 30, 2007, and 2006, respectively. Public service activity expenditures also include payments to the Commonwealth of Massachusetts of \$95.0 million and \$110.0 million for the years ended June 30, 2007 and 2006, respectively, under its agreements with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

### State Appropriations

State appropriations represent approximately 25% of all operating and non-operating revenues. The level of state support is a key factor influencing the University's overall financial condition. Although the state appropriation is unrestricted revenue, nearly 100% of the state appropriation supports payroll and benefits for University employees.

In fiscal year 2007, the net state appropriation increased \$52.7 million over fiscal year 2006 amounts. This increase is attributed to the state funding of collective bargaining agreements, increased state fringe benefit support as well as an increase for general operations.

Unless otherwise permitted by the Massachusetts Legislature, the University is required to remit tuition revenue received to the Commonwealth. Therefore, the University collects student tuition on behalf of the Commonwealth and remits it to the Commonwealth's General Fund. There is no direct connection between the amount of tuition revenues collected by the University and the amount of state funds appropriated in any given year. During fiscal year 2004, the Amherst campus was able to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. This pilot program was extended indefinitely in 2005.

The following details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2007, 2006 and 2005 (in thousands):

	June 30, 2007	June 30, 2006	June 30, 2005
Gross Commonwealth Appropriations	\$474,909	\$450,324	\$413,779
<b>Plus: Fringe Benefits*</b>	<u>151,106</u>	<u>123,949</u>	<u>114,173</u>
	\$626,015	\$574,273	\$527,952
Less: Tuition Remitted	(\$46,599)	(\$47,524)	(\$49,139)
<b>Net Commonwealth Support</b>	<b>\$579,416</b>	<b>\$526,749</b>	<b>\$478,813</b>

\*The Commonwealth pays the fringe benefit cost for University employees paid from Commonwealth operating appropriations. Therefore, such fringe benefit support is added to the "State Appropriations" financial statement line item as presented in the above table. The University pays the Commonwealth for the fringe benefit cost of the employees paid from funding sources other than Commonwealth operating appropriations.

### Grant and Contract Revenue

The University's Amherst Campus and Medical School campus in Worcester have been the primary catalyst in the University's research funding growth in recent years. However, each of the other campuses has also experienced growth in sponsored research activity in recent years. The following table details the University's grant and contract revenues (in millions) for the fiscal years ended June 30, 2007, 2006 and 2005:

	June 30, 2007	June 30, 2006	June 30, 2005
Federal Grants and Contracts	\$297,647	\$300,685	\$289,527
State Grants and Contracts	66,775	66,172	59,142
Local Grants and Contracts	2,815	3,746	3,266
Private Grants and Contracts	92,653	82,234	72,249
<b>Total Grants and Contracts</b>	<b>\$459,890</b>	<b>\$452,837</b>	<b>\$424,184</b>

### Discretely Presented Component Units

#### University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately \$351.0 million at June 30, 2007 up from \$261.0 million at June 30, 2006 up from \$226.4 million at June 30, 2005.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of approximately 5% of their beginning market value as of July 1 subject to review and approval by the Foundation's Board of Directors. The distribution amount will be made available at the beginning of the following fiscal year. The actual spending rate was 4% for fiscal years 2007 and 2006.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were \$23.7 million at June 30, 2007 up from \$18.7 million in fiscal year 2006 and \$16.3 million in fiscal year 2005 which are held by the University of Massachusetts Foundation, Inc. The increase was primarily due to new gifts. The Dartmouth Foundation total investment returns for fiscal year 2007, including realized and unrealized investment activity, was a net gain of approximately \$3.0 million.

**Tuition and Fees**

The University strives to provide students with the opportunity to obtain a quality education. Future University enrollments may be affected by a number of factors, including any material increase in tuition and other mandatory charges and any material decrease in Commonwealth appropriations. Starting in fiscal year 2004, the University has followed the practice of limiting the annual increases in total mandatory student charges (tuition and mandatory fees) for resident undergraduate students to rate increases of no greater than the rate of inflation.

**Enrollment**

Except for the Medical School, which admits only Massachusetts residents (as required by Massachusetts Session Laws, 1987, Chapter 199, Section 99); admission to the University is open to residents and non-residents of the Commonwealth on a competitive basis. In the fall 2006 semester, Massachusetts residents accounted for approximately 86% and 59% of the University's total undergraduate and graduate fall enrollment, respectively. Total enrollment in the fall of 2006 was 49,165 FTE (58,939 headcount students). In the fall of 2005 semester, Massachusetts residents accounted for approximately 86% and 58% of the University's total undergraduate and graduate enrollment, respectively.

Enrollments at the University have shown modest increases overall since 1997 (44,842 FTE). The enrollment changes are consistent with the University's efforts to manage housing and class enrollment. In the fall of 2006, freshman applications were up at the Amherst campus 11%, up at Boston 15%, up at Dartmouth 8% and up 5% at the Lowell campus. Transfer applications were up at the Amherst, Boston and Lowell campuses, 1%, 10% and 11% respectively and down approximately 3% at the Dartmouth campus.

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1046 to 1146 at the University's campuses in the fall of 2006. The 2005 national average SAT composite score was 1028.

**Degrees Awarded**

The University awards four levels of degrees, including associate, bachelors, masters and doctoral/professional degrees. A total of 11,463 degrees were awarded in 2005-2006: 242 associate degrees, 8,091 bachelor degrees, 2,642 master degrees, and 395 doctoral degrees and 93 MD's.

**Bonds Payable**

As of June 30, 2007, the University had outstanding bonds of approximately \$1.045 billion representing \$629.1 million of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), \$85.0 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority (the "UMass HEFA Bonds"), and \$330.5 million of bonds financed through the Worcester City Campus Corporation (the "WCCC Bonds"). Bonds payable is the University's largest liability at June 30, 2007 and 2006. Projects initially financed by the Building Authority Bonds consisted primarily of dormitories, apartments, dining commons, athletic and multi purpose facilities and parking garages at the University campuses. The Building Authority's active projects include dormitory rehabilitations, renovation of general education buildings, and construction of academic and science facilities. The proceeds from the UMass HEFA Bonds were used to create a revolving loan program and to fund the construction of two new campus centers at the Boston and Lowell campuses (funded jointly with the Commonwealth).

On January 5, 2007 the University of Massachusetts Building Authority closed on a \$35.0 million Revolving Line of Credit (the Line) with Bank of America, N.A (the Bank). As of June 30, 2007 the Authority had \$4.1 million outstanding under the Line in four separate draws that were used to fund capital activity at the University's campuses.

In January 2007, the University issued \$10.4 million of MHEFA Revenue Bonds, University of Massachusetts Issue, Series D. The proceeds from this issuance were used to refund a portion of the Series B Bonds. At June 30, 2007, the outstanding principal balance on the Series D Bonds is \$10.4 million.

In January 2007, WCCC issued \$118.8 million of Series E bonds. The Series E Bonds were issued at a premium of \$3.9 million. WCCC has deposited \$32.4 million of the proceeds to an irrevocable trust fund to provide for partial advanced refunding of the Series B Bonds. A portion of the Series B Bonds totaling \$30.8 million and the irrevocable trust has been derecognized by WCCC. WCCC incurred a loss on advanced refunding and defeasance of \$2.3 million which will be amortized over the life of the debt. As of June 30, 2007 the aggregate principal payments outstanding on this portion of the Series E Bond was \$33.1 million. Further, \$85.7 million of the Series E Bonds proceeds are being used to finance the construction of the Advanced Center for Clinical Education and Science (ACCES) at the Worcester Campus. As of June 30, 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was \$85.7 million.

In January 2007, WCCC issued \$101.7 million of Series F bonds. The Series F Bonds were issued at a premium of \$2.8 million. WCCC has deposited \$68.8 million of the proceeds to an irrevocable trust fund to provide for payment of the WCCC C Bonds. The Series C Bonds were issued by WCCC in April 2002 for \$70.0 million. The proceeds from this issuance are being used to finance the construction of the Jamaica Plains Biolabs. As of June 30, 2007, the aggregate principal payments outstanding on this portion of Series F Bonds was \$68.5 million. WCCC incurred a loss on the advanced refunding and defeasance of \$5.0 million which will be amortized over the life of the debt. Further, \$34.6 million of the Series F Bonds proceeds are being used to finance the construction of the Biologics

Laboratory Phase II Project at the Mattapan location of the Worcester Campus. As of June 30, 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was \$33.2 million.

#### Capitalized Lease Obligations

At June 30, 2007, the University had capital lease obligations with remaining principal payments of approximately \$54.6 million which is a decrease from fiscal year 2006 of \$66.6 million. The capital leases primarily consist of telecommunications, software and co-generation systems, and campus energy conversions. The decrease is due primarily to scheduled debt service payments.

#### University Rating

The current credit ratings for the University of Massachusetts bonds are "A+" and "A" as rated by Fitch IBCA and Standard & Poor's rating agencies, respectively. The highest achievable rating is "AAA" based upon the scale used in the University's rating. The University's rating is one tier below the "AA" rating of the Commonwealth of Massachusetts.

#### Limitations on Additional Indebtedness

The University may, without limit, issue additional indebtedness or request the Building Authority to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all available funds of the University. However, the University may request that the Building Authority issue additional indebtedness not payable from all available funds of the University provided that the additional indebtedness is secured by certain pledged revenues and the maximum annual debt service on all revenue indebtedness does not exceed 10% of the University's available revenues.

The Building Authority is authorized by its enabling act to issue bonds with the unconditional guarantee of the Commonwealth of Massachusetts for the punctual payment of the interest and principal payments on the guaranteed bonds. The full faith and credit of the Commonwealth are pledged for the performance of its guarantee. The enabling act, as amended, presently limits to \$200 million the total principal amount of notes and bonds of the Building Authority that may be Commonwealth guaranteed and outstanding at any one time.

#### Capital Plan

In September of 2007, the University Trustees approved of an approximately \$2.95 billion five-year (fiscal years 2008-2012) update to its capital plan to be financed from all available funding including projects already in process with prior approval of the University Trustees, as well as new projects. The University generally has funded its capital plans through a combination of funding received from University operations, bonds issued by the Building Authority, Massachusetts Health and Educational Facilities Authority financing, Commonwealth appropriations, and private fund raising. The execution of the University's capital plan is contingent upon sufficient funding from the Commonwealth.

The University's five-year capital plan for fiscal years 2008-2012 includes both new projects and major projects that were previously approved by the University Trustees in prior year capital plans. The major projects in the 2008-2012 capital plan and their estimated total project cost include (a) at the Amherst campus: deferred maintenance and new construction on the central heating plant for approximately \$120.1 million, the construction of a laboratory science building for approximately \$100.0 million, the construction of an academic classroom building for approximately \$85 million, the construction of an integrated science building to provide modern teaching laboratory facilities for chemistry and life sciences for approximately \$109.0 million, student housing renovation and repair projects of \$22.5 million, the construction of an art building to provide essential replacement space for a number of art programs currently housed in obsolete space for approximately \$26.8 million, the construction of a new student center for approximately \$70.0 million, upgrades to residential housing sprinkler systems for \$32.0 million, renovations to the Boyden Gym for \$20 million, renovations to Skinner Hall in order to strengthen the Nursing Program for \$18.9 million, construction of a new student recreation center for \$53.3 million, design and construction of a new police facility for \$10.5 million, renovations to the interior space of the DuBois Library for \$13 million, renovations and systems upgrades to the Morrill Buildings Complex totaling approximately \$141.4 million; (b) at the Boston campus: major interim stabilization work to ensure the safety of the campus substructure and to allow for continuity of operations for \$46.7 million is the most pressing capital concern for the campus, the construction of a two new academic buildings for \$200.0 million, the construction of a 1,000 vehicle parking garage to replace the spaces lost with the elimination of the existing garage for approximately \$25 million, improvements campus-wide to the fire protection and safety systems for approximately \$12.8 million, the purchase of new and replacement instructional and scientific equipment for existing programs for approximately \$30.8 million, restoration or replacement of the building envelopes for the majority of campus buildings with an estimated cost of \$43.7 million, (c) at the Dartmouth campus: in order to accommodate a growing enrollment and to deal with deteriorating housing units the campus plans to expend \$97.0 million for the renovation and replacement of student housing, the construction of a facilities building and the retrofit of vacated space to centralize functions and to create more academic space for approximately \$11.0 million, the construction of an addition to the Campus Center to meet the needs of the expanding student population for approximately \$15.7 million, the construction of a multipurpose field house for approximately \$20.0 million, library renovations to address deferred maintenance and to improve services for approximately \$18.0 million, an energy/water conservation project for \$14 million, various infrastructure repair projects include ADA improvements and learning space improvements for \$72.5 million over five years; (d) at the Lowell campus: academic, library and administrative technology equipment for approximately \$30.0 million, the construction of a new parking garage at UML North for approximately \$23.0 million, the construction of the Emerging Technology Innovation Center for approximately \$80.0 million, roof replacement and improvement of the building systems at the Wannalancit Mills for \$15.5 million, renovations to various buildings to upgrade basic systems, centralize departments, and enhance services for approximately \$18.2 million, the construction of an academic building on the South Campus for \$40.0 million, upgrading of laboratory space for approximately \$19.2 million, the modernization of the North Quad area to include security improvements, systems upgrades, and access enhancements for \$21.9 million; and (e) at the Worcester campus: construction of a new science facility to support new programs in stem cell research, RNAi therapies, and gene silencing for approximately \$235 million, construction of a medical education and clinical practice building for \$100.0 million, the power plant expansion to improve efficiency and meet the energy requirements of the growing Campus for approximately \$30.5 million, HVAC upgrades and replacements for approximately \$30.0 million, the construction of a new building to support vaccine production and product warehousing for \$35.0 million, the construction of a mixed-use building for office space and

research and development work for \$50.0 million, addressing deferred maintenance priorities for \$31.0 million.

In 1996, the University initiated a more active program to address deferred maintenance needs at its campuses. As a result, the University has made investments to repair and renovate facilities at the University's campuses from a combination of University sources and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2008-2012 capital plan includes approximately \$645.2 million of deferred maintenance projects. During fiscal year 2007, the University expended approximately \$166.0 million on plant operations and maintenance activities.

#### **Factors Impacting Future Periods**

There are a number of issues of University-wide importance that directly impact the financial operations of the University. Many of these issues such as improving academic quality and financial performance, investing in capital assets, expanding fundraising capacity, and measuring performance are ongoing activities of continuous importance to the Board of Trustees and University leadership that impact the financial and budget planning each year.

The level of state support, the impact of collectively bargained wage increases, and the ability of student fee supported activities to meet inflationary pressures determine the limits of program expansion, new initiatives and strategic investments, as well as the ability of the University to meet its core mission and ongoing operational needs.

The ability to address priority capital needs and requirements for deferred maintenance, technology, repairs and adaptation, and selected new construction projects may be the biggest challenge facing the University in years to come. The commitment of operating funds for servicing debt and/or funding capital expenditures has an ongoing impact on the overall financial picture of the University.

In recent years the University's UMASS On-Line program has shown significant growth in enrollments, course offerings and revenue generation benefiting the campuses and raising the profile of the University throughout this important sector of the higher education market.

The University has recently launched a coordinated effort in international activities to develop partnerships and programs to bring faculty, visiting scholars and students from other countries to the University; to integrate study abroad opportunities into the undergraduate and graduate curriculum; and to encourage faculty to engage in research, teaching and service activities around the world.

As of June of 2007, the University had appointed new Chancellors for the Boston and Lowell campuses; interim Chancellors at the Medical School and Amherst campuses and started a national search to fill the post of Chancellor at the Amherst campus. These appointments further strengthen a leadership team already focused on expanding the University's impact on the Commonwealth and the world as a leader in research, teaching and public service.

The University of Massachusetts Medical School's (UMMS) Craig C. Mello, PhD, and his colleague Andrew Fire, PhD, of Stanford University, were awarded the 2006 Nobel Prize in Physiology or Medicine for their discoveries related to ribonucleic acid (RNA). The findings of Drs. Mello and Fire demonstrated that a particular form of RNA, the cellular material responsible for the transmission of genetic information, can silence (RNAi process) targeted genes. Due to these findings, companies worldwide at the forefront of pharmaceutical innovation have purchased licenses to RNAi technology, co-owned by the UMMS, to aid in their development of treatments for disease. In addition, UMMS researchers are using RNAi technology to speed investigation into a variety of diseases. The work of Dr. Mello has not only produced revenue streams for the University and aided the work of his fellow researchers, but it has also enhanced the overall view of the University of Massachusetts. This recognition highlights the strength of UMMS research and can enhance the overall reputation of the entire University.

More recently, the new Governor of the Commonwealth of Massachusetts has shown unprecedented public support for the University. In July of 2007, the Governor launched a significant new initiative to stimulate the Life Sciences industry in Massachusetts. This \$1 billion proposal has a number of capital and grant funding opportunities that would benefit the University. The Medical School and Amherst campuses are well positioned to take a lead in the development of new technologies in the life sciences and the University has been recognized by the new administration as playing a significant role in the development of a stem cell bank for researchers throughout the world. Also, on October 10, 2007 the Governor filed a \$1 billion capital bond bill to fund capital improvements and new facilities at all University campuses over the next ten years. This is the largest proposed bond bill for the University ever.

**University of Massachusetts**  
**Statement of Net Assets**  
**As of June 30, 2007 and 2006**  
**(in thousands of dollars)**

	University	University Related	University	University Related
	June 30, 2007	Organizations June 30, 2007	June 30, 2006	Organizations June 30, 2006
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$50,028		\$48,723	
Cash Held By State Treasurer	9,834		8,797	
Accounts, Grants and Loans Receivable	202,666	\$22	186,213	\$22
Pledges Receivable	1,922	5,520	1,818	2,965
Short Term Investments	62,873		113,497	
Inventories	13,283		17,153	
Accounts Receivable UMass Memorial	122,508		115,363	
Due From Related Organizations	191	1,280	388	1,607
Other Assets	11,842	19	12,739	
<b>Total Current Assets</b>	<b>475,147</b>	<b>6,841</b>	<b>504,691</b>	<b>4,594</b>
<b>Noncurrent Assets</b>				
Cash and Cash Equivalents		3,040		2,836
Cash Held By State Treasurer	6,311		10,875	
Cash and Securities Held By Trustees	437,494		448,672	
Accounts, Grants and Loans Receivable	34,949		34,025	
Pledges Receivable	4,900	6,267	5,136	11,837
Investments	470,900	280,459	391,320	234,809
Other Assets	10,321	46	10,761	43
Investment In Plant Net of Accumulated Depreciation	1,719,316	992	1,499,607	1,003
<b>Total Noncurrent Assets</b>	<b>2,684,191</b>	<b>290,804</b>	<b>2,400,396</b>	<b>250,528</b>
<b>Total Assets</b>	<b>\$3,159,338</b>	<b>\$297,645</b>	<b>\$2,905,087</b>	<b>\$255,122</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$96,767	\$1,171	\$115,463	\$1,754
Accrued Salaries and Wages	56,979		50,754	
Accrued Liability for Compensated Absences	62,446		59,910	
Accrued Liability for Workers' Compensation	3,733		3,427	
Arbitrage Rebate Payable	641		293	
Accrued Interest Payable	9,690		9,120	
Bonds Payable	40,070		25,130	
Capital Lease Obligations	12,285		12,238	
Accounts Payable UMass Memorial	3,339		8,017	
Due To Related Organizations	1,280	191	1,607	388
Deferred Revenues and Credits	57,259	6,384	44,831	3,994
Advances and Deposits	10,576		5,320	
Other Liabilities	118,310		172,862	
<b>Total Current Liabilities</b>	<b>473,375</b>	<b>7,746</b>	<b>508,972</b>	<b>6,136</b>
<b>Noncurrent Liabilities</b>				
Accrued Liability for Compensated Absences	21,936		22,230	
Accrued Liability for Workers' Compensation	11,140		12,737	
Arbitrage Rebate Payable	493		467	
Bonds Payable	1,004,539		916,751	
Capital Lease Obligations	42,300		54,379	
Deferred Revenues and Credits	12,192		10,553	
Advances and Deposits	28,087		28,650	
Other Liabilities	959	2,983	570	2,914
<b>Total Noncurrent Liabilities</b>	<b>1,121,646</b>	<b>2,983</b>	<b>1,046,337</b>	<b>2,914</b>
<b>Total Liabilities</b>	<b>\$1,595,021</b>	<b>\$10,729</b>	<b>\$1,555,309</b>	<b>\$9,050</b>
<b>Net Assets:</b>				
Invested in Capital Assets Net of Related Debt	\$884,138	\$992	\$804,053	\$1,003
Restricted				
Nonexpendable	16,264	193,100	16,136	178,692
Expendable	216,207	85,809	146,903	61,091
Unrestricted	447,708	7,015	382,686	5,286
<b>Total Net Assets</b>	<b>\$1,564,317</b>	<b>\$286,916</b>	<b>\$1,349,778</b>	<b>\$246,072</b>

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

**University of Massachusetts**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For The Years Ended June 30, 2007 and 2006**  
(in thousands of dollars)

	University Related		University Related	
	University June 30, 2007	Organizations June 30, 2007	University June 30, 2006	Organizations June 30, 2006
<b>REVENUES</b>				
<b>Operating Revenues</b>				
Tuition and Fees (net of scholarship allowances of \$101,855 at June 30, 2007 and \$88,628 at June 30, 2006)	\$435,806		\$401,636	
Federal Grants and Contracts	297,647		300,685	
State Grants and Contracts	66,775		66,172	
Local Grants and Contracts	2,815		3,746	
Private Grants and Contracts	92,653		82,234	
Sales & Service, Educational	17,150		17,780	
Auxiliary Enterprises	206,021		196,957	
Other Operating Revenues:				
Sales & Service, Independent Operations	99,344		78,899	
Sales & Service, Public Service Activities	381,214		333,997	
Other	54,858		44,142	
<b>Total Operating Revenues</b>	<b>1,654,283</b>		<b>1,526,248</b>	
<b>EXPENSES</b>				
<b>Operating Expenses</b>				
<b>Educational and General</b>				
Instruction	526,049		499,403	
Research	320,889		316,667	
Public Service	75,058	\$10,961	76,867	\$12,853
Academic Support	120,240		112,021	
Student Services	87,085		79,229	
Institutional Support	155,520		153,071	
Operation and Maintenance of Plant	166,082		157,683	
Depreciation and Amortization	141,360	18	121,567	16
Scholarships and Fellowships	29,215	5,085	26,590	4,070
Auxiliary Enterprises	162,134		149,986	
Other Expenditures				
Independent Operations	66,870		46,546	
Public Service Activities	330,331		316,854	
<b>Total Operating Expenses</b>	<b>2,180,833</b>	<b>16,064</b>	<b>2,056,484</b>	<b>16,939</b>
<b>Operating Loss</b>	<b>(526,550)</b>	<b>(16,064)</b>	<b>(530,236)</b>	<b>(16,939)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
Federal Appropriations	5,777		7,044	
State Appropriations	579,416		526,749	
Gifts	18,621	5,226	25,646	11,238
Investment Income	87,106	23,876	42,981	11,871
Endowment Income	7,031	7,544	5,903	5,743
Interest on Indebtedness	(36,737)		(39,331)	(8)
Other Nonoperating Income	9,639		8,967	
<b>Net Nonoperating Revenues</b>	<b>670,853</b>	<b>36,646</b>	<b>577,959</b>	<b>28,844</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>	<b>144,303</b>	<b>20,582</b>	<b>47,723</b>	<b>11,905</b>
Capital Appropriations	73,590		27,147	
Capital Grants and Contracts	4,000			
Additions to Permanent Endowments		19,684		14,401
University Related Organization Transactions			593	(593)
Disposal of Plant Facilities	(6,964)		(11,276)	
Other Additions/Deductions	(390)	578	(5,938)	4,664
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>70,236</b>	<b>20,262</b>	<b>10,526</b>	<b>18,472</b>
<b>Total Increase in Net Assets</b>	<b>214,539</b>	<b>40,844</b>	<b>58,249</b>	<b>30,377</b>
<b>NET ASSETS</b>				
Net Assets at Beginning of Year	1,349,778	246,072	1,291,529	215,695
<b>Net Assets at End of Year</b>	<b>\$1,564,317</b>	<b>\$286,916</b>	<b>\$1,349,778</b>	<b>\$246,072</b>

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

**University of Massachusetts**  
**Statements of Cash Flows**  
**For The Years Ended June 30, 2007 and 2006**  
(in thousands of dollars)

	University June 30, 2007	University June 30, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$455,658	\$407,922
Grants and Contracts	436,775	511,044
Payments to Suppliers	(794,033)	(641,297)
Payments to Employees	(1,044,201)	(1,017,785)
Payments for Benefits	(240,808)	(224,358)
Payments for Scholarships and Fellowships	(28,200)	(30,295)
Loans Issued to Students and Employees	(8,146)	(9,172)
Collections of Loans to Students and Employees	8,259	8,074
Auxiliary Enterprises Receipts	250,171	240,251
Sales and Service, Educational	24,400	21,835
Sales & Service, Independent Operations	104,254	103,965
Sales & Service, Public Service Activities	351,655	217,702
<i>Net Cash Used for Operating Activities</i>	<b>(484,216)</b>	<b>(411,773)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	636,372	582,647
Tuition Remitted to the State	(46,599)	(47,524)
Federal Appropriations	5,777	7,044
Gifts and Grants for Other Than Capital Purposes	18,018	24,849
Private Gifts for Endowment Purposes	1,076	168
Student Organization Agency Transactions	(290)	(448)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<b>614,354</b>	<b>566,736</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt	232,079	22,114
Bond Issuance Costs Paid	(824)	(4,107)
Capital Appropriations	73,590	26,591
Capital Grants and Contracts	2,750	(3,855)
Purchases of Capital Assets and Construction	(214,763)	(162,906)
Principal Paid on Capital Debt and Leases	(148,229)	(37,779)
Interest Paid on Capital Debt and Leases	(38,993)	(42,024)
Use of Debt Proceeds on Deposit with Trustees	(150,568)	(110,604)
<i>Net Cash Used for Capital Financing Activities</i>	<b>(244,958)</b>	<b>(312,570)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	1,489,153	935,489
Interest on Investments	31,628	18,622
Purchase of Investments	(1,419,361)	(914,672)
<i>Net Cash Provided by Investing Activities</i>	<b>101,420</b>	<b>39,439</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,400)</b>	<b>(118,168)</b>
<b>Cash and Cash Equivalents - Beginning of the Year</b>	<b>517,067</b>	<b>635,235</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$503,667</b>	<b>\$517,067</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	(\$526,550)	(\$530,236)
<i>Adjustments to reconcile loss to net cash used by Operating Activities:</i>		
Depreciation and Amortization Expense	141,360	121,567
<i>Changes in Assets and Liabilities:</i>		
Receivables, net	(17,245)	(14,579)
Inventories	3,870	(5,471)
Due to/from Related Organizations	(130)	(704)
Accounts Receivable/Payable UMass Memorial	(11,823)	(94,932)
Other Assets	1,337	(2,212)
Accounts Payable (non-capital)	(17,675)	48,125
Accrued Liabilities	7,176	(27,020)
Deferred Revenue	14,067	7,199
Advances and Deposits	4,693	(928)
Other Liabilities	(83,296)	87,077
<i>Net Cash Used for Operating Activities</i>	<b>(484,216)</b>	<b>(411,773)</b>
<b>NONCASH CAPITAL FINANCING ACTIVITY</b>		
Assets acquired through capital leases	\$754	\$1,939

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

**University of Massachusetts  
Notes to Financial Statements  
June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION**

The financial statements herein present the financial position, results of operations, changes in net assets, and cash flows of the University of Massachusetts (University), a federal land grant institution. The financial statements of the University include the Amherst, Boston, Dartmouth, Lowell and Worcester Medical School campuses, and the Central Administration office of the University, Worcester City Campus Corporation (WCCC), the University of Massachusetts Amherst Foundation (UMass Amherst Foundation), as well as the University of Massachusetts Building Authority (Building Authority).

The Building Authority is a public instrumentality of the Commonwealth created by Chapter 773 of the Acts of 1960, whose purpose is to provide dormitories, dining commons, and other buildings and structures for use by the University. WCCC, of which the Worcester Foundation for Biomedical Research, Inc. (WFBR) is a subsidiary, is a tax exempt organization founded to support research and real property activities for the University. The UMass Amherst Foundation was established in 2003 as a tax exempt organization founded to foster and promote the growth, progress, and general welfare of the University. These component units are included in the financial statements of the University because of the significance and exclusivity of their financial relationships with the University.

The University Related Organizations' column in the financial statements includes the financial information of the University's discretely presented component units. The University of Massachusetts Foundation, Inc. (Foundation) and the University of Massachusetts Dartmouth Foundation, Inc. (the Dartmouth Foundation) are related tax exempt organizations founded to foster and promote the growth, progress and general welfare of the University, and are reported in a separate column to emphasize that they are Massachusetts not-for-profit organizations legally separate from the University. These component units are included as part of the University's financial statements because of the nature and the significance of their financial relationship with the University. The financial statement presentation of the discretely presented component units has been reclassified to conform to the University presentation.

The University is a component unit of the Commonwealth of Massachusetts. The financial balances and activities included in these financial statements are, therefore, also included in the Commonwealth's comprehensive annual financial report.

Effective March 31, 1998, the former University of Massachusetts Clinical Services Division (which was comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School - Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust), was merged into a separate Massachusetts not-for-profit corporation named UMass Memorial Health Care, Inc. (UMass Memorial). UMass Memorial is not a component of these financial statements.

**BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. These statements are reported on a combined basis, and all intra-University transactions are eliminated. In accordance with GASB Statement No. 20, the University follows all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

Operating revenues consist of tuition and fees, grants and contracts, sales and services of educational activities (including royalties from licensing agreements) and auxiliary enterprise revenues. Operating expenses include salaries, wages, fringe benefits, utilities, subcontracts on grants and contracts, supplies and services, and depreciation and amortization. All other revenues and expenses of the University are reported as non-operating revenues and expenses including state general appropriations, non-capital gifts, short term investment income, endowment income used in operations, interest expense, and capital additions and deductions. Capital items represent all other changes in long term plant and endowment net assets. Revenues are recognized when earned and expenses are recognized when incurred with the exception of revenue earned on certain public service activities (see Note 5). Restricted grant revenue is recognized only when all eligibility requirements have been met, that is to the extent grant revenues are expended or in the case of fixed price contracts, when the contract terms are met or completed. Contributions, including unconditional promises to give (pledges) for non-endowment or non-capital purposes, are recognized as revenues in the period received. Promises of additions to non-expendable endowments are not recognized until cash or other assets are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The University applies restricted net assets first when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, and disclosures of contingencies at the date of the financial statements and revenues and expenditures recognized during the reporting period. Significant estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts, valuation of certain investments and depreciation expense. Actual results could differ from those estimates.

The University reports its financial statements as a "business-type activity" ("BTA") under GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35). BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the University are maintained internally in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are maintained in separate funds in accordance with the activities or objectives specified. GASB 35 requires that external financial statements to be reported on a consolidated basis and establishes standards for external financial reporting by public colleges and universities that resources be classified into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, at historical cost, or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted Nonexpendable:** Net assets subject to externally imposed stipulations that they be maintained permanently by the University.
- **Restricted Expendable:** Net assets whose use by the University is subject to externally imposed stipulations. Such assets include restricted grants and contracts, the accumulated net gains/losses on true endowment funds, as well as restricted funds loaned to students, restricted gifts and endowment income, and other similar restricted funds.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Substantially all unrestricted net assets are designated to support academic, research, auxiliary enterprises or unrestricted funds functioning as endowments, or are committed to capital construction projects.

Revenues are reported net of discounts and allowances. As a result, student financial aid expenditures are reported as an allowance against tuition and fees revenue while stipends and other payments made directly to students are recorded as scholarship and fellowship expenditures on the statement of revenues, expenses, and other changes to net assets, and included in supplies and services on the statement of cash flows. Discounts and allowances for tuition and fees and auxiliary enterprises are calculated using the Alternate Method.

#### NEW ACCOUNTING PRONOUNCEMENTS

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. On July 19, 2006, the Boston campus closed the interior parking facilities that were part of the substructure of the original campus buildings constructed in 1974. While regular inspections and reports had indicated that the facility was structurally sound, the campus determined that the loss of parking spaces, the continual rerouting of pedestrian and vehicular traffic and the associated costs no longer made it a viable parking option. The net impairment loss reported as depreciation expenses is \$6.3 million in 2007.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. The Commonwealth of Massachusetts is liable for all post employment benefits for University employees. Therefore, the adoption of GASB Statement No. 45 is not expected to have an effect on the University's financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 47 requires that a liability be recorded in the financials for the amount of termination benefits to be paid by the University. The University does not have any termination benefits payable at the end of fiscal year 2006 or 2007. Therefore, the adoption of GASB Statement No. 47 did not have an effect on the financial statements in fiscal years 2006 and 2007.

#### CLASSIFICATION OF ASSETS AND LIABILITIES

The University presents current and non-current assets and liabilities in the statement of net assets. Assets and liabilities are considered current if they mature in one year or less, or are expected to be received, used, or paid within one year or less. Investments with a maturity of greater than one year and balances that have externally imposed restrictions as to use are considered non-current. Cash held by state treasurer includes balances with restrictions as to use and balances that may be rolled forward for use toward the restricted purposes in future years, and such balances are classified as non-current. Cash held by trustees is presented based upon its expected period of use and to the restrictions imposed on the balances by external parties.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value approximates carrying value for cash and cash equivalents, investments, accounts receivable, accounts payable, accrued expenses and interest, and deposits.

#### CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, and savings accounts, with a maturity of three months or less when purchased.

Investments are carried at fair value. Short-term investments consist of deposits with original maturities of less than one year and are available for current use. Securities received as a gift are recorded at estimated fair value at the date of the gift. The University holds certain investment securities in publicly traded and privately held companies as the result of agreements entered into by the University's Commercial Ventures and Intellectual Property (CVIP) program. Securities received or purchased as the result of these agreements are recorded at fair value, where readily determinable by quoted market prices, or if fair value is not known or practicable to estimate, the investment is carried at cost which is deemed to be the estimated fair value.

Certain securities held by the Foundation do not have readily determinable quoted market prices and are carried at valuations provided by third-party investment managers. The Foundation believes that the carrying amount of these investments are a reasonable estimate of fair value, however, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. Venture capital investments represent initial investments made to certain funds and are reported at cost until distributions are made from the funds or until market values are reported on the funds.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statement of net assets.

Investment income is recognized on the accrual basis. In computing realized gains and losses, cost is determined on a specific identification basis.

#### RESTRICTED GRANTS AND CONTRACTS

The University receives monies from federal and state government agencies under grants and contracts for research and other activities including medical service reimbursements. The University records the recovery of indirect costs applicable to research programs, and other activities which provide for the full or partial reimbursement of such costs, as revenue. Recovery of indirect costs for the years ended June 30, 2007 and 2006 was \$89.3 million and \$85.8 million, respectively, and is a component of grants and contracts revenue. The costs, both direct and indirect, charged to these grants and contracts are subject to audit by the granting agency. The University believes that any audit adjustments would not have a material effect on the University's financial statements.

#### PLEDGES AND ENDOWMENT SPENDING

Pledges for non-endowment purposes are presented net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Because of uncertainties with regard to their realizability and valuation, bequests and intentions and other conditional promises are not recognized as assets until the specified conditions are met.

The Foundation utilizes the pooled investment concept whereby all invested funds are in one investment pool, except for investments of certain funds that are otherwise restricted. Pooled investment funds will receive an annual distribution of approximately 5% of their beginning market value as of July 1 subject to review and approval by the Foundation's Board of Directors. The distribution amount will be made available at the beginning of the following fiscal year. The actual spending rate was 4% for fiscal years 2007 and 2006. Future utilization of gains is dependent on market performance. Deficiencies for donor-restricted endowment funds, resulting from declines in market value, would be offset by an allocation from unrestricted net assets to restricted expendable net assets within the Foundation. The Foundation believes that, if applicable, these adjustments would be temporary and will not require permanent funding. In fiscal year 2007 and 2006 there were no deficiencies.

#### INVENTORIES

The University's inventories consist of books, general merchandise, central stores, vaccines, and operating supplies which are carried at the lower of cost (first-in, first-out and average cost methods) or market.

#### INVESTMENT IN PLANT

Capital assets are stated at cost. Net interest costs incurred during the construction period for major capital projects are added to the cost of the asset. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets. The University records a full year of depreciation in the year of acquisition. Land is not depreciated. The University does not capitalize works of art or historical treasures. Following is the range of useful lives for the University's depreciable assets:

Buildings	20-50 years
Building Improvements	5-20 years
Equipment and Furniture	3-15 years
Software	5 years
Library Books	15 years
Land Improvements	20 years

#### COMPENSATED ABSENCES

Employees earn the right to be compensated during absences for annual vacation leave and sick leave. The accompanying statement of net assets reflects an accrual for the amounts earned and ultimately payable for such benefits as of the end of the fiscal year.

#### DEFERRED REVENUE

Deferred revenue consists of amounts billed or received in advance of the University providing goods or services.

**ADVANCES AND DEPOSITS**

Advances from the U.S. Government for Federal Perkins Loans to students are reported as part of advances and deposits. Future loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon.

**TUITION AND STATE APPROPRIATIONS**

The combined financial statements for the years ended June 30, 2007 and 2006 record as tuition revenue approximately \$46.6 million and \$47.5 million, respectively, of tuition received by the University and remitted to the State Treasurer's Office for the general fund of the Commonwealth of Massachusetts. During fiscal year 2004, the Amherst campus was granted authority to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. This pilot program was extended indefinitely in 2005. The recorded amount of State Appropriations received by the University has been reduced by a corresponding amount of tuition remitted as shown below (in thousands):

	<u>2007</u>	<u>2006</u>
Gross Commonwealth Appropriations	\$474,909	\$450,324
Plus: Fringe Benefits	151,106	123,949
	626,015	574,273
Less: Tuition Remitted	(46,599)	(47,524)
State Appropriations, Net	<u>\$579,416</u>	<u>\$526,749</u>

**AUXILIARY ENTERPRISES**

Auxiliary Enterprise revenue of \$206.1 million and \$196.8 million for the years ended June 30, 2007 and 2006 respectively are stated net of room and board charge allowances of \$3.0 million and \$2.8 million, respectively.

**OTHER OPERATING REVENUES AND EXPENDITURES, SALES AND SERVICES, PUBLIC SERVICE ACTIVITIES**

Public service activities consist primarily of sales and services to third parties that are provided by the UMass Medical School campus under its Commonwealth Medicine programs which provide public health consulting services to state and local agencies. In addition, educational services provided to UMass Memorial are included in public service activities. Included in revenues are Commonwealth Medicine revenues of \$324.6 million and \$274.1 million for the years ended June 30, 2007 and 2006, respectively. Included in expenditures are Commonwealth Medicine expenditures of \$296.5 million and \$307.3 million for the years ended June 30, 2007 and 2006, respectively. Educational services revenues included in public service revenues were \$143.7 million and \$133.0 million for the years ended June 30, 2007, and 2006, respectively. Public service activity expenditures also include payments to the Commonwealth of Massachusetts of \$95.0 million and \$110.0 million for the years ended June 30, 2007 and 2006, respectively, under its agreements with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

**FRINGE BENEFITS**

The University participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged by the Commonwealth to the University. Workers' compensation costs are assessed separately based on actual University experience.

Pursuant to the provisions of Paragraph (e), Section 5 of Chapter 163 of the Acts of 1997 and consistent with the September 22, 1992 Memorandum of Understanding between the Commonwealth of Massachusetts Executive Office of Administration and Finance and the University of Massachusetts, the University's Worcester Medical School campus has assumed the obligation for the cost of fringe benefits provided by the Commonwealth to University employees (other than those employees paid from state appropriated funds) for all periods on or after July 1, 1989. The University determines the actual costs for the health insurance benefits and actuarially calculates the incurred service costs for pensions and retiree health insurance.

**INCOME TAX STATUS**

The University of Massachusetts is an agency of the Commonwealth of Massachusetts and is exempt from Federal income tax under Section 115(a) of the Internal Revenue Code. The University Related Organizations are 501(c)(3) organizations and are exempt from Federal Income tax under the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying combined financial statements.

**COMPARATIVE INFORMATION AND RECLASSIFICATIONS**

The University's financial statements include prior year comparative information. Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications, revised classification and adjustments have no effect on total net assets at June 30, 2006.

**2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

As of June 30, 2005, the University implemented the disclosures which are required by the Governmental Accounting Standards Board, Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB 40). For fiscal years ending June 30, 2006 and 2007, the University assessed and completed the following statements: Custodial Credit Risk, Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash, Cash Equivalents and Investments.

The University's investments are made in accordance with the Investment Policy and Guidelines Statement adopted in March 2005 by the Board of Trustees (the Investment Policy). The goals of the Investment Policy are to preserve capital, provide liquidity, and generate investment income. As directed by the Investment Policy, the University has established a University Investment Committee, comprised of members of the Board of Trustees and University staff. This committee convenes periodically to review the University's investment portfolio for compliance with the Investment Policy and to establish, revise and monitor investment strategy and external

benchmarks for the performance of the University's investments. The University of Massachusetts has statutory authority under Massachusetts General Laws Chapter 75 to collect, manage and disburse trust funds of the University.

The Investment Policy and Guidelines Statement adopted by the Board of Trustees in March of 2005 set forth the diversification limits for each asset class as shown below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Exposure Range</u>
Equities	20%	15% - 25%
Fixed Income	57%	50% - 65%
Cash	23%	15% - 30%

The University's cash management investment policy authorizes the University to invest in obligations of the U.S. Department of the Treasury, its agencies and instrumentalities, municipal and state bonds, certificates of deposit, commercial paper, banker's acceptances, Eurodollar contracts, corporate bonds, mutual funds, collateralized mortgage obligations, asset backed securities, repurchase agreements, and money market funds. The University's investment policy authorizes the University to invest endowment funds in the above investments as well as common and preferred stock.

Investments are reported at their respective fair values. The values of publicly traded fixed income and equity securities are based upon quoted market prices at the close of business on the last day of the fiscal year. Private equities and certain other non-marketable securities are valued using current estimates in fair value by management based on information provided by the general partner or investment manager for the respective securities. Investments in units of non-publicly traded pooled funds are valued at the unit value determined by the fund's administrator based on quoted market prices of the underlying investments. Private equities and other non-marketable securities represent approximately 12.0% and 11.0% of the Universities investments at June 30, 2007 and 2006, respectively.

**Custodial Credit Risk** - Custodial Credit Risk is the risk that, in the event of a failure of the counterparty, the University would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the University and are held by either the counterparty or the counterparty's trust department or agent but not in the University's name. As of June 30, 2007 and 2006, all cash and investment accounts were held on behalf of the University by the Trustees, in the Trustee's name.

The University maintains depository accounts with Bank of America N.A., Bank North, Fifth Third, and U.S. Bank. The University maintains payroll, disbursement and receipt and imprest accounts with Bank of America N.A. None of these accounts are collateralized. Accounts carry FDIC insurance up to \$100,000 per account. The following balances on deposit on June 30, 2007 were \$51.0 million in Bank of America, \$1.1 million in Bank North, \$2 million in Fifth Third Bank, \$1 million in US Bank, and \$2 million in Citizens. The following comparable balances on deposit on June 30, 2006 were \$19.1 million in Bank of America, \$1.1 million in Bank North, \$25 million in Citizens, \$27 million in Fifth Third Bank, and \$0.9 million in US Bank. At June 30, 2007 and 2006, the carrying amount of the University's bank account deposits were \$50.0 million and \$48.7 million, respectively, as compared to bank balances of \$52.6 million and \$20.8 million, respectively. In 2006 and 2007, the differences between the carrying amount and bank balances were primarily caused by outstanding checks, deposits in-transit, and securities lending of \$29.8 million and \$31.8 million, respectively. Of such said bank balances, \$3.0 million at June 30, 2007 and \$2.4 million at June 30, 2006 are covered by federal deposit insurance. The remaining \$49.6 million at June 30, 2007 and \$18.3 million at June 30, 2006 are uninsured and uncollateralized and therefore subject to custodial credit risk.

In addition to bank account deposits, at June 30, 2007, the University held money market instruments which are classified as investments. At June 30, 2007 and 2006, the carrying amounts of the University's money market accounts were \$42.6 million and \$70.9 million, respectively, as compared to bank balances of \$42.6 million and \$100.8 million, respectively. The difference between the carrying amount and bank balances were primarily caused by outstanding checks. Of such said money market balances, \$.5 million at June 30, 2007 and \$.6 million at June 30, 2006 are covered by federal deposit insurance. The remaining \$42.1 million at June 30, 2007 and \$100.2 million at June 30, 2006 are uninsured and uncollateralized, therefore subject to custodial credit risk. At June 30, 2007, the University maintained money market accounts of \$11.1 million in Bank of America N.A., \$9.4 million in Fidelity Investors, \$21.0 million in Janus Intech, \$1.0 million in Commonfund and \$.1 million in Berkshire. In addition to money market fair market value, the University held \$19.1 million of cash to be used to settle open trades at June 30, 2007 and \$12.1 million at June 30, 2006.

At June 30, 2007 the University held a carrying and fair market value of \$406.7 million in non-money market investments compared to a carrying and fair market value of \$397.3 million at June 30, 2006. In the event of negligence due to the University's custodian and/or investment manager(s), investment balances of \$406.7 million and \$397.3 million at June 30, 2007 and 2006, respectively, would be fully recovered. However, these amounts are subject to both interest rate risk and credit risk. Custody of assets is held with Mellon Trust of New England, N.A. or with the individual Investment Manager who is responsible for executing investment transactions.

**Concentration of Credit Risk** - Concentration of Credit Risk is assumed to arise when the amount of investments that the University has with one issuer exceeds 5 percent or more of the total value of the University's investments.

As of June 30, 2007 there is no portion of the University portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio. As of June 30, 2006, there was no portion of the University portfolio, excluding Bank of America N.A. (10.3%) and Fidelity Investments (13.6%) money markets investments and U.S. Government guaranteed obligations that exceeded 5% of the portfolio.

**Credit Risk** - Credit risk is the risk that the University will lose money because of the default of the security issuer or investment counterparty. The University's Investment Policy and Guidelines Statement gives each Portfolio Manager full discretion within the parameters of the investment guidelines specific to that manager.

The table below shows the fair value (in thousands) and average credit quality of the fixed income component of the University's investment portfolio as of June 30, 2007 and 2006, respectively:

<u>Asset Class</u>	June 30, 2007	Average Credit	June 30, 2006	Average Credit
	<u>Fair Value</u>	<u>Quality</u>	<u>Fair Value</u>	<u>Quality</u>
Short Duration	\$102,314	AAA	\$159,113	AAA
Intermediate Duration	225,858	A	206,409	A
Convertible Bonds	14,575	A	13,524	A
High Yield Bonds	20,681	BB	20,382	BB

The table below shows the fair value (in thousands) by credit quality of the rated debt investments component of the University's investment portfolio as of June 30, 2007 and 2006, respectively:

#### Rated Debt Investments - 2007

(in thousands)

	S&P Quality Ratings								
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	Unrated
U.S. Agencies	\$47,092	\$38,087	1,249	621	2,401	892			\$3,842
U.S. Government	21,910	21,910							
Corporate Debt	165,280	63,754	\$18,149	\$27,065	\$16,745	\$9,514	\$12,988	\$1,006	16,059
Money Market Mutual Fund	129,146	43,601							85,545
	<u>\$363,428</u>	<u>\$167,352</u>	<u>\$19,398</u>	<u>\$27,686</u>	<u>\$19,146</u>	<u>\$10,406</u>	<u>\$12,988</u>	<u>\$1,006</u>	<u>\$105,446</u>

#### Rated Debt Investments - 2006

(in thousands)

	S&P Quality Ratings								
	Fair Value	AAA	AA	A	BBB	BB	B	CCC	Unrated
U.S. Agencies	\$61,718	\$61,279							\$439
U.S. Government	24,611	24,611							
Corporate Debt	175,703	60,156	\$13,385	\$43,881	\$22,264	\$7,216	\$13,956	\$1,138	13,707
Money Market Mutual Fund	137,396	100,849							36,547
	<u>\$399,428</u>	<u>\$246,895</u>	<u>\$13,385</u>	<u>\$43,881</u>	<u>\$22,264</u>	<u>\$7,216</u>	<u>\$13,956</u>	<u>\$1,138</u>	<u>\$50,693</u>

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Investment Policy establishes targets for the preferred duration of the fixed income component of the investment portfolio by asset class by limiting investments through targeted allocations to different asset classes.

The table below shows the current target allocation for each asset class and the fair value (in thousands) for each as of June 30, 2007 and 2006, respectively:

<u>Asset Class</u>	6/30/07	6/30/07	6/30/06	6/30/06
	<u>Target Allocation</u>	<u>Fair Value</u>	<u>Target Allocation</u>	<u>Fair Value</u>
Short Duration	45%	\$102,314	45%	\$159,113
Intermediate Duration	25%	225,858	25%	206,409
Convertible Bonds	3%	14,575	3%	13,524
High Yield Bonds	5%	20,681	5%	20,382
Alternative Assets	8%	63,456	8%	58,858
Equities	9%	101,439	9%	73,750
Real Estate	0%	5,450	0%	2,649

**Investments - 2007**

(in thousands)

Investment Type:	Investment Maturities (in years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Agencies	\$44,423	180	8,082	6,544	29,617
U.S. Government	21,910			21,519	391
Corporate Debt	165,280	5,132	56,283	18,700	85,165
Municipal/Public Bonds	2,669	821	1,250	598	
Money Market Mutual Fund	129,146	129,146			
	<u>\$363,428</u>	<u>\$135,279</u>	<u>\$65,615</u>	<u>\$47,361</u>	<u>\$115,173</u>
	Fair Value				
<b>Other Investments</b>					
Equity Securities- Domestic	\$57,753				
Equity Securities- International	43,686				
Alternative Assets	63,456				
Real Estate	5,450				
	<u>\$170,345</u>				

**Investments - 2006**

(in thousands)

Investment Type:	Investment Maturities (in years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
U.S. Agencies	\$58,978	\$25,826	\$4,965	\$2,802	\$25,385
U.S. Government	24,611	8,524	1,311	14,036	740
Corporate Debt	175,703	3,482	69,021	19,706	83,494
Municipal/Public Bonds	2,740		2,025	715	
Money Market Mutual Fund	137,396	137,396			
	<u>\$399,428</u>	<u>\$175,228</u>	<u>\$77,322</u>	<u>\$37,259</u>	<u>\$109,619</u>
	Fair Value				
<b>Other Investments</b>					
Equity Securities- Domestic	\$42,979				
Equity Securities- International	30,771				
Alternative Assets	58,858				
Real Estate	2,649				
	<u>\$135,257</u>				

**Securities Lending:** In efforts to offset custodian fees, the University participates in a securities lending program to generate income. The University's custodian, Mellon Trust of New England, N.A., conducts business on behalf of the University with potential borrowers who are prescreened for creditworthiness prior to transactions. In exchange for the use of a particular security, cash collateral of 101-105% of the security's fair market value is collected from the potential borrower to offset any likelihood of loss. If a loss occurs, Mellon Trust of New England, N.A. will promptly replace the security in question with an exact or similar security of the same value. Also, any potential earnings lost will also be credited back to the University.

The University of Massachusetts has been participating in a securities lending program since March 18, 2005. Administration of securities lending is overseen by the University's custodian, Mellon Trust of New England, N.A. Strict controls are set in place to minimize losses and substantiate gains. The purpose of this program is to generate additional revenue for the University at minimal risk. As indicated before, earned income is used to partially offset custodian fees, increase cash flows, and reduce operating expenses. The amount of securities on loan at fiscal year end are reported as investments in the statement of net assets and the collateral is reported as cash and cash equivalents and other liabilities.

All lending opportunities are initiated through Mellon Trust of New England, N.A.. Mellon Trust of New England, N.A. maintains a reputable list of clients and borrowers, who are matched up when lending opportunities arise. To ensure fairness, Mellon Trust of New England, N.A. maintains a mathematically regulated client queue. When a particular security is desired by a borrower, the first client in queue who holds the security is given the opportunity to lend.

As of June 30, 2007 the University held a fair market value of \$162.0 million in lendable securities, compared to \$209.4 million in 2006, respectively. Out of these lendable securities, as of June 30, 2007, \$29.2 million was out on loan with 71 borrowers compared to \$31.8 million with 63 borrowers on June 30, 2006. The loans were outstanding for an average of 86 days in 2007, compared to 58 days in 2006.

**Securities Lending 2007 (in thousands)**

Securities Lent	Underlying Security Value	Collateral Rec'd Value	Collateral Percentage
U.S. Agencies	\$5,455	\$5,568	102.07%
Corporate Debt	8,103	8,318	102.65%
Equity Securities	790	815	103.17%
US Govt. - TIPS	2,035	2,067	101.58%
US Govt. - T-Bonds	10,737	10,913	101.63%
US Govt. - T-Notes	2,106	2,148	102.01%
	<u>\$29,226</u>	<u>\$29,829</u>	102.06%

## Securities Lending 2006 (In thousands)

Securities Lent	Underlying Security Value	Collateral Rec'd Value	Collateral Percentage
U.S. Agencies	\$200	\$203	101.83%
Corporate Debt	8,909	9,126	102.44%
Equity Securities	253	262	103.36%
US Govt. - TIPS	1,436	1,451	100.98%
US Govt. - T-Bonds	8,737	8,883	101.67%
US Govt. - T-Notes	12,250	12,482	101.90%
	\$31,785	\$32,407	101.96%

The cost and fair value of cash, cash equivalents and investments of the University Related Organizations at June 30, 2007 and 2006, respectively are as follows (in thousands):

University Related Organizations:	Total Fair Value	Total Cost	Total Fair Value	Total Cost
	6/30/07	6/30/07	6/30/06	6/30/06
Cash and Cash Equivalents	\$3,040	\$3,040	\$2,836	\$2,836
Money Market Instruments	144,872	125,818	98,035	88,369
Corporate and Municipal Bonds	51,917	51,185	54,987	56,434
Common and Preferred Stock	73,244	52,958	67,338	53,026
Mutual Funds	658	484	4,491	3,393
Other	9,768	9,618	9,958	9,549
	\$283,499	\$243,103	\$237,645	\$213,607

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately \$281.1 million at June 30, 2007 and \$411.3 million at June 30, 2006) shall be continuously maintained for the benefit of the Building Authority and Registered owners of the Bonds. All investments shall be (a) held with a bank or trust company approved by the Trustees and the Building Authority, as custodians, or (b) in such other manner as may be required or permitted by applicable state and Federal laws and regulations. Investments shall consist of (a) direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America, or any other agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality thereof; or (b) other marketable securities eligible as collateral for the deposit of trust funds under regulations of the Comptroller of the Currency having a market value not less than the amount of such deposit. Direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America or any other agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality thereof may be subject to repurchase upon demand by the owner pursuant to a repurchase agreement with a bank or trust company.

### 3. CASH HELD BY STATE TREASURER

Accounts payable, accrued salaries and outlays for future capital projects to be funded from state-appropriated funds totaled approximately \$16.1 million at June 30, 2007 and \$19.7 million at June 30, 2006. The University has recorded a comparable dollar amount of cash held by the State Treasurer for the benefit of the University, which will be subsequently utilized to pay for such liabilities.

### 4. CASH AND SECURITIES HELD BY TRUSTEES

Cash and securities held by trustees primarily consist of unspent loan proceeds and amounts held for the future payment of debt service on such borrowings. At June 30, 2007 and June 30, 2006, there are investments of \$14.2 million and \$16.2 million, respectively, available from Master Lease agreements entered into by the University for capital asset purchases at the Amherst and Boston campuses. Additionally, there is \$21.7 million and \$21.2 million, respectively, available from the Revolving Loan Fund established with 2000 Series A bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8) and \$281.1 million and \$411.3 million, respectively, held by trustees related to the Building Authority. In addition, at June 30, 2007, \$120.4 million was available to be used by WCCC for capital construction purposes.

Funds deposited with trustees include \$5.3 million and \$109.8 million of investments in repurchase agreements at June 30, 2007 and 2006, respectively. These repurchase agreements are collateralized by cash or investments with a fair market value between 100% and 105% of the repurchase price, depending on the type of assets used as security. These repurchase agreements can be redeemed at any time for the repurchase price provided the redemption proceeds are used for the purpose permitted by the respective repurchase agreement.

**5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE**

Accounts, grants and loans receivable at June 30 consist of the following (in thousands):

**University:**

	2007	2006
Students Accounts Receivable	\$27,260	\$22,656
Less allowance for uncollectible accounts	(10,167)	(9,143)
	<u>17,093</u>	<u>13,513</u>
Grants and Contracts Receivable	91,186	77,797
Less allowance for uncollectible accounts	(1,936)	(1,267)
	<u>89,250</u>	<u>76,530</u>
Students Loans Receivable	41,483	41,521
Less allowance for uncollectible accounts	(3,236)	(3,567)
	<u>38,247</u>	<u>37,954</u>
Commonwealth Medicine	61,375	53,119
Less allowance for uncollectible accounts	(2,754)	(2,754)
	<u>58,621</u>	<u>50,365</u>
Other	53,062	44,320
Less allowance for uncollectible accounts	(18,658)	(2,444)
	<u>34,404</u>	<u>41,876</u>
Total, net	\$237,615	\$220,238
Less current portion, net	(202,666)	(186,213)
Long-term, net	<u>\$34,949</u>	<u>\$34,025</u>

**Related Organizations:**

	2007	2006
Other Accounts Receivable	\$22	\$22
Less allowance for uncollectible accounts	-	-
	<u>22</u>	<u>22</u>
Less current portion	(22)	(22)
Long-term	<u>\$-</u>	<u>\$-</u>

In connection with the merger of UMass Memorial and the former Clinical Services Division of the University in 1998, the University and UMass Memorial have the following ongoing agreements:

- UMass Memorial has been granted the right to occupy portions of the University's Worcester Medical School campus for a period of 99 years and UMass Memorial has agreed to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial has also agreed to contribute to capital improvements to shared facilities.
- UMass Memorial has agreed to make certain payments to the University and its related organizations, including: 1) an annual fee of \$12.0 million (plus an inflation adjustment), for 99 years as long as the University continues to operate a medical school; 2) a percentage of net operating income of UMass Memorial based upon an agreed upon formula which revenue is recognized by the University when the amounts are agreed; and 3) a \$31.5 million contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with the University, the final payment of which was received during April 2001.
- The University will lease certain employees to UMass Memorial or its affiliates during a transition period ending in 2008.

The University is reimbursed by, and reimburses UMass Memorial for shared services, leased employees, and other agreed upon activities provided and purchased. For the years ended June 30, 2007 and 2006, the reimbursement for services provided to UMass Memorial were \$118.1 million and \$112.1 million, respectively. Included in these amounts is payroll paid by the University on behalf of UMass Memorial in an agency capacity in the amount of \$72.0 million for fiscal year 2007 and \$68.6 million for fiscal year 2006. At June 30, 2007 and 2006, the University has recorded a net receivable in the amount of \$122.5 million and \$115.4 million, respectively from UMass Memorial consisting of \$0.2 million and \$2.7 million, respectively related to capital projects at the Medical School, and \$122.3 million and \$112.1 million, respectively in payroll and related fringe charges. The receivable amount also contains \$113.4 million at June 30, 2007 and \$103.6 million at June 30, 2006 representing the negotiated amount under the agreed upon formula noted above. The University has recorded a payable at June 30, 2007 and 2006 of \$3.3 million and \$8.0 million, respectively for amounts due to UMass Memorial for capital projects and cross-funded payroll.

## 6. RELATED ORGANIZATIONS

Related party activity with the Foundation includes advances under a line of credit, loan and lease agreements, and investment of the University's endowment assets with the Foundation. As of June 30, 2007, the net assets of the Foundation included as related organizations in the combined financial statements of the University are \$300.7 million, of which \$293.2 million are restricted funds and \$7.5 million are unrestricted funds. During the fiscal year ended June 30, 2007, the University received approximately \$6.5 million from the Foundation, and disbursed approximately \$42.6 million to the Foundation of which \$40.0 was for the establishment of quasi-endowment. At June 30, 2007, the University's investments include approximately \$0.3 million current restricted funds and \$84.1 million of endowment funds held in a custodial relationship at the Foundation.

As of June 30, 2006, the net assets of the Foundation included as related organizations in the combined financial statements of the University were \$251.3 million, of which \$245.2 million were restricted funds and \$6.1 million were unrestricted funds. During the fiscal year ended June 30, 2006, the University received approximately \$8.6 million from the Foundation, and disbursed approximately \$2.2 million to the Foundation. At June 30, 2006, the University's investments included approximately \$0.3 million of current restricted funds and \$39.6 million of endowment funds held in a custodial relationship at the Foundation.

The University entered into a loan agreement with the Foundation in order to refinance a portion of its line of credit and renovate the Hadley Farm. During fiscal year 2006, this loan was paid off and title was transferred to the Amherst campus upon final payment of the amount outstanding made during the year ended June 30, 2006. The University leases office space from the Foundation for an annual rent of approximately \$0.5 million.

During 2001, the Worcester Medical School and UMass Memorial Health Ventures, Inc. formed Public Sector Partners (PSP). PSP is a Massachusetts not-for-profit corporation organized to provide administrative support to agencies of state and local governments that provide health care and health related services to recipients under the auspices of government sponsored and funded health care programs and initiatives. PSP is governed by a board of trustees that are comprised equally of representatives from the Worcester Medical School and UMass Memorial Health Ventures, Inc. (an subsidiary of UMass Memorial). Neither entity has an equity interest in PSP; therefore, for financial reporting purposes the University treats PSP as a joint venture for which there is no equity interest. Accordingly, PSP's results of operations, statement of position, and cash flows are not included herein. A separate financial statement for PSP is published and is available upon request of the UMass Medical School.

Condensed, summary financial information for 2007 and 2006 is as follows (in thousands):

	2007	2006
	<u>Unaudited</u>	<u>Audited</u>
Total assets	\$38,590	\$38,320
Total liabilities	<u>17,931</u>	<u>20,934</u>
Total net assets	\$20,659	\$17,386
Total revenues	\$123,189	\$98,569
Total expenses	119,915	96,452
Cancellation of indebtedness	<u>0</u>	<u>3,230</u>
Change in net assets	\$3,273	\$5,346
Net cash provided from (used in)		
operating activities	\$14,611	\$(10,776)
Net cash used in investing activities	(479)	(1,018)

The Building Authority and the Commonwealth of Massachusetts have entered into various lease agreements under which the Commonwealth leases to the Building Authority certain property for nominal amounts.

In August 2005, the Building Authority executed a contract with UMass Management, LLC, a wholly owned subsidiary of ClubCorp USA, Inc., to provide management services for The University of Massachusetts Club (the Club), a private social club for alumni and friends of the University. Under the contract, the Authority is responsible for approving the budgets and operating plans of the Club as presented by the Manager. The Building Authority is responsible for any shortfall in the operating budget and will benefit from any operating profits. The contract calls for a minimum management fee payable to the Manager of \$0.2 million or four percent of the operating revenues, as defined by the contract, whichever is greater. Additionally, the Manager receives a percentage of the Club initiation fees and 25 percent of operating profits, as defined by the contract. The contract term is 10 years and can be terminated by the Building Authority after 3 years if the Building Authority decides to close the Club for a minimum of 18 months. The Building Authority is the tenant on the sublease for the Club space and the lease does not terminate should the Building Authority close the Club.

As of June 30, 2007 and 2006, the Authority had provided operating support for the Club of approximately \$0.8 million and \$0.7 million respectively and also provided startup funding of approximately \$0.3 million. Additionally, during 2006 the Authority funded approximately \$0.7 million of the costs to renovate the floor for the Club and the University's executive offices.

**7. INVESTMENT IN PLANT** Investment in plant activity for the year ended June 30, 2007 is comprised of the following (in thousands):

<b>University:</b>	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$21,693	\$12,930		\$34,623
Buildings and Improvements	1,878,229	234,042	(\$41,833)	2,070,438
Equipment and Furniture	518,037	54,412	(22,351)	550,098
Software	98,797	6,714	(9)	105,502
Library Books	105,708	8,236	(6,492)	107,452
	2,622,464	316,334	(70,685)	2,868,113
Accumulated Depreciation	(1,354,247)	(133,332)	57,689	(1,429,890)
Sub-Total	1,268,217	183,002	(12,996)	1,438,223
Construction in Progress	231,390	207,893	(158,190)	281,093
<b>Total</b>	<b>\$1,499,607</b>	<b>\$390,895</b>	<b>(\$171,186)</b>	<b>\$1,719,316</b>

<b>University Related Organizations:</b>	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$576			\$576
Buildings and Improvements	594			594
Equipment and Furniture	115	\$7		122
	1,285	7		1,292
Accumulated Depreciation	(282)	(18)		(300)
<b>Total</b>	<b>\$1,003</b>	<b>(\$11)</b>		<b>\$992</b>

Investment in plant activity for the year ended June 30, 2006 is comprised of the following (in thousands):

<b>University:</b>	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$21,285	\$408		\$21,693
Buildings and Improvements	1,636,538	251,723	(\$10,032)	1,878,229
Equipment and Furniture	497,718	47,847	(27,528)	518,037
Software	93,527	5,270		98,797
Library Books	103,633	8,793	(6,718)	105,708
	2,352,701	314,041	(44,278)	2,622,464
Accumulated Depreciation	(1,259,706)	(120,157)	25,616	(1,354,247)
Sub-Total	1,092,995	193,884	(18,662)	1,268,217
Construction in Progress	237,415	211,747	(217,772)	231,390
<b>Total</b>	<b>\$1,330,410</b>	<b>\$405,631</b>	<b>(\$236,434)</b>	<b>\$1,499,607</b>

**University Related Organizations:**

<b>University Related Organizations:</b>	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$576			\$576
Buildings and Improvements	594			594
Equipment and Furniture	102	\$13		115
	1,272	13		1,285
Accumulated Depreciation	(266)	(16)		(282)
<b>Total</b>	<b>\$1,006</b>	<b>(\$3)</b>		<b>\$1,003</b>

At June 30, 2007 and 2006, investment in plant included capital lease assets of approximately \$82.9 million and \$83.2 million, respectively, net of accumulated depreciation on capital lease assets of approximately \$54.9 million and \$50.5 million, respectively (see Note 9).

The University has capitalized interest on borrowings, net of interest earned on related debt reserve funds, during the construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets being constructed, and is amortized over the useful lives of the assets. For the years ended June 30, 2007 and 2006, the University capitalized net interest costs of \$6.0 million and \$5.6 million respectively.

In 2007, WCCC acquired a two-story office building at 3 Centennial Drive in Grafton and two mixed-use buildings located at 333 South Street in Shrewsbury. The cost of the acquisition and interior finish for these facilities is \$6.3 million and \$28.9 million, respectively. These facilities are partially occupied by third-party tenants but primarily used for support of University operations and programs.

**8. BONDS PAYABLE**

Amounts outstanding at June 30, 2007 are as follows:

Issue Borrowing	Original Borrowing	Maturity Date	Interest Rate	Amount Outstanding
<b>University of Massachusetts Building Authority:</b>				
Series 2000-A	\$46,980	2011	4.5-5.25%	\$7,525
Series 2000-1	24,145	2010	4.5-5.25%	4,300
Series 2000-2	132,155	2010	4.4-5.5%	21,150
Series 2003-1	137,970	2014	2.25-5.25%	42,740
Series 2004-A	96,025	2015	2.75-4.5%	17,940
Series 2004-1	183,965	2016	2.75-5.375%	62,645
Series 2005-1	25,595	2016	5.0%	20,935
Series 2005-2	212,550	2025	3.0-5.25%	206,190
Series 2006-1	243,830	2034	3.482%	242,470
Series 2006-2	21,240	2014	5.24-5.49%	18,855
Revolving Line of Credit	35,000	2008	variable	4,070
				<u>648,820</u>
			Unamortized Bond Premium	24,454
			Less Deferred Loss on Refunding	<u>(44,149)</u>
			<b>SUBTOTAL</b>	<u><b>629,125</b></u>
<b>University of Massachusetts HEFA:</b>				
2000 Series A	\$40,000	2030	variable	40,000
2001 Series B	11,970	2031	3.75-4.45%	1,280
2002 Series C	35,000	2034	2.35-5.17%	33,255
2007 Series D	10,435	2031	3.75-4.25%	10,435
			<b>SUBTOTAL</b>	<u><b>84,970</b></u>
<b>WCCC HEFA:</b>				
Series 2001-B	\$52,020	2023	4.00-5.25%	16,900
Series 2005-D	99,325	2029	3.0-5.25%	98,275
Series 2007-E	118,750	2031	3.5-5.0%	118,750
Series 2007-F	101,745	2031	4.0-4.5%	101,745
				<u>335,670</u>
			Unamortized Bond Premium	10,201
			Less Deferred Loss on Refunding	<u>(15,357)</u>
			<b>SUBTOTAL</b>	<u><b>330,514</b></u>
			<b>TOTAL</b>	<u><u><b>\$1,044,609</b></u></u>

Bonds payable activity for the year ended June 30, 2007 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
University of Massachusetts Building Authority:				
Series 2000-A	\$8,850		(\$1,325)	\$7,525
Series 2000-1	5,265		(965)	4,300
Series 2000-2	26,130		(4,980)	21,150
Series 2003-1	47,365		(4,625)	42,740
Series 2004-A	17,940			17,940
Series 2004-1	64,485		(1,840)	62,645
Series 2005-1	22,495		(1,560)	20,935
Series 2005-2	208,100		(1,910)	206,190
Series 2006-1	243,830		(1,360)	242,470
Series 2006-2	21,240		(2,385)	18,855
Revolving Line of Credit		\$4,070		4,070
Plus: unamortized bond premium	27,233		(2,779)	24,454
Less: deferred loss on refunding	(44,754)		605	(44,149)
Subtotal	648,179	4,070	(23,124)	629,125
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,140		(9,860)	1,280
2002 Series C	33,850		(595)	33,255
2007 Series D		10,435		10,435
Subtotal	84,990	10,435	(10,455)	84,970
WCCC HEFA:				
WCCC 2001 Series B	48,650		(31,750)	16,900
WCCC 2002 Series C	66,340		(66,340)	-
WCCC 2005 Series D	99,325		(1,050)	98,275
WCCC 2007 Series E		118,750		118,750
WCCC 2007 Series F		101,745		101,745
Plus: unamortized bond premium	3,353	7,117	(269)	10,201
Less: deferred loss on refunding	(8,956)	(7,378)	977	(15,357)
Subtotal	208,712	220,234	(98,432)	330,514
Total	\$941,881	\$234,739	(\$132,011)	\$1,044,609

Maturities and interest, which is estimated using rates in effect at June 30, 2007, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>
2008	\$36,000	\$46,446
2009	36,505	45,061
2010	38,020	43,559
2011	39,710	41,892
2012	41,020	40,068
2013-2017	206,980	170,697
2018-2022	221,600	119,214
2023-2027	193,785	74,027
2028-2032	194,020	35,285
2033-2037	57,750	5,535
Total	\$1,065,390	\$621,784

Bonds payable activity for the year ended June 30, 2006 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
University of Massachusetts Building Authority:				
1995 Fifth Series-A	\$13,717		(\$13,717)	
Series 1995-B	21,470		(21,470)	
Series 2000-A	44,630		(35,780)	\$8,850
Series 2000-1	13,185		(7,920)	5,265
Series 2000-2	109,055		(82,925)	26,130
Series 2003-1	137,970		(90,605)	47,365
Series 2004-A	96,025		(78,085)	17,940
Series 2004-1	182,360		(117,875)	64,485
Series 2005-1	23,980		(1,485)	22,495
Series 2005-2		\$212,550	(4,450)	208,100
Series 2006-1		243,830		243,830
Series 2006-2		21,240		21,240
Plus: unamortized bond premium	9,564	20,342	(2,673)	27,233
Less: deferred loss on refunding	(2,665)	(42,622)	533	(44,754)
Subtotal	649,291	455,340	(456,452)	648,179
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,360		(220)	11,140
2002 Series C	34,430		(580)	33,850
Subtotal	85,790		(800)	84,990
WCCC HEFA:				
WCCC 2001 Series B	49,600		(945)	48,655
WCCC 2002 Series C	67,600		(1,270)	66,330
WCCC 2005 Series D	99,330			99,330
Plus: unamortized bond premium	3,499		(146)	3,353
Less: deferred loss on refunding	(8,956)			(8,956)
Subtotal	211,073		(2,361)	208,712
Total	\$946,154	\$455,340	(\$459,613)	\$941,881

#### University of Massachusetts Building Authority

The bond agreements related to the Building Authority bonds generally provide that the net revenues of the Building Authority are pledged as collateral on the bonds and also provide for the establishment of bond reserve funds, bond funds, and maintenance reserve funds.

The University is obligated under its contracts for financial assistance, management and services with the Building Authority to collect rates, rents, fees and other charges with respect to such facilities sufficient to pay principal and interest on the Building Authority's bonds and certain other costs such as insurance on such facilities.

Pursuant to the authority given by the Building Authority's enabling act, the Commonwealth, acting by and through the Trustees of the University, has guaranteed the payment of principal of and interest on the Building Authority's bonds. (The guarantee is a general obligation of the Commonwealth to which the full faith and credit of the Commonwealth are pledged. As is generally the case with other general obligations of the Commonwealth, funds with which to honor the guarantee, should it be called upon, will be provided by Commonwealth appropriation.) The Building Authority's enabling act provides that the outstanding principal amount of notes and bonds of the Building Authority guaranteed by the Commonwealth cannot exceed \$200 million. The Building Authority issued bonds are all Commonwealth guaranteed with the exception of Series 2000-2, Series 2003-1, Series 2004-1, Series 2005-1, Series 2005-2, Series 2006-1, and Series 2006-2 (federally taxable).

When the Building Authority no longer has any bonds outstanding, its properties revert to the Commonwealth, and all its funds (other than funds pledged to bondholders) are required to be paid into the Treasury of the Commonwealth.

In fiscal year 2006 the Building Authority issued Series 2006-1 taxable bonds. The bonds were issued in the amount of \$243.8 million and the proceeds were used for various construction and renovation projects for the University at its Lowell campus and to partially advance refund the 2003-1 Series bonds, the 2004-1 Series bonds and the 2004-A Series bonds. As of June 30, 2007 and 2006, the bonds payable

amount was \$242.5 million and \$243.8 million, respectively. The bonds are payable annually on November 1 through 2034. The bonds carry a variable interest rate and are callable at any time at par. The principal and interest payments on the bonds have been insured by AMBAC.

In fiscal year 2006, the Building Authority issued Series 2006-2 taxable bonds. The bonds were issued in the amount of \$21.2 million and the proceeds were used to advance refund the UMBA Refunding Bonds, Series 1995-B. As of June 30, 2007 and 2006 the bonds payable amount was \$18.9 million and \$21.2 million, respectively. The bonds are payable annually on November 1 through 2014. The bonds carry interest rates that range from 5.24% to 5.49% and are not callable. The principal and interest payments on the bonds have been insured by Ambac Assurance Corporation (AMBAC).

In fiscal year 2006, the Building Authority refunded the ULBA Fifth Series A bonds and the UMBA Refunding Bonds, Series 1995-B and partially refunded the following bond issues: the 2000-1 Series bonds, the 2000-2 Series bonds, the 2000-A Series bonds, the 2003-1 Series Bonds, the 2004-1 Series Bonds and the 2004-A Series bonds. Accordingly, the Building Authority deposited into trust accounts funds sufficient to provide for all future debt service payments on the refunded bonds. Assets held in the trust accounts had an aggregate market value of approximately \$455.3 million and \$459.7 million as of June 30, 2007 and 2006, respectively. The unpaid principal amount of the refunded bonds totaled approximately \$417.4 million and \$419.5 million as of June 30, 2007 and 2006, respectively.

In connection with the Authority's Series 2006-1 variable interest rate bonds, the Authority entered into an interest rate swap agreement with Citibank N.A.. The intention of the swap is to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.482%.

*Terms.* The bonds and the related swap agreement mature on November 1, 2034, and the swap's notional amount of \$243.8 million matches the amount of the variable rate bonds. The swap was entered at the same time the bonds were issued (April 2006). Starting in fiscal year 2007, the notional value of the swap and the principal amount of the associated debt declined. Under the swap, the Building Authority pays the counterpart a fixed payment of 3.482% and receives a variable payment computed as 60% of the three-month London Interbank Offered Rate (LIBOR) plus .18%. Conversely, the bonds' variable-rate coupons are based on The Bond Market Association Municipal Swap Index™ (BMA).

*Fair value.* As of June 30, 2007 and 2006, the swap had a positive fair market value of approximately \$2.4 million and \$2.7 million, respectively due to an increase in interest rates since execution of the swap. Because the Building Authority's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk.* As of June 30, 2007 and 2006 the Building Authority was exposed to credit risk in the amount of the swap's fair value. The swap's counterparty, Citibank, N.A., was rated Aa1, AA and AA+ by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively, as of June 30, 2007. To mitigate the potential for credit risk, if the counterparty's credit quality falls below AA/Aa, the fair value of the swap will be fully collateralized by the counterparty with U.S. Government Securities or U. S. Government Agency Securities. Collateral posted by the counterparty will be held by a third-party custodian.

*Basis risk.* The swap exposes the Building Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.482%) and the synthetic rate as of June 30, 2007 (3.826%) and 2006 (3.963%). If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2007, the BMA rate was 3.73% whereas 60% of LIBOR plus .18% was 3.40%. As of June 30, 2006, the BMA rate was 3.96%, whereas 60% of LIBOR plus .18% was 3.479%.

*Termination risk.* The Building Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority if the counterparty's credit quality rating falls below Baa1 as issued by Moody's Investor Service or BBB+ as issued by Standard & Poor's or if the counterparty fails to have such a rating. If the swap is terminated, the variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

*Standby Bond Purchase Agreement.* In connection with the Series 2006-1 bonds, the Building Authority also entered into a standby bond purchase agreement with Depfa Bank plc (the bank) which requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 190 days at an annual interest rate not to exceed 12 percent. Under this agreement, the Building Authority is required to pay the bank in quarterly installments a facility fee in the amount of 9.5 basis points of the initial commitment. The initial commitment under the agreement was set at \$255.0 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2013 and may be extended at the option of the bank. Fees accrued by the Building Authority in connection with the standby bond purchase agreement totaled \$248,600 and \$49,222 for the years ended June 30, 2007 and 2006, respectively.

*Swap payments and associated debt.* Using rates as of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are approximately \$10.9 million annually.

Aggregate future principal payments of the total University of Massachusetts Building Authority debt for the years ended June 30 are: 2008 - \$27.2 million, 2009 - \$28.2 million, 2010 - \$29.4 million, 2011 - \$30.7 million, 2012 - \$31.6 million, and thereafter, \$497.7 million. As rates vary, variable-rate bond interest payments and net swap payments will vary.

In connection with the Building Authority's bond refunding undertaken in fiscal year 2006 noted above, the Building Authority recorded a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$42.6 million. This difference is being reported as a reduction from bonds payable and will be amortized as an increase in amortization expense over the original life of the refunded bonds. The refundings reduced the University's debt service payments in future years by approximately \$33.6 million and resulted in an economic gain (the present value of savings) of approximately \$21.6 million.

In prior years, the Building Authority refunded all bonds outstanding issued by the Building Authority prior to May 1, 1984. Accordingly, the Building Authority deposited into trust accounts sufficient funds to provide for all future debt service payments on the refunded bonds. Assets held in trust accounts had an aggregate market value of approximately \$5.8 million and \$6.9 million at June 30, 2007 and 2006, respectively. The outstanding amount of the refunded bonds at June 30, 2007 and 2006 total approximately \$6.4 million and \$7.7 million, respectively.

On January 5, 2007 the Authority closed on a \$35.0 million Revolving Line of Credit (the Line) with Bank of America, N.A (the Bank). The Line matures on the first anniversary of the date of the agreement and can be extended or renewed at the option of the Bank. At the time of each draw on the Line the Authority must elect to have the interest on the draw calculated based on (a) 75% of the one-month, two-month or three-month LIBOR rate (LIBOR Rate) or (b) 75% of the higher of the Federal Funds Rate plus .5% or 75% of the Bank's "prime rate" (Base Rate). Interest is due at the end of the one, two or three month period under a LIBOR Rate draw, the first business day of the calendar quarter for Base Rate draws or the Line's maturity date, whichever comes first. Except at the Line's maturity date, the Authority can elect to have the interest charges incorporated into a subsequent draw. At the time Line was closed the Authority entered into a contract with the University that obligates the University to make payments to the Authority sufficient to cover the costs of the Line. The Authority expects to pay all principal and interest charges related to the Line prior to its maturity with the proceeds of the Authority's next long-term bond issue. As of June 30, 2007 the Authority had \$4.1 million outstanding under the Line in four separate draws. The interest terms on the draws were either one-month or three-month LIBOR and the interest rates ranged from 3.99% to 4.02%.

#### **Massachusetts Health and Educational Facilities Authority**

##### *University of Massachusetts Series C*

In June 2002, the University issued \$35.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series C (the "Series C Bonds"). The proceeds from this issuance were used to fund a portion of the costs associated with the construction of a new student center at the Boston campus which opened in April 2004. The Commonwealth's Division of Capital Asset Management and Maintenance ("DCAMM") managed the project and the Commonwealth has provided additional funds for the project. The Series C Bonds mature October 1, 2034 and the remaining outstanding debt bears interest at fixed interest rates ranging from 2.35% to 5.17%. The Series C Bonds were issued at a net discount of approximately \$488,000. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. The University is required to make deposits in this debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The Series C Bonds are redeemable prior to maturity beginning on October 1, 2012, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. The outstanding principal balance on the Series C Bonds is \$33.3 million and \$33.9 million at June 30, 2007 and 2006, respectively.

##### *University of Massachusetts Series B*

In June 2001, the University issued \$12.0 million of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds, University of Massachusetts Issue, Series B (the "Series B Bonds"). The proceeds from this issuance were used to fund a portion of the costs associated with the construction of a new student center at the Lowell campus which was opened in September 2002. The Commonwealth's Division of Capital Asset Management and Maintenance (DCAMM) managed the project and the Commonwealth provided additional funds for the project. The Series B Bonds mature on October 1, 2031 and the remaining outstanding debt bears interest at fixed interest rates ranging from 4.0% to 4.45%. The Series B Bonds were issued at a net discount of approximately \$127,000. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. The University is required to make deposits in this debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The Series B Bonds are redeemable prior to maturity beginning on October 1, 2011, at the option of MHEFA and the University, at 100% of face value, plus accrued interest. At June 30, 2007 and 2006, the outstanding principal balance on the Series B Bonds is \$1.3 million and \$11.1 million, respectively.

##### *University of Massachusetts Series D*

In January 2007, the University issued \$10.4 million of MHEFA Revenue Bonds, University of Massachusetts Issue Series D. The proceeds from this issuance were used to refund a portion of the Series B Bonds. The Series D Bonds mature on October 1, 2031, and the remaining outstanding series bear interest at fixed interest rates ranging from 3.5% to 4.25%. The Series D Bonds were issued at a discount of approximately \$203,000. Debt covenants include the maintenance of a debt service fund outlined in the related debt agreement. The University is required to make deposits in the debt service fund on or before the twenty-fifth day of each March and September. Principal payments are made annually and are due on October 1. The refunding of the bonds resulted in a difference between the reacquisition price and net carrying amount of the old debt of approximately \$0.8 million. This difference is reported in the accompanying financials statements as an increase to bonds payable. As a result of this partial refunding, the University will reduce its aggregate debt service payments by approximately \$0.8 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of \$0.5 million. At June 30, 2007, the outstanding principal balance on the Series D Bonds is \$10.4 million.

##### *University of Massachusetts Series A*

In March 2000, the University issued \$40.0 million of MHEFA Variable Rate Demand Revenue Bonds, University of Massachusetts Issue, Series A (the "Series A Bonds"). The proceeds from this issuance are being used to fund certain projects including

the acquisition and implementation of various administrative technology projects at the University. The Series A Bonds mature on November 1, 2030 and bear interest at a variable weekly rate intended to set the market value equal to the principal amount of the Series A Bonds. Average interest rates during fiscal year 2007 and 2006 were approximately 3.60% and 2.93%, respectively. The University is also obligated for certain ongoing administrative costs including letter of credit, remarketing and trustee fees. Debt covenants include the maintenance of a debt service fund as outlined in the related debt agreement. Interest payments are made monthly and due on the first business day of each month. Principal payments of \$40.0 million are due upon maturity. The Series A Bonds were issued at par. At June 30, 2007 and 2006, the outstanding principal balance on Series A Bonds is \$40.0 million.

The Series A Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the University's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. Under an irrevocable letter of credit for \$40.6 million, the trustee or remarketing agent is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letter of credit extends through March 29, 2009, and carries a variable interest rate equal to the bank rate plus 2% on any unreimbursed amounts. The bank rate was 10.25% at June 30, 2007 and 2006. At June 30, 2007, there are no amounts outstanding under the letter of credit.

Aggregate principal payments on the Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds for the years ended June 30 are: 2008 - \$1.0 million, 2009 - \$0.9 million, 2010 - \$1.0 million, 2011 - \$1.0 million, 2012 - \$1.0 million, thereafter - \$80.0 million. At June 30, 2007 and 2006, the estimated fair value of the Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds is approximately \$85.2 million and \$86.3 million, respectively.

#### *Worcester City Campus Corporation Series E*

In January 2007, WCCC issued \$118.8 million of Series E bonds. The Series E Bonds were issued at a premium of \$3.9 million. WCCC has deposited \$32.4 million of the proceeds to an irrevocable trust fund to provide for partial advanced refunding of the Series B Bonds. A portion of the Series B Bonds totaling \$30.8 million and the irrevocable trust has been derecognized by WCCC. WCCC incurred a loss on advanced refunding and defeasance of \$2.3 million which will be amortized over the life of the debt. This portion of the bonds bear interest at various fixed rates ranging from 3.50% to 4.50% and mature on October 1, 2031. As of June 30, 2007 the aggregate principal payments outstanding on this portion of the Series E Bond was \$33.1 million. Further, \$85.7 million of the Series E Bonds proceeds are being used to finance the construction of the Advanced Center for Clinical Education and Science (ACCES) at the Worcester Campus. These funds have been invested with the Royal Bank of Canada while construction progresses and earn interest at 4.92%. Periodically, WCCC requests reimbursement from this fund for qualified costs of construction that consists of building supplies, materials and labor. At June 30, 2007, the balance of this construction fund totaled \$84.9 million including accrued interest earned. These bonds bear interest at various fixed rates ranging from 3.5% to 5.0% and mature October 1, 2036. As of June 30, 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was \$85.7 million.

#### *Worcester City Campus Corporation Series C refunded by Series F*

In January 2007, WCCC issued \$101.7 million of Series F bonds. The Series F Bonds were issued at a premium of \$2.8 million. WCCC has deposited \$68.8 million of the proceeds to an irrevocable trust fund to provide for payment of the WCCC C Bonds. The Series C Bonds were issued by WCCC in April 2002 for \$70.0 million. The proceeds from this issuance are being used to finance the construction of the Jamaica Plains Biolabs. The WCCC C Bonds totaling \$65.0 million and the irrevocable trust have been derecognized by WCCC. This portion of the bonds bear interest at various fixed rates ranging from 4.0% to 4.5% and mature on October 1, 2031. As of June 30, 2007, the aggregate principal payments outstanding on this portion of Series F Bonds was \$68.5 million. WCCC incurred a loss on the advanced refunding and defeasance of \$5.0 million which will be amortized over the life of the debt. Further, \$34.6 million of the Series F Bonds proceeds are being used to finance the construction of the Biologics Laboratory Phase II Project at the Mattapan location of the Worcester Campus. These funds have been invested with the Royal Bank of Canada while construction progresses and earn interest at 4.92%. Periodically, WCCC requests reimbursement from this fund for qualified costs of construction that consists of building supplies, materials and labor. At June 30, 2007, the balance of this construction fund totaled \$35.4 million including accrued interest earned. These bonds bear interest at various fixed rates ranging from 4.0% to 5.0% and mature October 1, 2036. As of June 30, 2007, the aggregate principal payments outstanding on this portion of the Series E Bond was \$33.2 million.

#### *Worcester City Campus Corporation Series B*

In June 2001, the Foundation transferred ownership of its medical research development facility known as Two Biotech Park to WCCC. In exchange for the building, WCCC assumed from the Foundation the remaining debt of \$17.8 million, net (the "Foundation Bonds"), and received the proceeds of the related debt service funds. Concurrent with the transfer, WCCC issued \$52.0 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), Series B (the "WCCC B Bonds"). WCCC deposited approximately \$19.1 million (\$17.0 million from the proceeds of the WCCC Series B Bonds and \$2.1 million from debt service reserves) in an irrevocable trust fund to provide for the payment of interest and principal on the Foundation Bonds. The Foundation Bonds and the funds held in the irrevocable trust fund were derecognized by WCCC. The remaining \$35.0 million of the WCCC B Bonds are being used to finance the construction of a parking garage and the acquisition and installation of equipment at the Worcester campus. The remaining portion of the Series B Bonds bear interest at various fixed rates ranging from 4.00% to 5.25% and mature on October 1, 2023. Debt covenants include the maintenance of a debt service fund as outlined in the debt agreement. The bonds were issued at a net discount of approximately \$0.4 million. The Series B Bonds are redeemable prior to maturity beginning on October 1, 2011, at the option of MHEFA and WCCC, at par plus accrued interest. The outstanding balance at June 30, 2007 and 2006 is \$16.9 million and \$48.7 million, respectively.

#### *Worcester City Campus Corporation Series D*

In April 2005, WCCC issued \$99.3 million of MHEFA Revenue Bonds (the "WCCC D Bonds"). WCCC has deposited the proceeds to an irrevocable trust fund to provide for payment of the MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project) Series A (the "WCCC A Bonds" or the "refunded bonds"). The WCCC D bonds bear interest at various fixed rates ranging from

3.00% to 5.25% per year and mature October 1, 2029. The WCCC D Bonds were issued at a premium of \$4.1 million. The WCCC D Bonds represent a transfer obligation of the University whereby, subject to the terms of the financing agreement, the University will be notified upon WCCC's failure to make any payments required by the trust agreement and the University will promptly transfer any amounts unpaid and due by WCCC under such agreement. Assets held in the refunding trust fund had an aggregate market value of approximately \$102.0 million and \$98.0 million at June 30, 2007 and 2006, respectively. The outstanding amount of the refunded bonds totaled approximately \$91.2 million and \$93.1 million at June 30, 2007 and 2006, respectively. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$8.9 million. This difference, reported in the accompanying financial statements as a reduction in bonds payable, is being charged to operations over the life of new bonds using the straight-line method. As a result of the defeasance, WCCC will reduce its aggregate debt service payments by approximately \$4.0 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of \$3.9 million. The outstanding principal balance on the WCCC Series D Bonds at June 30, 2007 and 2006 is \$98.3 million and \$99.3 million, respectively.

The WCCC A Bonds were issued by WCCC in March 2000 for \$100.0 million. The proceeds from this issuance were used to fund the construction of the Lazare Research Building on the Worcester Medical School campus of the University. The WCCC A Bonds have been legally defeased. Accordingly, the WCCC A Bonds and the irrevocable trust have been derecognized by WCCC.

Aggregate principal payments on the WCCC B Bonds, WCCC D Bonds, WCCC E Bonds and WCCC F Bonds for the years ended June 30 are; 2008 - \$7.8 million, 2009 - \$7.4 million, 2010 - \$7.7 million, 2011 - \$8.0 million, 2012 - \$8.4 million, thereafter \$296.5 million. At June 30, 2007, the fair value of the WCCC B Bonds, WCCC D Bonds, WCCC E Bonds and WCCC F Bonds was approximately \$339.8 million. At June 30, 2006, the fair value of the WCCC B Bonds, WCCC C Bonds and WCCC D Bonds was approximately \$222.0 million.

#### Pledged Revenues

WCCC is obligated under the terms of indebtedness to make debt service payments from revenues received from certain facility leases. Total applicable pledged revenues were \$4.1 million and \$4.7 million for fiscal years 2007 and 2006, respectively.

Pursuant to the projects administered by the University of Massachusetts Building Authority, the Authority sets fees, rents, rates and other charges for the use of the projects in an amount for each fiscal year that produces revenues in excess of the amounts needed in such fiscal year for debt service on the related bonds, required contributions to the related Section 10 Reserve Fund, expenses for the Bond trustee and any escrow agent. Such excess revenues are held by the University for the account of and on behalf of the Authority. Total applicable pledged revenues were \$47.3 million for 2007 and \$43.8 million for 2006.

## 9. LEASES

The University leases certain equipment and facilities under operating leases with terms exceeding one year, which are cancelable at the University's option with 30 days notice. The rent expense related to these operating leases amounted to approximately \$13.5 million and \$11.5 million for the years ended June 30, 2007 and 2006, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following are a schedule of future minimum payments under capital and non-cancelable operating leases and a schedule of principal and interest payments on capital lease obligations for the next five years and in subsequent five-year periods for the University as of June 30, 2007 (in thousands):

Year	University Capital Leases			Operating Leases	June 30, 2007	University Capital Leases	
	Master Leases	Other Leases	TOTAL			Principal	Interest
2008	\$13,404	\$780	\$14,184	\$12,220	2008	\$12,229	\$1,956
2009	8,978	663	9,641	11,580	2009	8,160	1,481
2010	8,974	507	9,481	10,513	2010	8,329	1,152
2011	7,264	93	7,357	10,167	2011	6,510	847
2012	6,496		6,496	9,647	2012	5,868	627
2013-2016	14,176		14,176	35,185	2013-2016	13,489	687
Total Payments	59,292	2,043	61,335	\$89,312	Total Payments	\$54,585	\$6,750
Less: Amount representing interest	(6,532)	(218)	(6,750)				
Present Value of Minimum Lease Payments	\$52,760	\$1,825	\$54,585				

**10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES**

During the year ended June 30, 2007 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	Beginning <u>Balance</u>	Additions/ <u>Adjustments</u>	Reductions/ <u>Adjustments</u>	Ending <u>Balance</u>
<b>University:</b>				
Capital lease obligations	\$54,379	\$139	(\$12,218)	\$42,300
Compensated absences	22,230		(294)	21,936
Workers' compensation	12,737		(1,597)	11,140
Deferred revenues and credits	10,553	6,893	(5,254)	12,192
Advances and deposits	28,650		(563)	28,087
Other Liabilities	570	484	(95)	959
<b>University Related Organization:</b>				
Other Liabilities	\$2,914	\$69		\$2,983

During the year ended June 30, 2006 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	Beginning <u>Balance</u>	Additions/ <u>Adjustments</u>	Reductions/ <u>Adjustments</u>	Ending <u>Balance</u>
<b>University:</b>				
Capital lease obligations	\$65,825	\$805	(\$12,251)	\$54,379
Compensated absences	25,163		(2,933)	22,230
Workers' compensation	11,224	1,513		12,737
Deferred revenues and credits	12,019	8,848	(10,314)	10,553
Advances and deposits	29,771	94	(1,215)	28,650
Other Liabilities	665		(95)	570
<b>University Related Organization:</b>				
Other Liabilities	2,588	\$326		\$2,914

**11. FRINGE BENEFITS**

Expenditures for the years ended June 30, 2007 and 2006 include \$228.0 million and \$186.2 million, respectively, for the employer portion of fringe benefit costs (pension expense, health insurance for active employees and retirees, and unemployment) that was paid directly by the Commonwealth of Massachusetts. Of this amount, \$76.8 million for 2007 and \$62.2 million for 2006 was reimbursed to the Commonwealth and \$151.1 million and \$123.9 million respectively is included in revenue as state appropriations.

At June 30, 2007 and 2006, the University has accrued as a component of other liabilities, approximately \$4.7 million and \$7.6 million, respectively, related to fringe benefits and post retirement health benefits associated with the Worcester Medical School campus (see Note 1).

The University has recorded a liability for future expected costs of its workers' compensation claims of approximately \$14.9 million as of June 30, 2007 and \$16.2 million as of June 30, 2006. Estimated future payments related to such costs have been discounted at a rate of 6% in computing such liability.

**12. MEDICAL SCHOOL LEARNING CONTRACTS**

The University's Medical School enters into learning contracts with certain medical students. These contracts give students the option of deferring a portion of their tuition until after residency training, and canceling all or a portion of their tuition if they practice medicine in the Commonwealth for one year, or for students matriculating after 1990, two or four (depending on conditions) full years in primary care. The University does not record as revenue the portion of tuition deferred under these learning contracts until actual cash repayments are received. The cumulative amount granted under such learning contracts plus accrued interest totaled \$52.4 million and \$50.2 million at June 30, 2007 and 2006, respectively. Cumulative repayments totaled approximately \$33.6 million and \$31.2 million as of June 30, 2007 and 2006, respectively.

**13. RETIREMENT PLANS**

The Commonwealth of Massachusetts is statutorily responsible for the pension benefit of University employees who participate in the State Employees' Retirement System (SERS). SERS, a single employer defined benefit public employee retirement system, is administered by the Commonwealth and covers substantially all non-student employees. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the Commonwealth. Such pension expense amounted to approximately \$50.1 million and \$41.5 million for the years ended June 30, 2007 and 2006, respectively. The annuity portion of the SERS is funded by employees, who contribute a percentage of their regular compensation. Annual covered payroll approximated 76.9% and 76.7% for the years ended June 30, 2007 and 2006, respectively of annual total payroll for the University. Non-vested faculty and certain other employees of the University can opt out of SERS and participate in a defined contribution plan, the Massachusetts Optional Retirement Plan (ORP). At June 30, 2007 and 2006, there were approximately 1,687 and 1,604 University employees, respectively participating in

ORP. The Commonwealth matches 5% of ORP contributions. SERS issues stand-alone financial statements that can be obtained from the Commonwealth.

The University of Massachusetts Foundation, Inc. has a defined contribution plan (the "Plan") for eligible employees through the Teachers Insurance and Annuity Association (TIAA) and College Retirement Equity Fund (CREF) retirement programs. The Plan is designed, and contributions are made, in accordance with the provisions of 403(b) of the Internal Revenue Code. Eligibility begins immediately and the Foundation contribution, based upon a percentage of salaries, was approximately \$34,000 and \$14,000 for the years ended June 30, 2007 and 2006, respectively. The Foundation has no liability for benefits paid under the Plan.

#### 14. CONCENTRATION OF CREDIT RISK

The financial instrument that potentially subjects the University to concentrations of credit risk is the receivable from UMass Memorial which is uncollateralized. The receivable from UMass Memorial represents 33.4% and 33.7% of total accounts receivable for the University at June 30, 2007 and 2006, respectively.

#### 15. COMMITMENTS AND CONTINGENCIES

The Building Authority, University, and WCCC have outstanding purchase commitments under construction contracts in amounts aggregating approximately \$518.2 million and \$138.6 million at June 30, 2007 and 2006, respectively.

The University is a defendant in various lawsuits and is subject to various contractual matters; however, University management is of the opinion that the ultimate outcome of all litigation or potential contractual obligations will not have a material effect on the financial position, financial results or cash flows of the University.

From time to time the University and/or its affiliated organizations are subject to audits of programs that are funded through either federal and/or state agencies. The Medical School has become aware that the Office of the Inspector General for the U.S. Department of Health and Human Services is performing an audit of Medicaid Supplemental Revenues (MSR) received by UMMMC.

The eventual outcome of this audit is currently unknown. However, depending on the eventual outcome, UMMMC may be required to repay any MSR received deemed to be disallowed as a result of the audit. Dependent on the outcome, UMMS, consistent with the Agreement for Medical Educational Services, made part of the Definitive Agreement between the Medical School and UMass Memorial Medical Center, and its subsequent amendments and the indemnification provisions in these Agreements, may be required to indemnify UMMMC. Although the eventual outcome of this audit is currently unknown, and management believes that as of the date of the financial statements it is not probable that a liability exists, management concludes it is reasonably possible that amounts could be repaid and that those amounts may be material to the Statement of Revenues, Expense and Changes in Net Assets and the Statement of Cash Flow in a future period.

#### 16. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The University has two segments that meet the reporting requirements under GASB 35.

The Worcester City Campus Corporation is organized to receive, take title to, hold, manage, develop, improve, demolish, renovate, lease for terms up to 99 years, or otherwise transfer, convey, or deal with any real or personal property conveyed to it including, without limitation, real and personal property utilized at or in connection with the operations of the University. WCCC outstanding revenue bonds were issued pursuant to specific bond indentures which provide that the revenue bonds are to be paid by certain revenues that are pledged to pay debt service.

The following summary financial information for WCCC is presented before elimination of certain intra-University transactions:

##### Statement of Net Assets at June 30:

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$19,104	\$48,444
Noncurrent Assets	425,101	265,755
Total Assets	<u>\$444,205</u>	<u>\$314,199</u>
<b>Liabilities</b>		
Current Liabilities	\$26,788	\$13,307
Noncurrent Liabilities	322,708	205,357
Total Liabilities	<u>\$349,496</u>	<u>\$218,664</u>
<b>Net Assets</b>	<u>\$94,709</u>	<u>\$95,535</u>

**Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:**

	<u>2007</u>	<u>2006</u>
Operating Revenues	\$25,118	\$25,790
Operating Expenses	19,145	15,233
Operating Income	<u>\$5,973</u>	<u>\$10,557</u>
Increase in Net Assets	(\$826)	\$30,169
Beginning Net Assets	95,535	65,366
Ending Net Assets	<u>\$94,709</u>	<u>\$95,535</u>

**Statement of Cash Flows for the year ended June 30:**

	<u>2007</u>	<u>2006</u>
Net Cash Provided by Operating Activities	\$18,088	\$39,507
Net Cash Provided by Noncapital Financing Activities	770	62
Net Cash Provided by/ (Used in) Financing Activities	<u>101,515</u>	<u>(42,304)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	120,373	(2,735)
Beginning Cash and Cash Equivalents	19	2,754
Ending Cash and Cash Equivalents	<u>\$120,392</u>	<u>\$19</u>

The University of Massachusetts Building Authority is empowered to acquire, construct, remove, demolish, add to, alter, enlarge, reconstruct and do other work upon any building or structure and to provide and install furnishings, furniture, machinery, equipment, approaches, driveways, walkways, parking areas, planting, landscaping and other facilities therein. The Building Authority's Enabling Act authorizes it to acquire property from the Commonwealth or others (but the Building Authority has no eminent domain power), to rent or lease as lessor or lessee any portion of a project, to operate projects, to employ experts and other persons and to enter into contracts. In addition, the Enabling Act authorizes the Building Authority to borrow money to finance and refinance projects it undertakes, and to issue and sell its revenue bonds and notes therefore which are payable solely from its revenues.

The following summary financial information for the Building Authority is presented before elimination of certain intra-University transactions:

**Statement of Net Assets at June 30:**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$22,271	\$30,788
Noncurrent Assets	837,531	799,377
Total Assets	<u>\$859,802</u>	<u>\$830,165</u>
<b>Liabilities</b>		
Current Liabilities	\$61,471	\$72,086
Noncurrent Liabilities	598,358	627,696
Total Liabilities	<u>\$659,829</u>	<u>\$699,782</u>
<b>Net Assets</b>	<u>\$199,973</u>	<u>\$130,383</u>

**Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:**

	<u>2007</u>	<u>2006</u>
Operating Revenues	\$50,369	\$49,878
Operating Expenses	26,218	24,025
Operating Income	<u>\$24,151</u>	<u>\$25,853</u>
Increase in Net Assets	\$69,590	\$13,404
Beginning Net Assets	130,383	116,979
Ending Net Assets	<u>\$199,973</u>	<u>\$130,383</u>

**Statement of Cash Flows for the year ended June 30:**

	<u>2007</u>	<u>2006</u>
Net Cash Provided by Operating Activities	\$37,984	\$34,890
Net Cash Provided by Noncapital Financing Activities	54,000	
Net Cash Provided by/(Used in) Investing Activities	316,326	116,042
Net Cash Provided by/(Used in) Capital and Related Financing Activities	<u>(242,946)</u>	<u>(135,288)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	165,364	15,644
Beginning Cash and Cash Equivalents	<u>38,240</u>	<u>22,596</u>
Ending Cash and Cash Equivalents	<u>\$203,604</u>	<u>\$38,240</u>

**University of Massachusetts  
2007 Annual Financial Report  
Supplemental Financial Information  
Table of Contents**

	<u>Page</u>
Report of Independent Auditors on Supplemental Information	S
<b>Campuses:</b>	
<i>Central Administration:</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-1
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-2
<i>Amherst:</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-3
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-4
<i>Boston:</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-5
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-6
<i>Dartmouth:</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-7
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-8
<i>Lowell:</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-9
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-10
<i>Worcester (including Worcester City Campus Corporation and Subsidiary):</i>	
Statement of Net Assets as of June 30, 2007 and 2006	S-11
Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	S-12
<b>University Related Organizations:</b>	
Combining Statements of Net Assets as of June 30, 2007 and 2006	I
Combining Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006	II

*Central Administration*

**University of Massachusetts  
CENTRAL ADMINISTRATION  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$31,536	\$34,227
Cash Held By State Treasurer	377	298
Accounts, Grants and Loans Receivable	4,050	3,598
Short Term Investments	14,366	2,099
Due From Related Organizations		
Due From Other Campuses		
Other Assets	1,713	1,684
<b>Total Current Assets</b>	<b>52,042</b>	<b>41,906</b>
<b>Noncurrent Assets</b>		
Cash and Securities Held By Trustees	22,444	21,310
Investments	96,754	78,943
Due From Other Campuses		
Due From Related Organizations		
Other Assets	107	107
Investment In Plant Net of Accumulated Depreciation	13,776	6,179
<b>Total Noncurrent Assets</b>	<b>133,081</b>	<b>106,539</b>
<b>Total Assets</b>	<b>\$185,123</b>	<b>\$148,445</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$3,246	\$4,079
Accrued Salaries and Wages	577	463
Accrued Liability for Compensated Absences	2,999	2,921
Arbitrage Rebate Payable	641	293
Due To Campuses	20,414	15,741
Due To Related Organizations	1,528	552
Deferred Revenues and Credits	2,343	826
Advances and Deposits	2,436	1,239
Other Liabilities	52,423	48,414
<b>Total Current Liabilities</b>	<b>86,607</b>	<b>74,528</b>
<b>Noncurrent Liabilities</b>		
Accrued Liability for Compensated Absences	291	394
Bonds Payable	26,509	19,530
Capital Lease Obligations		
Deferred Revenues and Credits	48	14
<b>Total Noncurrent Liabilities</b>	<b>26,848</b>	<b>19,938</b>
<b>Total Liabilities</b>	<b>113,455</b>	<b>94,466</b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt	5,555	5,445
Restricted		
Nonexpendable	2,256	2,256
Expendable	13,718	12,281
Unrestricted	50,139	33,997
<b>Total Net Assets</b>	<b>\$71,668</b>	<b>\$53,979</b>

**University of Massachusetts  
CENTRAL ADMINISTRATION  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

<b>REVENUES</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Operating Revenues</b>		
Tuition and Fees	\$3,224	\$1,942
Federal Grants and Contracts	3,859	4,175
State Grants and Contracts	2,435	2,097
Local Grants and Contracts	625	826
Private Grants and Contracts	3,328	3,241
Sales & Service, Educational	1,228	1,259
Allocation from Campuses	39,380	36,633
Other Operating Revenues:		
Other	2,062	1,657
<b>Total Operating Revenues</b>	<b>56,141</b>	<b>51,830</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
<b>Educational and General</b>		
Instruction	11,235	10,463
Research	2,196	2,153
Public Service	1,713	2,089
Academic Support	48	
Institutional Support	39,484	42,060
Operation and Maintenance of Plant	1,926	1,336
Depreciation and Amortization	3,248	1,923
<b>Total Operating Expenses</b>	<b>59,850</b>	<b>60,024</b>
<b>Operating Loss</b>	<b>(3,709)</b>	<b>(8,194)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
State Appropriations	7,310	5,664
Gifts		177
Investment Return	12,492	5,370
Endowment Return	525	479
Interest on Indebtedness	(136)	(34)
Other Nonoperating Income	4,168	4,993
<b>Net Nonoperating Revenues</b>	<b>24,359</b>	<b>16,649</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>	<b>20,650</b>	<b>8,455</b>
Disposal of Plant Facilities	(440)	(570)
Other Additions/Deductions	(2,521)	(5,194)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>(2,961)</b>	<b>(5,764)</b>
<b>Total Increase in Net Assets</b>	<b>17,689</b>	<b>2,691</b>
<b>NET ASSETS</b>		
Net Assets at Beginning of Year	53,979	51,288
<b>Net Assets at End of Year</b>	<b>\$71,668</b>	<b>\$53,979</b>

*Amherst*

**University of Massachusetts  
AMHERST CAMPUS  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$10,127	\$3,846
Cash Held By State Treasurer	4,100	4,334
Accounts, Grants and Loans Receivable	31,486	29,841
Pledges Receivable	1,440	1,310
Short Term Investments	24,388	46,556
Inventories	4,152	6,413
Due From Other Campuses	9,359	6,756
Other Assets	2,405	3,744
<b>Total Current Assets</b>	<b>87,457</b>	<b>102,800</b>
<b>Noncurrent Assets</b>		
Cash Held By State Treasurer	2,589	4,089
Cash and Securities Held By Trustees	191,267	310,893
Accounts, Grants and Loans Receivable	18,053	17,702
Pledges Receivable	3,852	3,912
Investments	166,702	135,471
Other Assets	4,594	4,830
Investment In Plant Net of Accumulated Depreciation	707,296	555,133
<b>Total Noncurrent Assets</b>	<b>1,094,353</b>	<b>1,032,030</b>
<b>Total Assets</b>	<b>\$1,181,810</b>	<b>\$1,134,830</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$32,742	\$67,244
Accrued Salaries and Wages	24,646	22,649
Accrued Liability for Compensated Absences	20,232	19,345
Accrued Liability for Workers' Compensation	1,822	1,600
Accrued Interest Payable	3,230	3,594
Bonds Payable	16,035	12,404
Capital Lease Obligations	4,562	4,504
Deferred Revenues and Credits	14,315	12,630
Advances and Deposits	1,565	1,451
Other Liabilities	5,822	4,530
<b>Total Current Liabilities</b>	<b>124,971</b>	<b>149,951</b>
<b>Noncurrent Liabilities</b>		
Accrued Liability for Compensated Absences	8,203	7,744
Accrued Liability for Workers' Compensation	5,438	5,949
Arbitrage Rebate Payable	402	396
Bonds Payable	340,121	359,603
Capital Lease Obligations	29,745	34,207
Deferred Revenues and Credits	6,686	6,093
Advances and Deposits	14,115	14,296
<b>Total Noncurrent Liabilities</b>	<b>404,710</b>	<b>428,288</b>
<b>Total Liabilities</b>	<b>529,681</b>	<b>578,239</b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt Restricted	384,911	348,589
Nonexpendable	3,750	3,740
Expendable	124,649	82,819
Unrestricted	138,819	121,443
<b>Total Net Assets</b>	<b>\$652,129</b>	<b>\$556,591</b>

**University of Massachusetts  
AMHERST CAMPUS  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

<b>REVENUES</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Operating Revenues</b>		
Tuition and Fees (net of scholarship allowances of \$60,815 at June 30, 2007 and \$50,897 at June 30, 2006)	\$211,570	\$196,174
Federal Grants and Contracts	101,676	100,526
State Grants and Contracts	14,542	13,783
Local Grants and Contracts	598	992
Private Grants and Contracts	21,803	22,318
Sales & Service, Educational	6,885	7,262
Auxiliary Enterprises	126,383	117,870
Other Operating Revenues:		
Other	9,553	8,900
<b>Total Operating Revenues</b>	<b>493,010</b>	<b>467,825</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
<i>Educational and General</i>		
Instruction	244,855	236,337
Research	98,889	100,352
Public Service	21,619	23,064
Academic Support	45,232	41,555
Student Services	43,455	39,047
Institutional Support	48,530	45,185
Operation and Maintenance of Plant	66,037	68,211
Depreciation and Amortization	49,830	44,363
Scholarships and Fellowships	12,468	13,221
<i>Auxiliary Enterprises</i>	117,465	101,917
<b>Total Operating Expenses</b>	<b>748,380</b>	<b>713,252</b>
<b>Operating Loss</b>	<b>(255,370)</b>	<b>(245,427)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
Federal Appropriations	5,777	7,044
State Appropriations	273,003	250,094
Gifts	8,756	13,714
Investment Return	36,280	19,937
Endowment Return	4,883	4,351
Interest on Indebtedness	(13,480)	(14,601)
Other Nonoperating Income	2,452	1,682
<b>Net Nonoperating Revenues</b>	<b>317,671</b>	<b>282,221</b>
<b>Income Before Other Revenues, Expenses, Gains, and Losses</b>	<b>62,301</b>	<b>36,794</b>
Capital Appropriations	34,424	10,972
University Related Organization Transactions		593
Disposal of Plant Facilities	(735)	(2,644)
Other Additions/Deductions	(452)	(2,718)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>33,237</b>	<b>6,203</b>
<b>Total Increase in Net Assets</b>	<b>95,538</b>	<b>42,997</b>
<b>NET ASSETS</b>		
Net Assets at Beginning of Year	556,591	513,594
<b>Net Assets at End of Year</b>	<b>\$652,129</b>	<b>\$556,591</b>

*Boston*

**University of Massachusetts  
BOSTON CAMPUS  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$1,890	\$851
Cash Held By State Treasurer	2,544	1,191
Accounts, Grants and Loans Receivable	20,369	14,858
Pledges Receivable	169	144
Short Term Investments	5,514	8,389
Inventories	652	639
Due From Other Campuses	1,918	1,289
Other Assets	962	1,255
<b>Total Current Assets</b>	<b>34,018</b>	<b>28,616</b>
<b>Noncurrent Assets</b>		
Cash Held By State Treasurer	647	637
Cash and Securities Held By Trustees	68,331	64,285
Accounts, Grants and Loans Receivable	4,150	5,212
Pledges Receivable	95	75
Investments	45,028	31,582
Other Assets	895	1,127
Investment In Plant Net of Accumulated Depreciation	152,500	152,334
<b>Total Noncurrent Assets</b>	<b>271,646</b>	<b>255,252</b>
<b>Total Assets</b>	<b>\$305,664</b>	<b>\$283,868</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$4,726	\$4,566
Accrued Salaries and Wages	8,838	8,240
Accrued Liability for Compensated Absences	6,921	6,364
Accrued Liability for Workers' Compensation	239	276
Accrued Interest Payable	837	909
Bonds Payable	2,577	2,477
Capital Lease Obligations	4,307	4,124
Deferred Revenues and Credits	5,063	4,262
Advances and Deposits	1,447	35
Other Liabilities	2,587	2,921
<b>Total Current Liabilities</b>	<b>37,542</b>	<b>34,174</b>
<b>Noncurrent Liabilities</b>		
Accrued Liability for Compensated Absences	2,529	2,411
Accrued Liability for Workers' Compensation	713	1,024
Arbitrage Rebate Payable	25	22
Bonds Payable	90,074	94,271
Capital Lease Obligations	12,291	16,576
Deferred Revenues and Credits	1,213	959
Advances and Deposits	4,485	4,835
<b>Total Noncurrent Liabilities</b>	<b>111,330</b>	<b>120,098</b>
<b>Total Liabilities</b>	<b>148,872</b>	<b>154,272</b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt Restricted	90,996	94,408
Nonexpendable	6,031	6,026
Expendable	34,288	13,503
Unrestricted	25,477	15,659
<b>Total Net Assets</b>	<b>\$156,792</b>	<b>\$129,596</b>

**University of Massachusetts  
BOSTON CAMPUS  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

<b>REVENUES</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Operating Revenues</b>		
Tuition and Fees (net of scholarship allowances of \$12,748 at June 30, 2007 and \$11,608 at June 30, 2006)	\$86,441	\$76,992
Federal Grants and Contracts	30,680	30,701
State Grants and Contracts	7,726	6,706
Local Grants and Contracts	1,275	1,301
Private Grants and Contracts	8,244	7,632
Sales & Service, Educational	1,839	1,302
Auxiliary Enterprises	8,768	9,088
Other Operating Revenues:		
Other	588	562
<b>Total Operating Revenues</b>	<b>145,561</b>	<b>134,284</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
<i>Educational and General</i>		
Instruction	94,411	88,975
Research	24,397	19,999
Public Service	5,704	7,535
Academic Support	22,254	21,244
Student Services	18,091	15,454
Institutional Support	30,444	28,304
Operation and Maintenance of Plant	17,533	18,980
Depreciation and Amortization	24,053	18,120
Scholarships and Fellowships	6,287	5,440
<i>Auxiliary Enterprises</i>	8,016	7,618
<b>Total Operating Expenses</b>	<b>251,190</b>	<b>231,669</b>
<b>Operating Loss</b>	<b>(105,629)</b>	<b>(97,385)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
State Appropriations	100,801	93,562
Gifts	1,723	1,783
Investment Return	9,705	4,539
Endowment Return	756	582
Interest on Indebtedness	(4,529)	(4,964)
Other Nonoperating Income	289	713
<b>Net Nonoperating Revenues</b>	<b>108,745</b>	<b>96,215</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>3,116</b>	<b>(1,170)</b>
Capital Appropriations	20,175	4,805
Capital Grants and Contracts	4,000	
Disposal of Plant Facilities	(1,673)	(1,722)
Other Additions/Deductions	1,578	(1,273)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>24,080</b>	<b>1,810</b>
<b>Total Increase in Net Assets</b>	<b>27,196</b>	<b>640</b>
<b>NET ASSETS</b>		
Net Assets at Beginning of Year	129,596	128,956
<b>Net Assets at End of Year</b>	<b>\$156,792</b>	<b>\$129,596</b>

*Dartmouth*

**University of Massachusetts  
DARTMOUTH CAMPUS  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$756	\$2,350
Cash Held By State Treasurer	21	121
Accounts, Grants and Loans Receivable	9,671	9,517
Short Term Investments	1,557	1,980
Inventories	716	426
Due From Other Campuses	955	671
Due From Related Organizations	191	388
Other Assets	497	339
<b>Total Current Assets</b>	<b>14,364</b>	<b>15,792</b>
<b>Noncurrent Assets</b>		
Cash Held By State Treasurer	710	1,781
Cash and Securities Held By Trustees	19,671	27,066
Accounts, Grants and Loans Receivable	2,083	2,141
Investments	9,763	5,411
Other Assets	2,823	2,964
Investment In Plant Net of Accumulated Depreciation	216,579	206,447
<b>Total Noncurrent Assets</b>	<b>251,629</b>	<b>245,810</b>
<b>Total Assets</b>	<b>\$265,993</b>	<b>\$261,602</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$6,738	\$3,947
Accrued Salaries and Wages	6,848	6,095
Accrued Liability for Compensated Absences	4,664	4,137
Accrued Liability for Workers' Compensation	356	345
Accrued Interest Payable	1,323	1,471
Bonds Payable	10,123	3,664
Capital Lease Obligations	375	705
Due To Other Campuses		203
Due To Related Organizations	325	488
Deferred Revenues and Credits	2,889	3,123
Advances and Deposits	1,767	1,425
Other Liabilities	2,332	2,154
<b>Total Current Liabilities</b>	<b>37,740</b>	<b>27,757</b>
<b>Noncurrent Liabilities</b>		
Accrued Liability for Compensated Absences	2,867	2,730
Accrued Liability for Workers' Compensation	1,062	1,282
Arbitrage Rebate Payable	66	49
Bonds Payable	173,231	179,829
Capital Lease Obligations	88	379
Due To Other Campuses		150
Advances and Deposits	1,867	1,867
Other Liabilities	475	570
<b>Total Noncurrent Liabilities</b>	<b>179,656</b>	<b>186,856</b>
<b>Total Liabilities</b>	<b>217,396</b>	<b>214,613</b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt	39,579	42,208
Restricted		
Expendable	9,693	6,761
Unrestricted	(675)	(1,980)
<b>Total Net Assets</b>	<b>\$48,597</b>	<b>\$46,989</b>

**University of Massachusetts  
DARTMOUTH CAMPUS  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

<b>REVENUES</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Operating Revenues</b>		
Tuition and Fees (net of scholarship allowances of \$12,243 at June 30, 2007 and \$11,259 June 30, 2006)	\$58,621	\$53,831
Federal Grants and Contracts	16,490	16,453
State Grants and Contracts	6,208	6,696
Local Grants and Contracts	24	33
Private Grants and Contracts	3,848	2,575
Sales & Service, Educational	25	56
Auxiliary Enterprises	33,124	32,202
Other Operating Revenues:		
Other	3,467	4,837
<b>Total Operating Revenues</b>	<b>121,807</b>	<b>116,683</b>
<b>EXPENSES</b>		
<b>Operating Expenses</b>		
<i>Educational and General</i>		
Instruction	56,347	52,618
Research	17,787	17,996
Public Service	1,130	1,008
Academic Support	22,406	22,294
Student Services	7,902	7,092
Institutional Support	18,271	16,535
Operation and Maintenance of Plant	21,653	14,151
Depreciation and Amortization	14,700	11,687
Scholarships and Fellowships	6,661	4,611
<i>Auxiliary Enterprises</i>	14,032	17,055
<b>Total Operating Expenses</b>	<b>180,889</b>	<b>165,047</b>
<b>Operating Loss</b>	<b>(59,082)</b>	<b>(48,364)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>		
State Appropriations	60,135	55,391
Investment Return	3,330	1,503
Endowment Income	384	341
Interest on Indebtedness	(7,296)	(8,102)
Other Nonoperating Income	237	58
<b>Net Nonoperating Revenues</b>	<b>56,790</b>	<b>49,191</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>(2,292)</b>	<b>827</b>
Capital Appropriations	7,800	4,918
Disposal of Plant Facilities	(1,223)	(1,322)
Other Additions/Deductions	(2,677)	(1,519)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>3,900</b>	<b>2,077</b>
<b>Total Increase in Net Assets</b>	<b>1,608</b>	<b>2,904</b>
<b>NET ASSETS</b>		
Net Assets at Beginning of Year	46,989	44,085
<b>Net Assets at End of Year</b>	<b>\$48,597</b>	<b>\$46,989</b>

*Lowell*

**University of Massachusetts  
LOWELL CAMPUS  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	June 30, 2007	June 30, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$2,280	\$535
Cash Held By State Treasurer	1,677	2,214
Accounts, Grants and Loans Receivable	17,847	16,175
Short Term Investments	3,278	5,320
Due From Other Campuses	1,320	1,160
Other Assets	419	497
<b>Total Current Assets</b>	<b>26,821</b>	<b>25,901</b>
<b>Noncurrent Assets</b>		
Cash Held By State Treasurer	667	4,148
Cash and Securities Held By Trustees	12,876	23,658
Accounts, Grants and Loans Receivable	4,686	4,751
Investments	25,265	17,983
Other Assets	1,902	1,733
Investment In Plant Net of Accumulated Depreciation	128,587	123,627
<b>Total Noncurrent Assets</b>	<b>173,983</b>	<b>175,900</b>
<b>Total Assets</b>	<b>\$200,804</b>	<b>\$201,801</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$5,634	\$4,804
Accrued Salaries and Wages	8,967	8,050
Accrued Liability for Compensated Absences	6,414	5,993
Accrued Liability for Workers' Compensation	361	299
Accrued Interest Payable	374	434
Bonds Payable	3,530	3,230
Capital Lease Obligations	208	198
Due To Other Campuses	-	1
Deferred Revenues and Credits	6,835	6,064
Advances and Deposits	1,413	860
Other Liabilities	6,325	6,253
<b>Total Current Liabilities</b>	<b>40,061</b>	<b>36,186</b>
<b>Noncurrent Liabilities</b>		
Accrued Liability for Compensated Absences	3,332	3,252
Accrued Liability for Workers' Compensation	1,078	1,111
Bonds Payable	51,896	58,161
Capital Lease Obligations	167	375
Deferred Revenues and Credits	1,232	1,158
Advances and Deposits	4,152	4,184
<b>Total Noncurrent Liabilities</b>	<b>61,857</b>	<b>68,241</b>
<b>Total Liabilities</b>	<b>101,918</b>	<b>104,427</b>
<b>Net Assets:</b>		
Invested in Capital Assets Net of Related Debt Restricted	80,110	74,617
Nonexpendable	3,237	3,125
Expendable	4,737	9,731
Unrestricted	10,802	9,901
<b>Total Net Assets</b>	<b>\$98,886</b>	<b>\$97,374</b>

**University of Massachusetts  
LOWELL CAMPUS  
Statement of Revenues, Expenses and Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

<i>REVENUES</i>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<i>Operating Revenues</i>		
Tuition and Fees (net of scholarship allowances of \$12,949 at June 30, 2007 and \$11,365 at June 30, 2006)	\$72,201	\$67,971
Federal Grants and Contracts	20,785	19,629
State Grants and Contracts	3,819	2,396
Local Grants and Contracts	293	588
Private Grants and Contracts	11,265	9,433
Sales & Service, Educational	1,047	1,112
Auxiliary Enterprises	9,437	8,760
Other Operating Revenues:		
Other	1,710	1,181
<b>Total Operating Revenues</b>	<u>120,557</u>	<u>111,070</u>
 <i>EXPENSES</i>		
<i>Operating Expenses</i>		
<i>Educational and General</i>		
Instruction	78,611	71,412
Research	30,297	29,236
Public Service	3,155	3,805
Academic Support	19,978	17,458
Student Services	14,319	14,735
Institutional Support	27,716	25,852
Operation and Maintenance of Plant	18,171	18,068
Depreciation and Amortization	15,656	14,809
Scholarships and Fellowships	3,799	3,161
<i>Auxiliary Enterprises</i>	4,269	5,188
<b>Total Operating Expenses</b>	<u>215,971</u>	<u>203,724</u>
<b>Operating Loss</b>	<u>(95,414)</u>	<u>(92,654)</u>
 <i>NONOPERATING REVENUES/(EXPENSES)</i>		
State Appropriations	89,218	81,265
Gifts	2,154	4,240
Investment Return	4,363	2,078
Endowment Return	79	111
Interest on Indebtedness	(2,051)	(1,972)
Other Nonoperating Income	93	331
<b>Net Nonoperating Revenues</b>	<u>93,856</u>	<u>86,053</u>
<b>Loss Before Other Revenues, Expenses, Gains, and Losses</b>	<u>(1,558)</u>	<u>(6,601)</u>
Capital Appropriations	6,046	5,890
Disposal of Plant Facilities	(1,753)	(991)
Other Additions/Deductions	(1,223)	(204)
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<u>3,070</u>	<u>4,695</u>
<b>Total Increase/(Decrease) in Net Assets</b>	<u>1,512</u>	<u>(1,906)</u>
 <i>NET ASSETS</i>		
Net Assets at Beginning of Year	97,374	99,280
<b>Net Assets at End of Year</b>	<u>\$98,886</u>	<u>\$97,374</u>

*Worcester*

**University of Massachusetts  
WORCESTER CAMPUS  
Statement of Net Assets  
As of June 30, 2007 and 2006  
(in thousands of dollars)**

	Worcester Campus June 30, 2007	Worcester Campus June 30, 2006	Worcester City Campus Corporation June 30, 2007	Worcester City Campus Corporation June 30, 2006	Combined Totals Memorandum Only June 30, 2007	Combined Totals Memorandum Only June 30, 2006
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$3,439	\$6,914			\$3,439	\$6,914
Cash Held By State Treasurer	1,115	639			1,115	639
Accounts, Grants and Loans Receivable	117,675	112,224	\$1,568		119,243	112,224
Pledges Receivable			313	\$364	313	364
Short Term Investments	13,770	49,153			13,770	49,153
Inventories	7,763	9,675			7,763	9,675
Accounts Receivable UMass Memorial	122,508	114,838		525	122,508	115,363
Due From Other Campuses	6,862	6,069			6,862	6,069
Due From Related Organizations	2,730	1,901	13,279	44,363	16,009	46,264
Other Assets	1,902	2,028	3,944	3,192	5,846	5,220
<b>Total Current Assets</b>	<b>277,764</b>	<b>303,441</b>	<b>19,104</b>	<b>48,444</b>	<b>296,868</b>	<b>351,885</b>
<b>Noncurrent Assets</b>						
Cash Held By State Treasurer	1,698	220			1,698	220
Cash and Securities Held By Trustees	2,513	1,441	120,392	19	122,905	1,460
Accounts, Grants and Loans Receivable	5,977	4,219			5,977	4,219
Pledges Receivable			953	1,149	953	1,149
Investments	127,388	121,930			127,388	121,930
Due From Other Campuses		150			0	150
Investment In Plant Net of Accumulated Depreciation	196,822	191,300	303,756	264,587	500,578	455,887
<b>Total Noncurrent Assets</b>	<b>334,398</b>	<b>319,260</b>	<b>425,101</b>	<b>265,755</b>	<b>759,499</b>	<b>585,015</b>
<b>Total Assets</b>	<b>\$612,162</b>	<b>\$622,701</b>	<b>\$444,205</b>	<b>\$314,199</b>	<b>\$1,056,367</b>	<b>\$936,900</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts Payable	\$32,310	\$26,561	\$11,371	\$4,262	\$43,681	\$30,823
Accrued Salaries and Wages	7,103	5,257			7,103	5,257
Accrued Liability for Compensated Absences	21,216	21,150			21,216	21,150
Accrued Liability for Workers' Compensation	955	907			955	907
Accrued Interest Payable	21	42	3,905	2,670	3,926	2,712
Bonds Payable			7,805	3,355	7,805	3,355
Capital Lease Obligations	2,833	2,707			2,833	2,707
Accounts Payable UMass Memorial	3,339	8,017			3,339	8,017
Due to Related Organizations	11,751	43,811	3,707	3,020	15,458	46,831
Deferred Revenues and Credits	25,814	17,926			25,814	17,926
Advances and Deposits	1,948	310			1,948	310
Other Liabilities	48,799	108,590			48,799	108,590
<b>Total Current Liabilities</b>	<b>156,089</b>	<b>235,278</b>	<b>26,788</b>	<b>13,307</b>	<b>182,877</b>	<b>248,585</b>
<b>Noncurrent Liabilities</b>						
Accrued Liability for Compensated Absences	4,714	5,699			4,714	5,699
Accrued Liability for Workers' Compensation	2,849	3,371			2,849	3,371
Bonds Payable			322,708	205,357	322,708	205,357
Capital Lease Obligations	9	2,842			9	2,842
Deferred Revenues and Credits	3,013	2,329			3,013	2,329
Advances and Deposits	3,468	3,468			3,468	3,468
Other Liabilities	484				484	
<b>Total Noncurrent Liabilities</b>	<b>14,537</b>	<b>17,709</b>	<b>322,708</b>	<b>205,357</b>	<b>337,245</b>	<b>223,066</b>
<b>Total Liabilities</b>	<b>170,626</b>	<b>252,987</b>	<b>349,496</b>	<b>218,664</b>	<b>520,122</b>	<b>471,651</b>
<b>Net Assets:</b>						
Invested in Capital Assets Net of Related Debt	190,972	185,377	92,015	53,409	282,987	238,786
Restricted						
Nonexpendable	990	989			990	989
Expendable	21,567	16,175	7,555	5,633	29,122	21,808
Unrestricted	228,007	167,173	(4,861)	36,493	223,146	203,666
<b>Total Net Assets</b>	<b>\$441,536</b>	<b>\$369,714</b>	<b>\$94,709</b>	<b>\$95,535</b>	<b>\$536,245</b>	<b>\$465,249</b>

University of Massachusetts  
**WORCESTER CAMPUS**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For The Years Ended June 30, 2007 and June 30, 2006**  
(in thousands of dollars)

	Worcester Campus June 30, 2007	Worcester Campus June 30, 2006	Worcester City City Campus Corporation June 30, 2007	Worcester City City Campus Corporation June 30, 2006	Eliminations June 30, 2007	Eliminations June 30, 2006	Combined Totals Memorandum Only June 30, 2007	Combined Totals Memorandum Only June 30, 2006
<b>REVENUES</b>								
<b>Operating Revenues</b>								
Tuition and Fees (net of scholarship allowances of \$3,100 at June 30, 2007 and \$3,499 at June 30, 2006)	\$5,961	\$6,414					\$5,961	\$6,414
Federal Grants and Contracts	124,239	129,590					124,239	129,590
State Grants and Contracts	32,963	35,328					32,963	35,328
Local Grants and Contracts		6					0	6
Private Grants and Contracts	44,395	37,118					44,395	37,118
Sales & Service, Educational	6,126	6,789					6,126	6,789
Auxiliary Enterprises	28,309	29,037					28,309	29,037
Other Operating Revenues:								
Sales & Service, Independent Operations	99,344	78,899					99,344	78,899
Sales & Service, Public Service Activities	381,214	333,997					381,214	333,997
Other	33,762	24,335	\$25,118	\$25,790	(\$21,402)	(\$23,120)	37,478	27,005
<b>Total Operating Revenues</b>	<b>756,313</b>	<b>681,513</b>	<b>25,118</b>	<b>25,790</b>	<b>(21,402)</b>	<b>(23,120)</b>	<b>760,029</b>	<b>684,183</b>
<b>EXPENSES</b>								
<b>Operating Expenses</b>								
<b>Educational and General</b>								
Instruction	42,827	41,412			(25)	(126)	42,802	41,286
Research	148,671	148,358			(118)	(121)	148,553	148,237
Public Service	36,423	35,697	5,314	3,669			41,737	39,366
Academic Support	10,357	9,506			(35)	(36)	10,322	9,470
Student Services	3,318	2,901					3,318	2,901
Institutional Support	30,968	32,117			(513)	(349)	30,455	31,768
Operation and Maintenance of Plant	52,221	51,364			(11,459)	(14,427)	40,762	36,937
Depreciation and Amortization	20,042	19,101	13,831	11,564			33,873	30,665
Scholarships and Fellowships		157						157
Auxiliary Enterprises	20,152	20,008			(1,800)	(1,800)	18,352	18,208
Other Expenditures:								
Independent Operations	71,566	50,119			(4,696)	(3,573)	66,870	46,546
Public Service Activities	333,087	319,542			(2,756)	(2,688)	330,331	316,854
<b>Total Operating Expenses</b>	<b>769,632</b>	<b>730,282</b>	<b>19,145</b>	<b>15,233</b>	<b>(21,402)</b>	<b>(23,120)</b>	<b>767,375</b>	<b>722,395</b>
<b>Operating Income/(Loss)</b>	<b>(13,319)</b>	<b>(48,769)</b>	<b>5,973</b>	<b>10,557</b>			<b>(7,346)</b>	<b>(38,212)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>								
State Appropriations	48,949	40,773					48,949	40,773
Gifts	5,988	5,732					5,988	5,732
Investment Return	20,936	9,554					20,936	9,554
Endowment Return	404	39					404	39
Interest on Indebtedness	(208)	(332)	(9,037)	(9,326)			(9,245)	(9,658)
Other Nonoperating Income	2,400	1,190					2,400	1,190
<b>Net Nonoperating Revenues</b>	<b>78,469</b>	<b>56,956</b>	<b>(9,037)</b>	<b>(9,326)</b>			<b>69,432</b>	<b>47,630</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>65,150</b>	<b>8,187</b>	<b>(3,064)</b>	<b>1,231</b>			<b>62,086</b>	<b>9,418</b>
Capital Appropriations	5,145	562					5,145	562
Disposal of Plant Facilities	(1,135)	(4,024)	(5)	(3)			(1,140)	(4,027)
Contributions for Capital Expenditures	(2,243)	(28,941)	2,243	28,941			4,905	4,970
Other Additions/Deductions	4,905	4,970					4,905	4,970
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>6,672</b>	<b>(27,433)</b>	<b>2,238</b>	<b>28,938</b>			<b>8,910</b>	<b>1,505</b>
<b>Total Increase/(Decrease) in Net Assets</b>	<b>71,822</b>	<b>(19,246)</b>	<b>(826)</b>	<b>30,169</b>			<b>70,996</b>	<b>10,923</b>
<b>NET ASSETS</b>								
Net Assets at Beginning of Year	369,714	388,960	95,535	65,366			465,249	454,326
<b>Net Assets at End of Year</b>	<b>\$441,536</b>	<b>\$369,714</b>	<b>\$94,709</b>	<b>\$95,535</b>			<b>\$536,245</b>	<b>\$465,249</b>

*University Related Organizations*

**Combining Statements of Net Assets for University Related Organizations as of June 30, 2007 and 2006**  
(in thousands of dollars)

**Supplemental Schedule I**

	Total June 30, 2007	Eliminations and Adjustments June 30, 2007	The University of Massachusetts Foundation, Inc. June 30, 2007	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2007	Total June 30, 2006	Eliminations and Adjustments June 30, 2006	The University of Massachusetts Foundation, Inc. June 30, 2006	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2006
<b>ASSETS</b>								
<b>Current Assets</b>								
Accounts, Grants and Loans Receivable	\$22		\$22	\$1,339	\$22		\$22	\$714
Pledges Receivable	5,520	(\$2,294)	6,475	325	2,965	(\$1,833)	4,084	488
Due From Related Organizations	1,280	955		19	1,607	1,119		
Other Assets	19							
<b>Total Current Assets</b>	<b>6,841</b>	<b>(1,339)</b>	<b>6,497</b>	<b>1,683</b>	<b>4,594</b>	<b>(714)</b>	<b>4,106</b>	<b>1,202</b>
<b>Noncurrent Assets</b>								
Cash and Cash Equivalents	3,040			3,040	2,836			2,836
Pledges Receivable	6,267	(19,373)	23,666	1,974	11,837	(13,601)	24,304	1,134
Investments	280,459	(107,651)	364,324	23,786	234,809	(54,619)	270,128	19,300
Other Assets	46			46	43			43
Investment in Plant Net of Accumulated Depreciation	992		992		1,003		1,003	
<b>Total Noncurrent Assets</b>	<b>290,804</b>	<b>(127,024)</b>	<b>388,982</b>	<b>28,846</b>	<b>250,528</b>	<b>(68,220)</b>	<b>295,435</b>	<b>23,313</b>
<b>Total Assets</b>	<b>\$297,645</b>	<b>(\$128,363)</b>	<b>\$395,479</b>	<b>\$30,529</b>	<b>\$255,122</b>	<b>(\$68,934)</b>	<b>\$299,541</b>	<b>\$24,515</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts Payable	\$1,171		\$1,119	\$52	\$1,754		\$1,718	\$36
Due To Related Organizations	191	(\$131)		322	388	(\$114)		502
Assets Held on Behalf of the University		(84,524)	84,524			(39,810)	39,810	
Deferred Revenues and Credits	6,384		6,384		3,994		3,994	
<b>Total Current Liabilities</b>	<b>7,746</b>	<b>(84,655)</b>	<b>92,027</b>	<b>374</b>	<b>6,136</b>	<b>(39,924)</b>	<b>45,522</b>	<b>538</b>
<b>Noncurrent Liabilities</b>								
Other Liabilities	2,983	131	2,732	120	2,914	114	2,680	120
<b>Total Noncurrent Liabilities</b>	<b>2,983</b>	<b>131</b>	<b>2,732</b>	<b>120</b>	<b>2,914</b>	<b>114</b>	<b>2,680</b>	<b>120</b>
<b>Total Liabilities</b>	<b>\$10,729</b>	<b>(\$84,524)</b>	<b>\$94,759</b>	<b>\$494</b>	<b>\$9,050</b>	<b>(\$39,810)</b>	<b>\$48,202</b>	<b>\$658</b>
<b>Net Assets:</b>								
Invested in Capital Assets Net of Related Debt	\$992	\$992			\$1,003	\$1,003		
Restricted								
Nonexpendable	193,100	(43,839)	\$210,077	\$26,862	178,692	(29,124)	\$187,001	\$20,815
Expendable	85,809		83,087	2,722	61,091		58,272	2,819
Unrestricted	7,015	(992)	7,556	451	5,286	(1,003)	6,066	223
<b>Total Net Assets</b>	<b>\$286,916</b>	<b>(\$43,839)</b>	<b>\$300,720</b>	<b>\$30,035</b>	<b>\$246,072</b>	<b>(\$29,124)</b>	<b>\$251,339</b>	<b>\$23,857</b>

**Combining Statements of Revenues, Expenses, and Changes in Net Assets for University Related Organizations  
For The Years Ended June 30, 2007 and 2006  
(in thousands of dollars)**

**Supplemental Schedule II**

	Eliminations and Adjustments		The University of Massachusetts Foundation, Inc.		University of Massachusetts Dartmouth Foundation, Inc.	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>EXPENSES</b>						
<b>Operating Expenses</b>						
<i>Educational and General</i>						
Public Service	\$10,961	(\$1,338)	\$9,853	\$2,446	\$13,384	\$1,493
Depreciation	18		18		16	
Scholarships and Fellowships	5,085	(543)	5,243	385	4,082	314
<b>Total Operating Expenses</b>	<b>16,064</b>	<b>(1,881)</b>	<b>15,114</b>	<b>2,831</b>	<b>17,482</b>	<b>1,807</b>
<b>Operating Income/(Loss)</b>	<b>(16,064)</b>	<b>1,881</b>	<b>(15,114)</b>	<b>(2,831)</b>	<b>(16,939)</b>	<b>(17,482)</b>
<b>NONOPERATING REVENUES/(EXPENSES)</b>						
Gifts	5,226	(7,876)	12,627	475	11,900	1,245
Investment Income	23,876	(6,506)	27,613	2,769	11,900	13,506
Endowment Income	7,544	(1,834)	9,378		5,743	7,063
Interest on Indebtedness					(8)	
<b>Net Nonoperating Revenues</b>	<b>36,646</b>	<b>(16,216)</b>	<b>49,618</b>	<b>3,244</b>	<b>(8)</b>	<b>(8)</b>
<b>Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses</b>	<b>20,582</b>	<b>(14,335)</b>	<b>34,504</b>	<b>413</b>	<b>(4,123)</b>	<b>14,979</b>
Additions to Permanent Endowments	19,684	(4,930)	18,849	5,765	2,752	9,102
University Related Organization Transactions					(593)	
Less: Amounts Earned/Received on Behalf of the University		2,748	(2,748)		5,767	(5,767)
Less: Amounts Paid on Behalf of the University		1,966	(1,966)		(3,549)	3,549
Other Additions/Deductions	578	(164)	742		(168)	4,832
<b>Total Other Revenues, Expenses, Gains, and Losses</b>	<b>20,262</b>	<b>(380)</b>	<b>14,877</b>	<b>5,765</b>	<b>4,209</b>	<b>11,716</b>
<b>Total Increase in Net Assets</b>	<b>40,844</b>	<b>(14,715)</b>	<b>49,381</b>	<b>6,178</b>	<b>86</b>	<b>26,695</b>
<b>NET ASSETS</b>						
Net Assets at Beginning of Year	246,072	(29,124)	251,339	23,857	(29,210)	224,644
<b>Net Assets at End of Year</b>	<b>\$286,916</b>	<b>(\$43,839)</b>	<b>\$300,720</b>	<b>\$30,035</b>	<b>\$246,072</b>	<b>\$251,339</b>
						<b>\$23,857</b>

**SUMMARY OF LEGAL DOCUMENTS**

[Intentionally Left Blank]

**APPENDIX D-1**

**SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT**

[Intentionally Left Blank]

## SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

*The pledge and assignment made by the Authority in the Trust Agreement secures only bonds issued under the Trust Agreement and not bonds issued under any other Trust Agreement.*

The following is a summary of certain provisions of the Trust Agreement. Such summary does not purport to be complete, and reference is made to the Trust Agreement for a complete statement of its provisions.

### Definitions

Capitalized words or terms used in this Summary of Certain Provisions of the Trust Agreement and not defined shall have the meaning given to the applicable word or term elsewhere in this Official Statement.

“*Account*” shall mean any account created pursuant to the Agreement.

“*Accreted Amount*” shall mean, as of the date of computation and with respect to any Capital Appreciation Bond, the original principal amount of such Capital Appreciation Bond upon the initial issuance of the Series of Bonds of which such Bond is a part plus the interest accrued on such Bond compounded as provided in the applicable Series Resolution.

“*Agreement*” shall mean the Trust Agreement.

“*Annual Series Requirement*” as applied to a Series of Guaranteed Bonds shall mean one-twelfth of the largest amount of Principal and Interest Payments due on account of the Outstanding Guaranteed Bonds of such Series of Bonds in any calendar year after the calendar year in which such Series of Guaranteed Bonds was issued.

“*Appropriations*” shall mean amounts made available for expenditure by the University Trustees pursuant to appropriations or other spending authorizations in the Commonwealth's annual operating budgets, including without limitation supplementary and deficiency budgets and any tuition retention authorization, and amounts otherwise available for expenditure by the University Trustees.

“*Architect*” as applied to a Project shall mean the person or firm, if any, employed by the Authority as architect for such Project.

“*Authorized Officer*” shall mean the Chairman, Vice Chairman, Secretary-Treasurer, Assistant Secretary-Treasurer or Executive Director of the Authority or any other person so designated by resolution of the Authority.

“*BMA Index*” shall mean on any date a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Bond Market Association (“BMA”) or any person acting in cooperation with or under the sponsorship of BMA and acceptable to the Remarketing Agent and effective from such date.

“*Bond*” or “*Bonds*” shall mean any bond or bonds or all bonds, as the case may be, issued under the Agreement and authorized by a Series Resolution.

“*Capital Appreciation Bond*” shall mean any Bond so identified in the Series Resolution applicable thereto and on which interest is compounded and is payable only at maturity or upon earlier redemption of such Bond.

## APPENDIX D-1

“*Code*” shall mean the Internal Revenue Code of 1986, as amended. References to provisions of the Code include applicable successor provisions of the Code or applicable successor provisions of any recodification of the internal revenue laws of the United States.

“*Commonwealth*” shall mean The Commonwealth of Massachusetts.

“*Commonwealth Guaranty*” shall mean the guaranty by the Commonwealth pursuant to the Enabling Act of the payment of principal of and interest on Bonds so guaranteed. “Commonwealth Guaranty” shall not include a Credit Facility.

“*Contract*” shall mean each contract for financial assistance, management and services, and any amendments thereto, and each contract for management and services, and any amendments thereto, which may be entered into pursuant to the Enabling Act among the Authority, the Commonwealth, acting by and through the University Trustees, and the University Trustees with respect to the financing of one or more Projects or with respect to Bonds issued for the purpose of refunding and (a) in the case of a contract for financial assistance, management and services, providing financial assistance in the form of a Commonwealth Guaranty of the Bonds specified thereunder as entitled to the Commonwealth Guaranty or the pledge of Appropriations or Trust Funds, and (b) in the case of a contract for financial assistance, management and services or a contract for management and services, (i) providing, among other things, for the University Trustees to make available to the Authority the services of officers and employees of the University and office space and facilities in the University for billing and collecting rents, fees, rates and other charges for the use and occupancy of such one or more Projects (or the Project or Projects to which refunding Bonds pertain), or of any facility or service provided by such one or more Projects (or the Project or Projects to which refunding Bonds pertain), renting and leasing rooms and other accommodations in the buildings and structures included in such one or more Projects (or the Project or Projects to which refunding Bonds pertain) and cleaning, heating, operation of and repairs to and maintenance of and keeping books of account with respect to such one or more Projects (or the Project or Projects to which refunding Bonds pertain) or (ii) containing such other provisions pertaining to the management of or services with respect to such one or more Projects (or the Project or Project to which refunding Bonds pertain) as may be permitted by the Enabling Act.

“*Cost of the Project*” as applied to a Project shall mean and include, without intending hereby to limit or restrict any definition of such term under the Enabling Act (as in effect on the date of the Agreement and as it may be amended from time to time), the cost, whenever incurred, of carrying out the Project and placing it in operation, including, but not limited to, the cost of construction of new buildings or structures and the cost of acquiring, adding to, altering, enlarging, leasing, reconstructing, remodeling and doing other work in or upon or respecting existing buildings and structures, if any, included in the Project, the cost of providing and installing in or in respect of any such building or structure furniture, furnishings, machinery, equipment, facilities, approaches, driveways, walkways, parking areas, planting and landscaping, the cost of leasing or otherwise acquiring land, other property, rights, easements and interests acquired for or in respect to any of the foregoing, the cost of demolishing or removing any buildings or structures on land so acquired or interests in which are so acquired and the cost of site preparation; the cost of architectural and engineering services, plans, specifications, surveys, estimates of cost and of revenues; other expenses necessary or incident to determining the feasibility or practicability of the Project; administrative expense, legal expense and such other expenses, including, but not limited to, the fees and expenses (including reasonable attorneys' fees and expenses) of the Trustee, fees and expenses of financial advisers and other experts, printing and advertising costs and the like, taxes and other governmental charges lawfully levied or assessed, the cost of preliminary architectural and engineering services, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determine the feasibility or practicability of other projects for which written requests shall have been made by authority of the University Trustees and premiums for policies of insurance, fidelity bonds and the like covering property and risks of and related to the Project, as may be necessary or incident to the aforesaid, to the financing or refinancing thereof and to the issuance therefor of notes or Bonds or both under the provisions of the Enabling Act and interest for such period as the Authority may deem advisable but ending

not later than eighteen months after the University Trustees shall have accepted the project for occupancy on money borrowed to pay all or part of the Cost of the Project.

“*Counsel*” shall mean an attorney or firm of attorneys admitted to practice law in the highest court of any state in the United States of America or in the District of Columbia.

“*Counsel's Opinion*” shall mean an opinion signed by an attorney or firm of attorneys (who may be general or special counsel to the Authority or bond counsel to the Authority) selected by the Authority and satisfactory to the Trustee.

“*Credit Facility*” shall mean any instrument, including without limitation a letter of credit, guaranty, standby loan commitment, insurance policy or surety bond, or any combination thereof, under which the Authority or the Trustee is entitled to receive moneys for the payment of one or more of principal of, Redemption Price of and interest on any Bond, fees and expenses of the Trustee, amounts payable from any reserve fund established pursuant to the Agreement, amounts for the replenishment of any reserve fund established pursuant to this Agreement, the purchase price of Bonds tendered pursuant to the applicable Series Resolution and any other amounts which the Authority or the Trustee is entitled to receive under such instrument. “*Credit Facility*” shall not include the Commonwealth Guaranty or Derivatives.

“*Current Expenses*” as applied to a Project shall mean and include (a) the fees and expenses (including reasonable attorneys' fees and expenses) of the Trustee under the Agreement and of any escrow or like agent appointed by the Authority with respect to the payment of bonds or Bonds issued to finance the Project or to refund any bonds or Bonds issued for such purpose or for the purpose of refunding other refunding bonds or Bonds related to such Project, exclusive of such fees and expenses as are included in the Cost of the Project; (b) the rent, not included in the Cost of the Project, payable by the Authority under any lease of property included in the Project, as such lease may be amended or extended; (c) premiums (or accruals on account thereof), not included in the Cost of the Project, for policies of insurance maintained in force by the Authority with respect to the Project (or a proportionate part of such premiums in the event that a single policy or policies of insurance shall cover property or risks pertaining to more than one Project (or shall include one or more Other Projects) of the Authority); and (d) that portion of the general operating and administrative expenses of the Authority as the Authority shall deem properly allocable to the Project, which general operating and administrative expenses shall include, without limiting the generality of the foregoing, any amount required to be rebated by the Authority (or by any other entity with respect to moneys held by the Authority) to the United States of America by the Code or other applicable law and not provided by other moneys of the Authority available therefor, legal and other professional expenses of the Authority, expenses incurred under Section 207 of the Agreement and reasonable payments to governmental or other benefit or retirement funds for the benefit of its employees, provided, however, that the total amount which may be so allocated in any year shall not exceed such limitation, if any, as may be imposed by the Contract pertaining to the Project; but such term shall not include (x) Maintenance, Repair and Operating Expenses; (y) any reserves for extraordinary maintenance or repair of the Project or any allowance for depreciation, or (z) any deposits or transfers to the credit of the special funds created by the Agreement and designated “*Debt Service Fund*,” “*Rate Stabilization Fund*,” “*Section 10 Reserve Fund*” and “*Property Fund*” or to the credit of any reserve fund created pursuant to the Agreement by a Series Resolution

“*Current Interest Bond*” shall mean any Bond other than a Capital Appreciation Bond.

“*Debt Service Reserve Fund*” shall mean any fund established by a Series Resolution to provide a reserve for the payment of one or more of principal of, Sinking Fund Installments premium and interest on a Series of Bonds and the purchase price of Bonds of such Series tendered pursuant to the applicable Series Resolution.

“*Debt Service Reserve Fund*” shall not mean a Section 10 Reserve Fund.

## APPENDIX D-1

“*Debt Service Reserve Requirement*” shall mean, with respect to a Debt Service Reserve Fund, the Debt Service Reserve Requirement established for such Debt Service Reserve Fund by the Series Resolution creating such Debt Service Reserve Fund.

“*Derivative*” shall mean contracts that derive their value from the value, or changes in value, of another financial instrument or index and shall include without limitation (a) interest rate swaps, swaptions, forward swaps, interest rate caps, interest rate floors, options, puts, calls and other contracts to hedge payment, rate spread or similar exposure, (b) forwards and (c) contracts to exchange cash flows or a series of payments. “*Derivatives*” shall not include a Credit Facility.

“*Enabling Act*” shall mean Chapter 773 of the Acts of 1960 of the Commonwealth, as amended.

“*Engineer*” as applied to a Project shall mean the person or firm, if any, employed by the Authority as engineer for such Project.

“*Expendable Fund Balance*” shall mean the accumulation of excess unrestricted revenues over expenditures with respect to the University for all prior years and for each current year from the unrestricted current fund, the quasi endowment fund, the unexpended unrestricted plant fund and the unrestricted renewal and replacement plant fund. (now referred to as Unrestricted Net Assets; see definition of “*Unrestricted Net Assets*”).

“*Facilities Trust Agreement*” shall mean the Trust Agreement dated as of December 1, 2000 between the Authority and State Street Bank and Trust Company (which has been succeeded as Trustee by U.S. Bank National Association).

“*Favorable Opinion of Bond Counsel*” shall mean, with respect to any action relating to the Series 2006-1 Bonds or the Series 2006-2 Bonds the occurrence of which requires such an opinion, a written legal opinion of bond counsel to the Authority addressed to the Authority, the Trustee, the Insurer and the Remarketing Agent to the effect that such action is permitted under the Series Resolution and the Trust Agreement and will not jeopardize the exclusion of interest on the Series 2006-1 Bonds from gross income for federal income tax purposes or the exemption from taxation of the Series 2006-1 Bonds or the Series 2006-2 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, provided by the Enabling Act.

“*fiscal year*” shall mean the twelve-month period beginning on each July 1, or any other twelve-month period designated by the Authority from time to time as its fiscal year.

“*Fixed Rate Bond*” shall mean a Bond bearing interest at a rate fixed to the stated maturity of such Bond, including any such Bond the interest rate on which has been converted to a rate fixed to the maturity thereof from a rate that is subject to adjustment from time to time.

“*Fund*” shall mean any Fund created pursuant to the Agreement.

“*Guaranteed Bonds*” shall mean Bonds that are guaranteed by the Commonwealth Guaranty.

“*interest*” unless otherwise indicated, shall mean with respect to any Bond (a) the interest on any Current Interest Bond and (b) the interest on any Capital Appreciation Bond, which interest is expressed as the difference between the applicable Accreted Amount on any applicable date and the principal amount of such Capital Appreciation Bond on the date of initial issuance of the Series of Bonds of which such Capital Appreciation Bond is a part.

## APPENDIX D-1

“*interest rate*,” “*rate of interest*,” “*bear interest at the rate*” or other like expressions shall mean the rate of interest on any Current Interest Bond and the rate (expressed as a yield to maturity) at which interest accrues on any Capital Appreciation Bond.

“*Interest Rate Period*” shall mean each Daily Interest Rate Period, Weekly Interest Rate Period, Short Term Interest Rate Period, Long-Term Interest Rate Period or Auction Interest Rate Period.

“*Investment Obligations*” shall mean and include any of the following: (a) direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America; (b) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Financing Bank, the Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation, or of any other agency or corporation which has been or is hereafter created pursuant to an act of the Congress of the United States as an agency or instrumentality thereof; (c) interest-bearing time deposits or certificates of deposit of banking institutions or trust companies (including the Trustee) organized under the laws of any state of the United States or any national banking association, provided that such deposits or certificates shall be continuously and fully (a) insured by the Federal Deposit Insurance Corporation or any successor thereof, or (b) secured by obligations described in clauses (a) and (b) having a market value, exclusive of accrued interest, at least equal to the aggregate amount of such deposits or certificates; (d) any of the securities described in clauses (a) and (b) which are subject to repurchase agreements with any bank or trust company organized under the laws of any state of the United States or any national banking association; (e) any other investment in which funds of the Authority are permitted from time to time to be invested by the Enabling Act; and (f) any subcategories of any of the investments described in clauses (a), (b), (c), (d) or (e) above that may be required by the issuer of a Credit Facility.

“*Maintenance, Repair and Operating Expenses*” as applied to a Project or Other Project shall mean and include any reasonable and necessary expenses for services, facilities, supplies, materials and utilities necessary for or incident to the maintenance, repair and operation of the Project or Other Project and the facilities and services provided thereby, billing and collecting fees, rents, rates and other charges for the use of the Project or Other Project or any room or accommodation therein or facility or service provided thereby and keeping books of account with respect to such maintenance, repair and operation. The term may also, if the Contract with respect to a Project or Other Project shall provide for application of Revenues therefrom to pay for the following costs, include the costs incurred in maintaining those activities which, and associations and organizations which, or the activities of which, are a part of the activities at the University and are subject to regulation by the University Trustees and which take place, use or are performed in a building or structure included in such Project or Other Project or are a part of a general program of the University including such activities, associations or organizations which take place, use or are performed in such building or structure. The term shall also include reserves for the foregoing expenses and costs if and to the extent that the Contract in effect with respect to a Project, if any, or a resolution of the Authority with respect to a Project or Other Project provides for such reserves. The term shall not include Current Expenses.

“*Maximum Lawful Rate*” shall mean the maximum rate of interest on the relevant obligation permitted by applicable law.

“*Moody's*” shall mean Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody's*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee, with the consent of the Insurer.

“*Multi-Series Debt Service Reserve Fund*” shall have the same meaning as the term Debt Service Reserve Fund, except that a Multi-Series Debt Service Reserve Fund shall secure more than one Series of

## APPENDIX D-1

Bonds (and any one or more of such Series so secured may be issued at different times or under different Series Resolutions from one or more other such Series so secured).

“*Multi-Series Debt Service Reserve Requirement*” shall mean, with respect to a Multi- Series Debt Service Reserve Fund, the Multi-Series Debt Service Reserve Requirement established for such Multi-Series Debt Service Reserve Fund by the Series Resolution creating such Multi-Series Debt Service Reserve Fund.

“*Non-Guaranteed Bonds*” shall mean Bonds that are not guaranteed by the Commonwealth Guaranty.

“*Other Project*” shall have the same meaning as the word “Project” except that Other Project shall apply to a project with respect to which a Series of Bonds shall not have been issued under the Agreement.

“*Outstanding,*” when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Agreement except: (a) any Bonds cancelled by the Trustee or surrendered to the Trustee for cancellation at or prior to such date; (b) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Agreement and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given in accordance or provision satisfactory to the Trustee shall have been made for the giving of such notice; (c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Agreement; and (d) Bonds deemed to have been paid as provided in the Agreement.

“*Person*” shall include associations, corporations and other entities, including public bodies, as well as natural persons.

“*Pledged Funds*” shall mean one or both of (a) Trust Funds of the University pledged to secure (i) all or a portion of one or more Series of Bonds and (b) the payment of other amounts specified in the Contract or other document by which such pledge is made as secured by such Trust Funds, and (b) Appropriations pledged to secure (i) all or a portion of one or more Series of Bonds and (ii) the payment of other amounts specified in the Contract or other document by which such pledge is made as secured by such Appropriations.

“*principal*” and “*principal amount,*” unless otherwise indicated, shall mean with respect to any Bond (a) the principal amount of any Current Interest Bond and (b) the principal amount on the date of initial issuance of the applicable Series of any Capital Appreciation Bond (and after such date of initial issuance the word “principal” and the term “principal amount” shall mean with respect to a Capital Appreciation Bond the portion of the applicable Accreted Amount not constituting interest). Without limiting the generality of the foregoing, when the word “principal” or the term “principal amount” is followed by a reference to the Accreted Amount, the word “principal” or the term “principal amount” shall mean the principal amount of any Current Interest Bond.

“*principal*” and the term “*principal amount*” shall mean, with respect to any obligation other than a Bond, any amount constituting principal, however expressed, of such obligation.

“*Principal and Interest Payments*” as applied to a Series of Bonds for a particular time period or as of a particular date shall mean the principal amount of and interest on the Bonds of such Series Outstanding which is due to be paid during such period or on such date, such amount to be determined in accordance with the following when applicable: if the Authority shall by the resolution authorizing the issue of a Series of Bonds authorize the issue of all or any of such Bonds as Term Bonds, such principal amount of Bonds as will be paid or prepaid from a Sinking Fund Installment shall be treated as if it matured on the date such Sinking fund Installment is required to be made and not on the maturity date of such Bonds.

“*Principal Office*” or “*principal office*” shall mean, when used with respect to the Trustee, the principal corporate trust office of the Trustee in Boston, Massachusetts, or, if the Trustee shall no longer perform its duties under the Trust Agreement at such office, the corporate trust office where at the applicable time the Trustee performs its duties under the Trust Agreement.

“*Project*” or “*Projects*” shall mean the construction of new buildings or structures and the acquisition, addition to, alteration, enlargement, reconstruction, remodeling and other work in or upon or respecting existing buildings or structures, the provision and installation therein or in respect thereof of furnishings, furniture, machinery, equipment, facilities, approaches, driveways, walkways, parking areas, planting and landscaping, the acquisition of land, other property, rights, easements and interests acquired for or in respect to any thereof, the demolition or removal of any buildings or structures, including buildings or structures owned by the Commonwealth, on land so acquired or interests in which are so acquired and site preparation, with respect to which a Series of Bonds shall be issued under the Agreement. The word shall also mean whenever appropriate, such land, buildings or structures and such appurtenances.

“*purchaser*” shall mean the person or persons, one or more, named as the purchaser or purchasers of a Series of Bonds in the Series Resolution and any successors to its or their business. If a named or successor purchaser shall discontinue its business without a successor, the word thereafter shall mean the remaining purchaser or purchasers, whether named or successor.

“*Record Date*” shall mean, for each Series of Bonds, such date or dates as may be set forth as a Record Date in the applicable Series Resolution.

“*Redemption Price*” shall mean, (a) with respect to any Current Interest Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to this Agreement and the applicable Series Resolution, and (b) with respect to any Capital Appreciation Bond, the Accreted Amount thereof on the redemption date, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Agreement and the applicable Series Resolution.

“*Registered Owner*” shall mean the person shown from time to time as registered owner of a Bond in the books kept by the Trustee as Bond Registrar.

“*Remarketing Account*” shall mean the Remarketing Account established within the Bond Purchase Fund pursuant to the Series Resolution.

“*Revenues*” as applied to a Project shall mean (a) all moneys received or receivable by the Authority in payment of fees, rents, rates and other charges for the use and occupancy of, and for the services and facilities provided by, the Project including, without limitation, the moneys which the University Trustees are required to remit to the Authority or the Trustee under a Contract, and all other income derived by the Authority from the operation, ownership or control thereof. The word Revenues shall also include any other revenues or Secondary Revenues pledged as security for the Bonds. The word Revenues shall not include (a) Pledged Funds, (b) any amount paid or payable under the Commonwealth Guaranty or (c) any amount paid or payable under a Credit Facility or a Derivative.

“*Secondary Revenues*” shall mean all revenues received by the Authority from Other Projects or other property financed by bonds issued by the Authority under the Enabling Act under a trust agreement other than the Agreement which revenues are pledged under such trust agreement, upon and after the payment in full of all bonds, including refunding bonds, issued under such trust agreement and of all other sums, if any, then payable to the trustee under the provisions of the trust agreement securing such bonds, or upon deposit by the Authority with such trustee of funds or securities sufficient and in trust to pay, or to provide for the payment when due, of such amounts.

“*Section 10 Reserve Fund*” shall mean the Section 10 Reserve Fund established by the Agreement.

**APPENDIX D-1**

“*Section 19C Payments*” shall mean any amount required by Section 19C of the Enabling Act to be paid by the Authority to the Treasurer and Receiver-General of the Commonwealth from Revenues.

“*Senior Bonds*” shall mean all Bonds of each Series that is a Senior Series.

“*Senior Series*” shall mean any Series designated as a Senior Series in the applicable Series Resolution.

“*Series*” shall mean the Bonds designated as a Series in a Series Resolution.

“*Sinking Fund Installment*” shall mean with respect to Bonds of any particular Series and maturity and any payment date on such Bonds, the principal amount thereof required to be redeemed prior to maturity on such payment date pursuant to the provisions of the applicable Series Resolution.

“*S&P*” shall mean Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*S&P*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“*Special Record Date*” shall have the meaning set forth in the Agreement.

“*Subordinate Series*” shall mean any Series designated as a Subordinate Series in the applicable Series Resolution.

“*Term Bonds*” shall mean Bonds subject to redemption prior to maturity by application of Sinking Fund Installments.

“*Trustee*” shall mean the Trustee appointed under the Agreement and its successor or successors.

“*Trust Agreement*” shall mean the Trust Agreement dated as of November 1, 2000 between the Authority and State Street Bank and Trust Company, as Trustee (which has been succeeded as Trustee by U.S. Bank National Association), and each agreement supplemental thereto.

“*Trust Funds*” shall mean any funds held by the University Trustees as trust funds under the provision of Section 11 of Chapter 75 of the Massachusetts General Laws and any funds administered by the University Trustees as gifts, grants or trusts under the provisions of clause (e) of the fifth paragraph of Section 1A of Chapter 75 of the Massachusetts General Laws.

“*University*” shall mean the University of Massachusetts continuing under Chapter 75 of the Massachusetts General Laws.

“*University Trustees*” shall mean the board of trustees established by and existing under Section 1A of Chapter 75 of the Massachusetts General Laws for the University or, if such board of trustees shall hereafter be abolished, the board, body, commission or other entity succeeding to the principal functions thereof or to which the powers given by said Chapter 75 with respect to the University shall be given by law.

“*Unrestricted Net Assets*” shall mean means the accumulation of excess unrestricted revenues over expenditures with respect to the University for all prior years and for each current year from the unrestricted current fund, the quasi endowment fund, the unexpended unrestricted plant fund and the unrestricted renewal and replacement plant fund. (previously referred to as the “Expendable Fund Balance”).

“*Variable Rate Bond*” shall mean a Bond the interest rate on which is subject to adjustment from time to time and shall include but not be limited to a so-called “multi-modal” Bond, i.e., a Bond that provides that the intervals at which the interest rate on such Bond is adjusted may be changed from time to time.

**APPENDIX D-1****PLEDGE AND ASSIGNMENT OF THE AUTHORITY PURSUANT TO THE AGREEMENT**

Pursuant to the Agreement, the Authority assigns and pledges to the Trustee and grants to the Trustee a security interest in:

- (a) all rights of the Authority, including such rights under any Contract, to receive all Revenues pledged under the Agreement;
- (b) all moneys paid or payable for deposit in or on deposit in any Fund, Account or subaccount created under the Agreement, all investments received or receivable for deposit in or on deposit in any Fund, Account or subaccount created under the Agreement and all interest or other income on such investments paid or payable for deposit in or on deposit in any Fund, Account or subaccount created under the Agreement and all rights of the Authority to receive any such moneys, investments and interest or other income (except that moneys and securities on deposit in the Rebate Fund created under the Agreement and all interest or other income received thereon are held for the benefit of the United States of America and not for the benefit of the Registered Owners and do not secure the Bonds), subject to the application of amounts held in such Funds, Accounts and Subaccounts for the purposes and in the manner set forth in the Agreement;
- (c) subject to clause (a) and clause (b) under “Particular Covenants - Payment of Lawful Charges” below, (i) the Revenues from each Project and (ii) the Revenues, including without limitation Secondary Revenues, derived from Other Projects and from such other property of the Authority, if any, as the Authority may hereafter designate by resolution; provided, however, that the assignment and pledge made by the Agreement of and the security interest granted by the Agreement in such Revenues from each Project and such Revenues, including Secondary Revenues, derived from Other Projects does not include any part thereof to be used for Current Expenses or reserves therefor, Maintenance, Repair and Operating Expenses or reserves therefor or Section 19C Payments or reserves therefor; and provided further that the assignment and pledge of and security interest in any such Secondary Revenues shall be, first, for (A) the reimbursement to the Commonwealth of any amounts theretofore paid by the Commonwealth on account of principal of or interest on any Guaranteed Bonds or other bonds of the Authority guaranteed by the Commonwealth under Section 10 of the Enabling Act and (B), if and only if the Commonwealth has made no such payments or has been reimbursed therefor, to the payment of the principal, interest and premium, if any, at maturity or upon redemption or purchase, for (1) all Bonds issued under the Agreement, or (2) all bonds of the Authority issued other than under the Agreement, or (3) all such Bonds and bonds of the Authority, as the Authority may determine, at the time any Revenues from an Other Project become Secondary Revenues, by resolution approved by the University Trustees with a view to achieving reasonable uniformity in charges for like rooms, accommodations and services at the University, to the extent provided in the Agreement; and
- (d) (i) all Pledged Funds paid or payable and all rights of the Authority to receive such Pledged Funds, (ii) all amounts paid or payable under the Commonwealth Guaranty with respect to Guaranteed Bonds and all rights of the Authority to receive such amounts, (iii) all amounts paid or payable under any Credit Facility and all rights of the Authority to receive such amounts and (iv) all amounts paid or payable under any Derivative and all rights of the Authority to receive such amounts.

The assignment and pledge made by the Agreement and the security interest granted by the Agreement shall be for the equal and proportionate benefit and security of all the present and future Registered Owners of the Bonds issued and to be issued under the Agreement, without preference, priority or distinction as to lien or otherwise, except as otherwise provided in the Agreement, of any one Bond over any other Bond, and that the Revenues, including any Secondary Revenues, pledged as security for the Bonds shall immediately be subject to the lien of such pledge for the benefit of the Trustee and the Registered Owners of the Outstanding Bonds as provided in the Agreement without any physical delivery thereof to the Trustee or any further act.

BONDS PERMITTED TO BE ISSUED UNDER THE AGREEMENT; VARIOUS PROVISIONS OF BONDS

(a) Any bonds the Authority is authorized by the Enabling Act to issue may be issued under the Agreement. The Bonds of each Series may be Fixed Rate Bonds or Variable Rate Bonds, as set forth in the applicable Series Resolution.

(b) As provided in the applicable Series Resolution:

(i) Bonds may be issued as Guaranteed Bonds or Non-Guaranteed Bonds, but Guaranteed Bonds and Non-Guaranteed Bonds shall not be issued as part of the same Series;

(ii) some or all of the Bonds of a Series may be secured by one or more Credit Facilities, and any such Credit Facility may be replaced;

(iii) Bonds may be issued as Current Interest Bonds or Capital Appreciation Bonds, and a Series of Bonds may combine both Current Interest Bonds and Capital Appreciation Bonds;

(iv) a Series of Bonds may be (A) a Senior Series, which Senior Series shall not be subordinate to any other Series and shall be issued on a parity with each other, if any Senior Series previously, contemporaneously or subsequently issued, or (B) a Subordinate Series;

(v) a Subordinate Series shall be subordinate to all Senior Series, may be of any level of subordination to other Subordinate Series previously, contemporaneously or subsequently issued and shall be on a parity with each other, if any, Subordinate Series of the same level previously, contemporaneously or subsequently issued; a Subordinate Series shall bear as part of its designation (in the form provided in the Agreement) whichever of the following is applicable: (A) "Subordinate Series Level 2," which Subordinate Series shall be (1) subordinate to each other, if any, Senior Series previously, contemporaneously or subsequently issued, (2) on a parity with each, if any, Subordinate Series Level 2 previously, contemporaneously or subsequently issued and (3) superior to each other, if any, Subordinate Series of a lower level previously, contemporaneously or subsequently issued, (B) "Subordinate Series Level 3," which Subordinate Series shall be (1) subordinate to each other, if any, Senior Series and Subordinate Series Level 2 previously, contemporaneously or subsequently issued, (2) on a parity with each other, if any, Subordinate Series Level 3 previously, contemporaneously or subsequently issued and (3) superior to each other, if any, Subordinate Series of a lower level previously, contemporaneously or subsequently issued or (C) "Subordinate Series Level 4" or "Subordinate Series Level 5" and so on in ascending numerical order depending on the level or subordination of such Subordinate Series, and each such Subordinate Series shall be subordinate to, on a parity with and superior to other Series depending on its level of subordination in accordance with the pattern described in (A) and (B) above;

(vi) a Subordinate Series may be any level of subordination, and a Subordinate Series of a given level may be issued after or before one or more Series of higher levels of subordination or one or more Senior Series are issued (and it is not necessary that any such Series of any higher level of subordination or any Senior Series shall ever be issued), but any such Subordinate Series shall not be subordinate to any Series but each Senior Series and each Subordinate Series of a higher level of subordination previously, contemporaneously or subsequently issued, (e.g., a Subordinate Series Level 4 may be issued after or before the issuance of a Senior Series or any or all of a Subordinate Series Level 2, Level 3 or Level 5, but a Subordinate Series Level 4 shall not be subordinated to any Series except Senior Series and Subordinate Series Level 2 and Subordinate Series Level 3);

(vii) the interest on a Series of Bonds may be excludable from or includable in gross income for federal income tax purposes;

**APPENDIX D-1**

(viii) a Series of Bonds may be secured by a Debt Service Reserve Fund or a Multi- Series Debt Service Reserve Fund, and all Guaranteed Bonds shall be secured by the Section 10 Reserve Fund as provided in the Agreement or by whatever reserve fund may be required by the Enabling Act as in existence at the time of the issuance of the applicable Series of Guaranteed Bonds; provided, that if at the time a Series of Guaranteed Bonds is issued under the Agreement the Enabling Act does not require any reserve fund for such Series, such Series shall not be required to be (but may be) secured by a reserve fund;

(ix) a Series of Bonds may be secured by Pledged Funds;

(x) the Authority may enter into one or more Derivatives with respect to a Series of Bonds in connection with the initial issuance thereof; provided, however, that the Authority may also enter into Derivatives with respect to a Series of Bonds after the initial issuance thereof if bond counsel to the Authority delivers an opinion to the effect that such action is permitted by the Enabling Act, would not adversely affect the interest of any Registered Owner and would not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes; and

(xi) more than one Series of Bonds may be issued under a single Series Resolution,

(c) With respect to the Series of Bonds on a parity with each other:

If on any date one or more of principal, Sinking Fund Installments and interest are due on such Series of Bonds moneys in the applicable subaccount in the Interest Account, the Principal Account, or the Sinking Fund Account are insufficient to pay any such amount in full, taking account of any amounts deposited in any such subaccount from the Property Fund or the Optional Redemption Account as permitted by the Agreement, but without regard to any amount drawn from any Debt Service Reserve Fund, Multi-Series Debt Service Reserve Fund or Section 10 Reserve Fund to pay all or a portion of such deficiency or any amount drawn under a Credit Facility to pay all or a portion of such deficiency, moneys in any such subaccount in which a deficiency exists shall be applied to the applicable amount due from such subaccount pro rata, without regard to any amounts to be applied to such deficiency with respect to one or more such Series from any Debt Service Reserve Fund, Multi-Series Debt Service Reserve Fund, Section 10 Reserve Fund or Credit Facility; provided, however, that (a) any deficiency in any such subaccount resulting from any amount due under a Derivative not being paid in full when due shall be allocated only to the payment due on the Series of Bonds to which such Derivative pertains and shall not cause a deficiency in the payment due on any other Series of Bonds, (b) any moneys that would have been applied in accordance with such pro rata application to any Bonds secured by a direct pay Credit Facility that in fact pays all principal of, Sinking Fund Installments and interest then due on such Bonds shall be applied to reimburse the issuer of such direct pay Credit Facility for (but not in excess of) the amount paid thereunder, and (c) any moneys that would have been applied in accordance with such pro rata application to Bonds with respect to which all or a portion of the principal, Sinking Fund Installments or interest due on such Bonds was paid pursuant to a Derivative shall be applied pro rata to the payment of (i) any amount due from or on account of the Authority pursuant to such Derivative for any such payment of principal, Sinking Fund Installment or interest and (ii) the principal, Sinking Fund Installments or interest on such Bonds not paid pursuant to such Derivative.

Each Guaranteed Bond shall have the Commonwealth Guaranty endorsed thereon in the form set forth in the applicable Series Resolution and duly executed by the manual or facsimile signature of an officer of the University Trustees and shall be entitled to the benefit of the pledge by the Commonwealth of its full faith and credit for its guaranty of the payment of the principal of and interest on such Bonds as the same become due and payable.

As to any Bond, the Registered Owner thereof shall be deemed and regarded as the absolute owner thereof for all purposes, and, except as otherwise provided by law, no one of the Authority, the Trustee or the

Bond registrar shall be affected by any notice to the contrary. Payment of or on account of the principal or Redemption Price of and interest on any Bond shall be made only to or upon the order of the Registered Owner, registered assigns or the legal representative of the Registered Owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond including the interest thereon to the extent of the sum or sums so paid.

All Bonds paid, redeemed or purchased, either at or before maturity, shall be delivered to the Trustee when such payment, redemption or purchase is made, and such Bonds shall thereupon be cancelled. All Bonds cancelled under any of the provisions of the Agreement shall be held by the Trustee until the Agreement shall be discharged; provided, however, that Bonds so cancelled may at any time be destroyed by the Trustee, if the Trustee shall execute a certificate of destruction in duplicate describing the Bonds so destroyed, and one executed certificate shall be filed with the Executive Director of the Authority and the other executed certificate shall be retained by the Trustee.

### REDEMPTION OF BONDS

#### *Redemption of Bonds of any Series*

If and to the extent that the Authority shall so provide in a Series Resolution, the Bonds of any Series authorized thereunder may be made redeemable, by application of Sinking Fund Installments or otherwise, at the option of the Authority, prior to their respective maturities either in whole or in part, on any date or dates as may be fixed in such Series Resolution, from any moneys that may be made available for such purpose, at the Redemption Price or Redemption Prices fixed by the Authority in such Series Resolution, together with the interest accrued thereon to the date fixed for redemption.

No optional redemption of less than all of the Outstanding Bonds may be made unless all interest accrued on all Outstanding Bonds to the redemption date shall have been paid or set aside for payment.

If the moneys made available from time to time for the purpose of redeeming Bonds (other than by Sinking Fund Installments) are not sufficient to redeem all of the Outstanding Bonds at the Redemption Prices then in effect, they shall be applied to Bonds of such Series, maturity and tenor as the Authority, in its discretion, may select, unless otherwise provided in any Series Resolution. If less than all the Bonds of a particular Series, maturity and tenor are to be redeemed, the particular Bonds and portions of Bonds of such Series, maturity and tenor to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may determine; provided, however, that any Bond may be redeemed in a principal amount equal to the minimum denomination in which it may be issued under the applicable Series Resolution or any integral multiple thereof, and that, in selecting Bonds for redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of each Bond by such minimum denomination.

#### *Redemption Notice*

The Trustee shall give notice of the redemption of any Bonds, specifying the date of redemption, the portions of the principal amounts thereof to be redeemed, the Redemption Price and any other matters specified in the applicable Series Resolution, by mailing, postage prepaid, not more than such number of days nor less than such number of days prior to the redemption date as shall be set forth in the applicable Series Resolution, copies thereof to the Registered Owners of any Bonds, or portions thereof, to be redeemed and to such other persons and at such times as may be set forth in the applicable Series Resolution; provided, however, that failure of any Registered Owner to receive such notice so mailed to such Registered Owner or any defect therein shall not affect the validity of proceedings for the redemption of any Bonds, and failure to mail such notice to any Registered Owner entitled thereto shall not affect the validity of the proceedings for the redemption of any Bonds as to which no such failure occurred. In case any Bond is to be redeemed in part only, the notice of redemption which relates to such Bond shall state also that on or after the redemption date,

## APPENDIX D-1

upon surrender of such Bond, a Bond or Bonds in aggregate principal amount equal to the unredeemed portion of such Bond will be issued described below under “Partial Redemptions.”

### *Effect of Calling for Redemption*

Notice having been given in the manner and under the conditions described above under “Redemption Notice”, the Bonds or portions of Bonds so called for redemption shall, on the redemption date designated in such notice, become and be due and payable at the Redemption Price of such Bonds or portions of Bonds on such date. On the date so designated for redemption, notice having been given and moneys for payment of the Redemption Price of and interest accrued to the date of redemption on the Bonds so called for redemption being available therefor, interest on such Bonds shall cease to accrue, such Bonds or portions of Bonds shall cease to be entitled to any lien, benefit or security under this Agreement, and the Registered Owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price thereof upon presentation and surrender of the same and interest accrued thereon to the date of redemption and, to the extent described above in “Redemption Notice,” to receive Bonds for any unredeemed portions of Bonds.

### *Partial Redemptions*

In case part but not all of an Outstanding Bond shall be selected for redemption, the Registered Owner thereof or the attorney or legal representative of such Registered Owner shall present and surrender such Bond to the Trustee for payment of the Redemption Price of the principal amount thereof so called for redemption, and the Authority shall execute (and, if any such Bond is a Guaranteed Bond cause the guaranty of the Commonwealth to be endorsed on) and the Trustee shall authenticate and deliver to or upon the order of such Registered Owner or the attorney or legal representative of such Registered Owner, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered, a Bond or Bonds aggregating in principal amount said unredeemed portion.

## ESTABLISHMENT AND APPLICATION OF FUNDS AND ACCOUNTS

### *Funds and Accounts*

The Agreement establishes the following Funds, Accounts and subaccounts to be held by the Trustee:

- (1) Note Payment Fund
- (2) Construction Fund
- (3) Preliminary Expense Fund
- (4) Revenue Fund
- (5) Debt Service Fund Interest Account

#### Interest Account

(and within the Interest Account a single subaccount with respect to all Senior Bonds, and if and when the first Subordinate Series of a given level is issued, a single subaccount with respect to all Bonds of any Subordinate Series of such level)

#### Principal Account

(and within the Principal Account a single subaccount with respect to all Senior Bonds, and if and when the first Subordinate Series of a given level is issued, a single subaccount with respect to all Bonds of any Subordinate Series of such level)

## Sinking Fund Account

(and within the Sinking Fund Account a single subaccount with respect to all Senior Bonds, and if and when the first Subordinate Series of a given level is issued, a single subaccount with respect to all Bonds of any Subordinate Series of such level)

## Optional Redemption Account

(6) Section 10 Reserve Fund

(7) Property Fund

## General Account

## Insurance Proceeds Account

## Capital Improvements Reserve Account

(and within the Capital Improvements Reserve Account a separate subaccount for each Project or each group of Projects with respect to which the Authority by certificate of an Authorized Officer directs from time to time that a separate subaccount be established within the Capital Improvements Reserve Account)

## Multi-Purpose Reserve Account

(8) Rate Stabilization Fund

(9) Rebate Fund

Other Funds, Accounts and subaccounts (including without limitation Accounts within the Funds established under the Agreement as set forth in the preceding paragraph and subaccounts within the Accounts established under the Agreement as set forth in the preceding paragraph) may from time to time be established under the Agreement as directed by a Series Resolution or other resolution of the Authority, and moneys shall be deposited in and disbursed from such Funds, Accounts and Subaccounts as provided in such Series Resolution or other resolution.

Without limiting the generality of the previous paragraph, a Series Resolution under which is issued one or more Series of Bonds subject to tender for purchase may establish an Account (a "Purchase Account") for each such Series into which moneys (which moneys may but need not include moneys in the Revenue Fund) shall be deposited as provided in such Series Resolution to be applied to the payment of the purchase price of Bonds of the applicable Series tendered as provided in the Series Resolution.

If a Series Resolution so provides, moneys (which moneys may but need not include Revenues) may be deposited in a Purchase Account prior to being deposited in the Revenue Fund or, if already on deposit in the Revenue Fund, prior to being deposited in the Debt Service Fund or in other Funds and Accounts as described below in "Revenue Fund." Moneys in a Purchase Account representing amounts received under a Credit Facility or under a Derivative or the proceeds of the remarketing of Bonds tendered for purchase as provided in the applicable Series Resolution shall be applied to pay the purchase price only of Bonds of the Series to which the applicable Purchase Account pertains. Other moneys in a Purchase Account shall be applied as follows: if, on any date on which such moneys in a Purchase Account are to be applied to pay the purchase price of Bonds of the Series to which such Purchase Account obtains, any one or more other Purchase Accounts pertaining to Bonds of the same level (e.g., Senior Series, Subordinate Series Level 2) does not contain sufficient moneys to pay the purchase price due on such date of Bonds to which such one or more other Purchase Accounts pertain, such moneys in all Purchase Accounts pertaining to Bonds of the same level

## APPENDIX D-1

shall be applied pro rate to the payment of the purchase price of such Bonds due on such date. In addition, if and to the extent permitted by the applicable Series Resolution, moneys in any Purchase Account may be applied to reimburse the issuer of a Credit Facility for amounts received by the Trustee pursuant to such Credit Facility to be applied to the payment of the purchase price upon tender as provided in the applicable Series Resolution of Bonds for which such Purchase Account was established or to pay any amount due from or on account of the Authority under a Derivative for payments made pursuant to such Derivative for the payment of the purchase price upon tender as provided in the applicable Series Resolution of Bonds for which such Purchase Account was established.

### *Note Payment Fund*

For each Series of Bonds the proceeds of which are to be applied in whole or in part to the payment of notes of the Authority, deposits to the credit of the Note Payment Fund shall be made as required by the provisions of the applicable Series Resolution. Monies so deposited in the Note Payment Fund shall be held by the Trustee in trust and shall be applied to the payment of the notes referred to in the Series Resolution and, pending such application, shall be subject to a lien and charge in favor of the holders of the Bonds Outstanding under the Agreement until paid out or transferred as provided in the Agreement. Upon payment in full of such notes, the Trustee shall withdraw any excess monies then on deposit in the Note Payment Fund and deposit or disburse the same as provided in the applicable Series Resolution.

### *Construction Fund*

For each Series of Bonds the proceeds of which are to be applied in whole or in part to the Cost of a Project (or for moneys held under any other trust agreement entered into by the Authority to be applied to the Cost of a Project) there may be established within the Construction Fund a separate Account for each such Project (or for two or more or all of such Projects) to the credit of which such deposits shall be made as are required by the provisions of the applicable Series Resolution or other resolution of the Authority or as designated in a certificate of an Authorized Officer. Any moneys received, other than as Revenues, from any other source, including but not limited to all grants and loans received from the federal government or any agency thereof for or in aid of the planning, construction or financing of any such Project and all contributions of money, property, labor, or other things of value available under the terms of any such grant or contribution, for the carrying out of such Project may also be deposited to the credit of the appropriate Account within the Construction Fund (or a subaccount therein) or otherwise be held in trust and be disbursed and applied, all as the Authority may determine.

The moneys in each such Account within the Construction Fund shall be held by the Trustee in trust and shall be applied to the payment of the Cost of the Project and, pending such application, shall be subject to a lien and charge in favor of the Registered Owners of the Outstanding Bonds of the Series the proceeds of which are on deposit in such Account until paid out or transferred as provided in the Agreement. The Agreement contains various requirements for disbursement of moneys from Accounts or subaccounts within the Construction Fund, including without limitation requisitions containing certifications with respect to the use of such moneys in accordance with applicable requirements of the Code.

The Trustee shall upon receipt of written instructions from an Authorized Officer (which instructions and any prior modification thereof may be modified from time to time by further written instructions of an Authorized Officer delivered to the Trustee) and without requisition from the Authority or other further authority than is contained herein, on such date or dates as may be specified in the most recent such instructions delivered by such Authorized Officer, withdraw from any Account within the Construction Fund such amounts as may therein be specified to be withdrawn on the applicable date for payment of interest on the Bonds then Outstanding and shall deposit such amount to the credit of the applicable subaccount in the Interest Account.

### *Preliminary Expense Fund*

For each Series of Bonds from the proceeds of which an amount is specified in the Series Resolution authorizing such Series of Bonds to be applied to the cost of architectural and engineering services, plans, specifications, surveys, estimates of cost and of revenues and other expenses necessary or incident to determine the feasibility or practicability of projects for which written requests shall have been made by authority of the University Trustees, the amount so specified shall be deposited to the credit of the Preliminary Expense Fund. The moneys in the Preliminary Expense Fund shall be held by the Trustee in trust and, pending the application thereof, shall be subject to a lien and charge in favor of the Registered Owners of the Bonds from the proceeds of which such deposits were made until paid out or transferred as provided in the Agreement.

Upon receipt of a certificate of an Authorized Officer directing that all or a portion of the moneys in the Preliminary Expense Fund be transferred to any Account or Accounts with the Construction Fund, accompanied by an opinion of bond counsel to the Authority to the effect that such transfer is permitted by the Enabling Act and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Trustee shall withdraw moneys then on deposit to the credit of the Preliminary Expense Fund in the amounts specified in such certificate and deposit the same to the credit of the appropriate Account or Accounts within the Construction Fund in the amount or amounts specified in such certificate.

Upon receipt of a certificate of an Authorized Officer stating that all or a portion of the moneys in the Preliminary Expense Fund are not needed either for the purposes specified in the first paragraph under "Preliminary Expense Fund" or for transfer to any Account or Accounts within the Construction Fund and directing the withdrawal of such moneys from the Preliminary Expense Fund for the payment or deposit for or other application to the purposes specified in such certificate, and upon receipt an opinion of bond counsel to the Authority to the effect that the application of the moneys to be withdrawn to the purposes set forth in such certificate is permitted by the Enabling Act and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Trustee shall withdraw from then the Preliminary Expense Fund the amount specified in such certificate and pay, deposit or apply the same as specified in such certificate.

### *Completion of a Project*

When the construction of a Project the Cost of which shall have been paid in part or in whole from the proceeds of Bonds shall have been completed, or when for any other reason amounts on deposit in a particular Account within the Construction Fund are no longer needed to pay for the Cost of one or more Projects for which it was established, written notice thereof shall be promptly given to the Trustee by a certificate of an Authorized Officer. Any such notice with respect to the completion of a Project shall state the date of completion of the Project, the cost of the Project and the amount, if any, to be reserved for the payment of any remaining part of the Cost of the Project and the Cost of other Projects to be paid from such Account, and shall be accompanied by a Counsel's Opinion to the effect that there are no uncancelled mechanics', laborers', contractors' or materialmen's liens on any property pertaining to the Project in existence or on file in any public office where the same should be filed in order to be valid liens against any part of such property, and that, in the opinion of the signer, the time within which such liens can be created or filed has expired.

Upon receipt of such notice and, if applicable, such Counsel's Opinion, the balance in the applicable Account within the Construction Fund, not reserved by the Authority for the payment of any remaining part of the Cost of the Project or Projects, shall be withdrawn by the Trustee and applied or deposited as follows: (a) at the Authority's request, as set forth in such certificate, deposited in the amount set forth in such certificate to the credit of any other Account or Accounts existing within the Construction Fund for one or more Projects (including such an Account established simultaneously with the giving of such notice) which the applicable Series of Bonds was issued to finance, if the Authority shall by a certificate of an Authorized Officer certify that the amounts then on deposit in such other Account or Accounts are not sufficient to pay in full the

## APPENDIX D-1

projected costs of the applicable Project or Projects and if such certificate is accompanied by an opinion of bond counsel to the Authority to the effect that such deposit of such moneys is permitted by the Enabling Act and will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes; (b) deposited or applied in the amounts and for the purposes as otherwise set forth in such certificate, provided that such certificate is accompanied by an opinion of bond counsel to the Authority to the effect that the deposit or application of such moneys as provided in such certificate is permitted by the Enabling Act and will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes; and (c) so much thereof as is not deposited pursuant to (a) or (b) shall be deposited to the credit of the Optional Redemption Account.

### *Revenue Fund*

All Revenues received by the Trustee shall be deposited in the Revenue Fund immediately upon receipt by the Trustee; provided, however, that Revenues designated in writing by an Authorized Officer to be applied to Current Expenses, Maintenance, Repair and Operating Expenses or Section 19C Payments may be deposited in any account of the Authority designated in writing by such Authorized Officer. The moneys in the Revenue Fund shall be held by the Trustee in trust and applied as provided below and, pending such application, so much thereof as is not held for Current Expenses or reserves therefor, Maintenance Repair and Operating Expenses or reserves therefor or Section 19C Payments or reserves therefor shall be subject to a lien and charge in favor of the Registered Owners of the Bonds issued and Outstanding under the Agreement.

Payments from the Revenue Fund shall be made at any time for Current Expenses, Maintenance, Repair and Operating Expenses or Section 19C Payments pursuant to requisitions as provided in the Agreement.

On the fifteenth day of each month (or if such fifteenth day is not a business day, on the next succeeding business day), and again on the last business day of each month preceding an Interest Payment Date, and on each other date provided in any Series Resolution, the Trustee shall withdraw from the Revenue Fund all moneys held for the credit of the Revenue Fund on the day of such withdrawal in excess of the amount required on the date of such withdrawal as a reserve for Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments. The amount so required as a reserve for Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments shall be as directed by the Authority but not more than the excess of (a) the amount stated in the then current Annual Schedule for such Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments filed by the Authority with the Trustee as described below in "Particular Covenants - Annual Schedule of Projected Expenses," over (b) the aggregate of the payments made by the Trustee from the Revenue Fund on account of such amounts during the period commencing with the July 1 next preceding the applicable withdrawal pursuant to the preceding sentence and ending with the last day of the month preceding such withdrawal.

The Trustee shall deposit the moneys withdrawn from the Revenue Fund as aforesaid to the credit of the Accounts and Funds as follows:

first, with respect to the Senior Bonds, in the following order of priority:

(a) to the credit of the subaccount established for Senior Bonds in the Interest Account in the Debt Service Fund so much, or the whole if required, of the moneys so withdrawn from the Revenue Fund, until the amount on the deposit in the such subaccount, plus any amount to be withdrawn from any Construction Fund as described above in the last paragraph in "Construction Fund" and deposited in such subaccount to be applied to the payment of interest due on any Series of Senior Bonds on the next following Interest Payment Date, shall equal (i) the interest payable on such Interest Payment Date on all Senior Bonds then Outstanding and (ii) the aggregate of all other amounts, if any, required to be on deposit in such subaccount on such Interest Payment Date by each Series Resolution containing such a requirement applicable

to Outstanding Senior Bonds; provided, however, that no deposit need be made to the credit of such subaccount with respect to any amount of such interest payable pursuant to a Derivative;

(b) to the credit of the subaccount established for Senior Bonds in the Principal Account in the Debt Service Fund so much, or the whole if required, of the balance of the moneys so withdrawn from the Revenue Fund until the amount on deposit in such subaccount, (a) if the withdrawal is made during a six-month period next preceding a November 1, shall equal (i) the aggregate principal amount of Senior Bonds maturing on such November 1, plus (ii) one-half of the aggregate principal amount of Senior Bonds maturing on the next May 1, plus (iii) the aggregate of all other amounts, if any, required to be on deposit in such subaccount on such November 1 by each Series Resolution containing such a requirement applicable to Outstanding Senior Bonds, or (b) if the withdrawal is made during a six-month period preceding a May 1, shall equal (i) the aggregate principal amount of Senior Bonds maturing on such May 1, plus (ii) one-half of the aggregate principal amount of Senior Bonds maturing on the next November 1, plus (iii) the aggregate of all other amounts, if any, required to be on deposit in such subaccount on such May 1 by each Series Resolution continuing such a requirement applicable to Outstanding Senior Bonds;

(c) To the credit of the subaccount established for Senior Bonds in the Sinking Fund Account in the Debt Service Fund so much, or the whole if required, of the balance of moneys so withdrawn from the Revenue Fund until the amount, determined after taking into account as provided in the Agreement the principal amount of Term Bonds constituting Senior Bonds theretofore purchased, on deposit to the credit of such subaccount, (a) if the withdrawal is made during a six-month period next preceding a November 1, shall equal (i) the Sinking Fund Installments on Senior Bonds due on such November 1, plus (ii) one-half of the Sinking Fund Installments on Senior bonds due on the next May 1, plus (iii) the aggregate of all other amounts, if any required to be on deposit in such subaccount on such November 1, by each Series Resolution continuing such a requirement applicable to Outstanding Senior Bonds, or (b) if the withdrawal is made during a six-month period preceding a May 1, shall equal (i) the Sinking Fund Installments of Senior Bonds due on such May 1, plus (ii) one-half of the Sinking Fund Installments due on Senior Bonds on the next November 1, plus (iii) the aggregate of all other amounts, if any, required to be on deposit in such subaccount on such May 1 by each Series Resolution continuing such a requirement applicable to Outstanding Senior Bonds;

(d) in each calendar year commencing with the first full calendar year succeeding the calendar year in which the first Series of Guaranteed Bonds constituting Senior Bonds shall be issued under the Agreement, to the credit of the Section 10 Reserve Fund so much, or the whole if required, of the balance of the moneys so withdrawn from the Revenue Fund until the amount withdrawn and deposited to the credit of the Section 10 Reserve Fund in such calendar year shall equal the aggregate of the Annual Series Requirements in effect for such calendar year in respect of all Series of Guaranteed Bonds constituting Senior Bonds Outstanding on the first day of such calendar year, plus, or, at the option of the Authority, minus, as the case may be, the deficiency or excess of the amount on deposit to the credit of the Section 10 Reserve Fund on the first day of such calendar year, including in such amount interest accrued but unpaid on Investment Obligations in which such amount may then be invested, under or over the aggregate of all Annual Series Requirements in effect for prior calendar years in respect of such Guaranteed Bonds constituting Senior Bonds. No deposit need be made with respect to any Annual Series Requirement or portion thereof deposited pursuant to the applicable Series Resolution out of the proceeds of a Series of Guaranteed Bonds constituting Senior Bonds. If there shall have been any prior application of moneys held in the Section 10 Reserve Fund to the payment of principal of or Sinking Fund Installments or interest on Guaranteed Bonds constituting Senior Bonds, the amount of any deficiency in the amount thereafter on deposit to the credit of the Section 10 Reserve Fund resulting from such application shall be taken into account in computing the amount required to be deposited to the credit of the Section 10 Reserve Fund in any calendar year thereafter only to the extent that it is, in the judgment of the Authority, practicable to do so. The Annual Series Requirement as to any Series of Guaranteed Bonds shall be in effect for and only for the twelve calendar years next succeeding the calendar year in which Guaranteed Bonds of such Series were initially issued; for each calendar year thereafter on the first day of which Guaranteed Bonds of such Series shall be Outstanding, the aggregate of such prior Annual Series Requirements shall be included in the measure of the amount required to be on deposit to the credit of

## APPENDIX D-1

the Section 10 Reserve Fund with respect to such calendar year but no additional deposit shall be required with respect to such prior Annual Series Requirements except as may be required to restore any deficiency as aforesaid. If on the first day of any calendar year the amount on deposit in the Section 10 Reserve Fund equals or exceeds the sum of (i) the aggregate of all Annual Series Requirements in effect for prior calendar years, plus (ii) the Annual Series Requirements for such calendar year, in each case in respect of all Series of Guaranteed Bonds constituting Senior Bonds of which Guaranteed Bonds are Outstanding, no deposit need be made under this clause (d) with respect to Guaranteed Bonds constituting Senior Bonds;

(e) pro rata. to the credit of each Debt Service Reserve Fund securing Senior Bonds and each Multi-Series Debt Service Reserve Fund securing Senior Bonds, (i) with respect to amounts other than amounts to replenish any withdrawal made for the payment of principal or Redemption Price of or interest on any Senior Bonds, so much, or the whole if required, of the balance of the moneys so withdrawn from the Revenue Fund until the amount deposited in each thereof in the fiscal year in which the applicable withdrawal from the Revenue Fund is made equals the amount, if any, required to be so deposited in such fiscal year by the one or more applicable Series Resolutions, and (ii) with respect to amounts to replenish any withdrawal made from any thereof for the payment of principal or Redemption Price of or Interest on any Senior Bonds, so much, or the whole if required, of the balance of the moneys so withdrawn from the Revenue Fund, until the amount on deposit in each thereof from which any withdrawal for such purpose has been made, equals the applicable Debt Service Reserve Requirement or Multi-Series Debt Service Reserve Requirement, as the case may be, of each thereof;

second, with respect to the Bonds, if any, of all Subordinate Series Level 2 (“Level 2 Bonds”), in the order of priority provided in first above (except that in depositing moneys under this second, the term “Level 2 Bonds” shall be substituted for the term “Senior Bonds” in first above; and

third, with respect to the Bonds, if any, of all Subordinate Series Level 3 (“Level 3 Bonds”), in the order of priority provided in first above (except that in depositing moneys under this third, the term “Level 3 Bonds” shall be substituted for the term “Senior Bonds” in first above;

and so on for the Bonds, if any, of each other Subordinate Series, in descending order, (i.e.. Subordinate Series Level 4, and then Subordinate Series Level 5 and so on), substituting in each case the appropriate designation of the Bonds (e.g.. “Level 4 Bonds” or “Level 5 Bonds”) on account of which the deposit is being made for the term “Senior Bonds” in first above.

After deposits have been so made with respect to all Series of Bonds issued under the Agreement as provided above, the balance of moneys, if any, withdrawn from the Revenue Fund as aforesaid shall be deposited to the credit of the following Funds and Accounts in the following order of priority;

(f) so much, or the whole if required, of the balance of moneys so withdrawn from the Revenue Fund, to the credit of such Account or Accounts in the Property Fund as may have been established for any reserve or reserves mentioned below in clause (d) in “Particular Covenants - Rate Covenant,” pro rata. until the amount deposited in each such Account in the fiscal year in which the applicable withdrawal is made from the Revenue Fund equals the amount, if any, set forth in a certificate of an Authorized Officer to be deposited in such Account or Accounts during such fiscal year;

(g) so much, or the whole if required, of the balance of moneys so withdrawn from the Revenue Fund, to the credit of each other Account in the Property Fund (other than the Multi-Purpose Reserve Account), pro rata. until the amount on deposit in each such Account in the fiscal year in which the applicable withdrawal is made from the Revenue Fund equals the amount, if any, set forth in a certificate of an Authorized Officer to be on deposit in such Account during such fiscal year;

(h) so much, or the whole, if required, of the balance of the moneys so withdrawn from the Revenue Fund, to the credit of the Multi-Purpose Reserve Account, until the amount deposited in such

Account in the fiscal year in which the applicable withdrawal is made from the Revenue Fund equals the amount, if any, set forth in a certificate of an Authorized Officer to be deposited in such Account during such fiscal year; provided, that the Authority may also deposit in the Multi-Purpose Reserve Account from time to time any other moneys of the Authority not required to be otherwise deposited;

(i) to the credit of the Rate Stabilization Fund, so much, or the whole if required, of the balance of moneys so withdrawn from the Revenue Fund as may be specified from time to time in a certificate of an Authorized Officer; and

(j) the remainder, if any, to the credit of the Optional Redemption Account.

#### *Debt Service Fund*

The moneys in each Account in the Debt Service Fund shall be held in trust and applied as provided in the Agreement and in the applicable Series Resolution and, pending such application, are pledged to, and shall be subject to a lien and charge in favor of, the Registered Owners of the Bonds issued and Outstanding under the Agreement. The Trustee shall apply the moneys held from time to time for the credit of the Accounts in the Debt Service Fund as follows:

(a) as to moneys held in each subaccount in the Interest Account, to the payment of interest on the Bonds with respect to which the applicable subaccount was established, on or after the date when due to each Registered Owner of such Bonds as of the applicable Record Date or Special Record Date, as such interest becomes due and payable;

(b) as to moneys held in each subaccount in the Principal Account, to the payment, on or after the date when due, of the principal of all matured Bonds with respect to which the applicable subaccount was established;

(c) as to moneys held in each subaccount in the Sinking Fund Account, to the application on the due date of each Sinking Fund Installment to the redemption of the Term Bonds with respect to which the applicable subaccount was established, to the extent the same are then subject to redemption by application of Sinking Fund Installments, in the manner provided by the applicable Series Resolution and the Agreement; and

(d) as to moneys held in the Optional Redemption Account, to the redemption or purchase of Bonds as provided below.

The Trustee upon the written direction of an Authorized Officer of the Authority shall apply moneys held in any subaccount in the Sinking Fund Account to the purchase of Term Bonds with respect to which the applicable subaccount was established whenever such Bonds may, with reasonable diligence, be purchasable at prices not exceeding the Redemption Price payable for such Bonds on the next Sinking Fund Installment due date for such Bonds; provided, however, that no such purchase shall be made within the period of forty-five (45) days next preceding the next Sinking Fund Installment due date for such Bonds.

The Trustee upon the written direction of an Authorized Officer of the Authority shall also apply moneys held in the Optional Redemption Account to the purchase, arranged as is mutually agreeable to the Trustee and the Authority, of Bonds then Outstanding at a price not to exceed (a) the Redemption Price payable to the holders of such Bonds on the next redemption date if such Bonds shall have been called for redemption on such date, or, (b) if such Bonds have not been called for redemption on such date, (i) the Redemption Price applicable on such date to Bonds subject to optional redemption on such date, and (ii) as to Bonds not subject to optional redemption on such date, the Redemption Price applicable to such Bonds on the first date such Bonds are subject to optional redemption.

## APPENDIX D-1

Notwithstanding the foregoing provision, no such purchase shall be made at any time when the amounts on deposit to the credit of the Interest Account, the Principal Account and the Sinking Fund Account are less than the amounts then respectively required to be on deposit therein, and provided further, that no such purchase of any Term Bond shall be made within the period of forty-five (45) days next preceding the next Sinking Fund Installment due date with respect to such Term Bond and no such purchase of any other Bond shall be made within the period of ten (10) days next preceding any date upon which notice of redemption of such Bonds is scheduled to be mailed.

The principal amount of all Term Bonds purchased as aforesaid shall be deemed to constitute deposits in the applicable subaccount in the Sinking Fund Account and shall be applied, first, against the amounts of such Sinking Fund Installments with respect to such Term Bonds theretofore due and not paid as the Authority shall designate by a certificate of an Authorized Officer, and second, against one or more such Sinking Fund Installments (including any portion of any such Sinking Fund Installment) not yet due as the Authority shall designate by a certificate of an Authorized Officer.

If a Series Resolution shall provide for the redemption at the option of the Authority of any Series of Bonds authorized thereunder, and if at any time on or after the earliest date specified in such Series Resolution for such redemption the amounts on deposit to the credit of the Interest Account, the Principal Account and the Sinking Fund Account shall be equal to or greater than the amounts then respectively required to be so on deposit with respect to any Series of which Bonds will be redeemed, and if the moneys held in the Optional Redemption Account shall equal or exceed (a) the Redemption Price of all Bonds theretofore called for redemption and not redeemed, plus (b) the Redemption Price payable at the next redemption date of Bonds in the aggregate principal amount or Accreted Amount equal to not less than the smallest authorized denomination of the Bonds subject to redemption, plus (c) all necessary and proper expenses to be incurred in connection with the redemption of Bonds on such date, the Trustee shall, if the Authority shall so direct by Certificate of an Authorized Officer (which certificate shall set forth the Series, maturities and principal amounts or Accreted Amounts of each maturity of the Bonds to be redeemed), call Bonds as set forth in such certificate for redemption on the next available redemption date; provided, however, that the aggregate principal amount and Accreted Amount of Bonds to be redeemed set forth in such certificate shall not be greater than the aggregate principal amount and Accreted Amount which will most nearly exhaust the moneys so held in the Optional Redemption Account; and provided further that Bonds shall not be designated for redemption in such certificate unless such Bonds are subject to redemption on the applicable redemption date. Such call and the redemption of Bonds and portions of Bonds so called shall be made pursuant to the provisions of the Agreement.

Interest on Bonds redeemed from moneys in the Optional Redemption Account shall be paid from moneys on deposit in the applicable subaccount in the Interest Account.

If on the date for application of moneys held in the Principal Account or in the Sinking Fund Account, the moneys so held are less than the amount required for application under whichever applies of clauses (b) or (c) of the first paragraph above in "Debt Service Fund," or if by a Certificate of an Authorized Officer the Authority directs that some or all of the moneys in the Optional Redemption Account be applied to the payment of principal or Sinking Fund Installments due on the Bonds, the Trustee shall apply moneys then held in the Optional Redemption Account (except such moneys as to which notice of redemption has already been given) by transfer to the Principal Account or to the Sinking Fund Account, as the case may be, to the extent of the deficiency therein or as directed by such certificate, whichever is applicable; provided that bond counsel to the Authority delivers an opinion to the effect that such application of such moneys is permitted by the Enabling Act and will not jeopardize the exclusion of interest or the Bonds from gross income for federal income tax purposes.

Notwithstanding any other provision of the Agreement, if and to the extent permitted by the applicable Series Resolution, (a) moneys in any subaccount in the Interest Account, Principal Account or Sinking Fund Account may be applied to reimburse the issuer of a Credit Facility for amounts received by the Trustee

pursuant to such Credit Facility to be applied to the payment of, respectively, interest on, principal of or any Sinking Fund Installment on the Bonds for which subaccount was established or to pay any amount due from or on account of the Authority under a Derivative for payments made pursuant to such Derivative to be applied to the payment of, respectively, interest on, principal of or any Sinking Fund Installment on the Bonds for which such subaccount was established, and (b) moneys in the Optional Redemption Account may be applied to reimburse the issuer of a Credit Facility for amounts received by the Trustee pursuant to such Credit Facility to be applied to the payment of all or any portion of the Redemption Price of Bonds redeemed on account of moneys in the Optional Redemption Account or to pay any amounts due from or on account of the Authority under any Derivative for payments pursuant to such Derivative to be applied to the payment of all or any portion of the Redemption Price of bonds redeemed on account of moneys in the Optional Redemption Account.

*Section 10 Reserve Fund; Other Reserve Funds; Moneys Received Pursuant to the Commonwealth Guaranty or a Credit Facility; Pledged Funds*

(a) The moneys in the Section 10 Reserve Fund shall be held in trust and applied as provided below and, pending such application, are pledged to, and shall be subject to a lien and charge in favor of, the Registered Owners of the Guaranteed Bonds Outstanding.

The Trustee shall apply the moneys held from time to time for the credit of the Section 10 Reserve Fund to the payment to the appropriate subaccount in the Debt Service Fund of an amount equal to the excess of (a) the aggregate of amounts required at any Interest Payment Date to pay interest then due on Guaranteed Bonds and, if such date is also a maturity date or a Sinking Fund Installment due date for any Guaranteed Bonds, the principal of all such Guaranteed Bonds then matured or the amount of the Sinking Fund Installment then due with respect to Guaranteed Bonds, as the case may be, over (b) moneys then held for the credit of the appropriate subaccount or subaccounts in the Debt Service Fund, after any transfer thereto from the Optional Redemption Account, or from the Property Fund or from the Rate Stabilization Fund or from all of the foregoing, and available for the payment of such interest, principal or Sinking Fund Installment, respectively. If moneys in the Section 10 Reserve Fund are insufficient to pay in full the amounts specified above, such moneys shall be paid, first, to Guaranteed Bonds constituting Senior Bonds, and second to Guaranteed Bonds constituting Level 2 Bonds, and third to Guaranteed Bonds constituting Level 3 Bonds, and so on in descending level of subordination. If moneys in the Section 10 Reserve Fund are insufficient to pay in full the amounts to be paid with respect to all Guaranteed Bonds constituting Senior Bonds, or all Guaranteed Bonds of any applicable level of subordination, such moneys shall be applied to all Guaranteed Bonds of all Senior Series or all Guaranteed Bonds of all Series of the applicable level of subordination, as the case may be, as described below in "Defaults; Remedies - Application of Funds."

If on the first day of any calendar year or at any other time the amount on deposit in the Section 10 Reserve Fund exceeds the aggregate of the Annual Series Requirements for the present year and all prior years with respect to all Guaranteed Bonds Outstanding, the Authority may by a certificate of an Authorized Officer direct that all or a portion of such excess (other than any part of such excess consisting of interest received and profits realized in excess of losses from investments of moneys held in the Section 10 Reserve Fund, which shall be applied as described below in "Security for Deposits and Investments of Funds - Investments") be withdrawn from the Section 10 Reserve Fund and deposited in the Revenue Fund to be applied to the payment of interest coming due in such year on such Guaranteed Bonds, provided that such certificate is accompanied by an opinion of bond counsel to the Authority that such application or payment is permitted by applicable law and will not adversely affect the exemption from gross income for federal income tax purposes of the interest on the Bonds.

At any time when the amount on deposit in the Section 10 Reserve Fund equals or exceeds (a) the aggregate of the twelve Annual Series Requirements to be in effect with respect to any particular Series of Guaranteed Bonds of which Bonds are then Outstanding plus (b) all Annual Series Requirements in effect for all prior years and for the then current year with respect to all Series of Guaranteed Bonds of which Bonds are

## APPENDIX D-1

Outstanding, and when such aggregate plus any other moneys held under the Agreement available for the purpose shall equal or exceed the aggregate amount required to pay in full the principal and Redemption Price of and interest on all Bonds of such particular Series then Outstanding (and, if the Bonds of such particular Series are to be redeemed, the necessary and proper expenses to be incurred in connection with such redemption), the Authority may by a certificate of an Authorized Officer direct the Trustee to apply to such payment an amount from the Section 10 Reserve Fund not exceeding such aggregate; provided, however that moneys “available for the purpose” as such phrase is used above in this paragraph shall mean, (x) as to moneys in the subaccounts applicable to such particular Series in the Interest Account, Principal Account and Sinking Fund Account, moneys in excess of the amount then required to be on deposit in each of such subaccounts with respect to all outstanding Guaranteed Bonds to which such subaccounts apply other than Guaranteed Bonds of such particular Series and (y) as to moneys in the Optional Redemption Account, any Account in the Property Fund and the Rate Stabilization Fund, moneys in any such Fund or Account described in a Certificate of an Authorized Officer to be so applied (such direction to be in accordance with the provisions of the Agreement with respect to the use of the moneys in any such Fund, Account or subaccount).

All deposits to the Section 10 Reserve Fund shall be apportioned if directed by a certificate of an Authorized Officer to separate Accounts to be created therein, one account for each Series of Guaranteed Bonds Outstanding (the “Section 10 Series Accounts”), for purposes of compliance by the Authority with the Code and to such subaccounts, as so directed, as are necessary or desirable to comply with the Code. The portion of each deposit attributed to the Account of a particular Series will be the proportion of the total deposit that the Annual Series Requirement for such Series bears to the aggregate Annual Series Requirements for all Series of Guaranteed Bonds of the same level (i.e., Senior Bonds, Subordinate Series Level 2, etc.).

Any withdrawal from the Section 10 Reserve Fund shall be made in portions taken from all Section 10 Series Accounts in such proportion from each such Account as each such Account bears to the total balance of the Section 10 Reserve Fund prior to the making of such withdrawal, unless otherwise directed by a certificate of an Authorized Officer accompanied by an opinion of bond counsel to the Authority to the effect that the instructions for withdrawal set forth in such certificate will not adversely affect the exclusion from gross income for federal tax purposes of the interest on the Bonds.

(b) Moneys in any Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund shall be applied as set forth in the one or more applicable Series Resolutions.

(c) Moneys received pursuant to the Commonwealth Guaranty shall be held in a separate Account and applied as promptly as practicable to the payment of principal and interest due on the Guaranteed Bonds on account of which such moneys were received.

(d) Moneys received by the Trustee pursuant to a Credit Facility shall be held in a separate Account and shall be applied as provided in the one or more applicable Series Resolutions or in such Credit Facility.

(e) Pledged Funds received by the Trustee shall be held in a separate Account and applied as provided in the one or more applicable Series Resolutions.

### *Property Fund*

In addition to the Accounts and subaccounts established in the Property Fund described above in “Funds and Accounts,” the Agreement establishes and authorizes to be established Accounts in the Property Fund for such reserves as the Authority may establish as described below in clause (d) in “Particular Covenants - Rate Covenant.” Subject to the following paragraph, the Trustee shall credit all moneys deposited in the Property Fund to such Account therein (or, as to the Capital Improvements Reserve Account, to such subaccount or subaccounts therein) as the Authority may by certificate of an Authorized Officer direct and, in the absence of such a certificate, to the General Account.

The Trustee shall deposit in the Insurance Proceeds Account all proceeds of an insurance policy or policies upon any Project paid by reason of any insured casualty, except that if the Project to which the proceeds apply has not yet reached completion, such proceeds shall be deposited to the related Account of the Construction Fund; provided, that any such proceeds which are proceeds of “use or occupancy” insurance, so-called, or any other insurance providing for payments in place of income or for operating expenses, in either case as certified by an Authorized Officer, shall be deemed Revenues and be deposited to the credit of the Revenue Fund.

The moneys held in each Account in the Property Fund shall be held in trust and applied as provided below and, pending such application, are pledged to, and shall be subject to a lien and charge in favor of, the Registered Owners of the Bonds issued and Outstanding under the Agreement.

The Trustee shall apply the moneys held from time to time for the credit of each Account in the Property Fund as follows:

(a) as to any Account created for a reserve as described below in clause (d) in “Particular Covenants - Rate Covenants,” to the payment from time to time of amounts as provided by the pertinent resolution of the Authority and for the purposes therein provided in accordance with a certificate of an Authorized Officer;

(b) as to the General Account, to the payment from time to time as deemed appropriate by the Authority of Maintenance, Repair and Operating Expenses of any Project not otherwise provided for;

(c) as to the Insurance Proceeds Account, to payment, in accordance with the provisions described below in “Particular Covenants - Insurance on Projects,” for the repair, restoration or reconstruction of the damage or destruction on account of which the funds were received, or for the doing of such other work in respect of such Project as the Authority may determine in accordance with the provisions described below under “Particular Covenants - Insurance on Projects”;

(d) as to any subaccount in the Capital Improvements Reserve Account, to the payment from time to time of the costs of capital improvements or capital repairs with respect to any Project to which the applicable subaccount pertains;

(e) as to the Multi-Purpose Reserve Account, to any lawful purpose for which the Authority may expend funds (and the Trustee may rely on a statement to such effect in the certificate of an Authorized Officer directing such application that the amounts set forth in such certificate will be so applied);

(f) to the extent of moneys so held in any Account in the Property Fund which are not the proceeds of any insurance policy or policies or investment earnings on such proceeds, to transfer to any one or more subaccounts in the Interest Account, the Principal Account or the Sinking Fund Account, one or more, as the case may be, in the Debt Service Fund if and to the extent that moneys held in any such subaccount on a date for application thereof, together with money available in the Rate Stabilization Fund, shall be less than the amount then required for application from such subaccount; and

(g) to the extent of moneys so held in any Account in the Property Fund which are not the proceeds of any insurance policy or policies or investment earnings on such proceeds, to the redemption of Bonds as may be directed from time to time by a certificate of an Authorized Officer.

The Authority may, by a certificate of an Authorized Officer approved by the University Trustees and accompanied by an opinion of bond counsel to the Authority to the effect that the instructions in such certificate are permitted by the Enabling Act and will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes, direct that amounts be transferred from any one or

## APPENDIX D-1

more subaccounts in the Capital Improvements Reserve Account to any other one or more subaccounts in the Capital Improvements Reserve Account or to one or more Capital Improvements Reserve Accounts or like accounts (or, if applicable, one or more subaccounts in any such Capital Improvements Reserve Account or like account) established under any other trust agreement under which the Authority has issued bonds).

### *Rate Stabilization Fund*

Amounts shall be deposited in the Rate Stabilization Fund from the Revenue Fund in the Authority's discretion as provided in the Agreement in order to minimize the variation over time in the fees, rents, rates and other charges fixed in accordance with the provisions described below in "Particular Covenants — Rate Covenant." At any time, upon the direction of the Authority as evidenced by a Certificate of an Authorized Officer, amounts on deposit in the Rate Stabilization Fund may be withdrawn and deposited in the Revenue Fund or applied to the redemption of Bonds.

Notwithstanding the foregoing paragraph, if at any time the amounts on deposit and available therefor in the Debt Service Fund are insufficient to pay the principal and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Rate Stabilization Fund and deposit in the appropriate subaccount within the Debt Service Fund the amount necessary to meet such deficiency.

### *Rebate Fund*

For each Series of Bonds subject to the rebate requirements of the Code, there shall be established within the Rebate Fund a separate account, for the benefit of the United States of America, and such subaccounts therein as are provided in the applicable Series Resolution, as amended from time to time, or as may be directed by a certificate of an Authorized Officer.

The Trustee shall deposit in the applicable account in the Rebate Fund such amounts as are required pursuant to such Series Resolution, invest the same as set forth therein, and keep such records as shall enable the Authority to satisfy its rebate obligations for such Series under the Code. The Authority shall direct the Trustee to pay to the United States from the Rebate Fund on the Authority's behalf such amounts as are required to be paid pursuant to the Code, all as set forth in the applicable Series Resolution, provided that any deficiency in the amounts required to be deposited into the Rebate Fund, or in any required payment from the Rebate Fund to the United States, shall be made up by the Authority, and provided further that no amount in the Rebate Fund shall be paid to the Authority or transferred to any other Fund or Account except as permitted by the Agreement, the Series Resolution and the Code.

The provisions described in this paragraph, as modified by the applicable Series Resolution, shall survive the defeasance of the Agreement, or of any Series of Bonds to which such provisions apply, and such provisions and the provisions pertaining to rebate in any Series Resolution shall be subject to amendment without the consent of any Registered Owner to reflect any applicable amendment to the Code with respect to rebate.

## SECURITY FOR DEPOSITS AND INVESTMENTS OF FUNDS

### *Deposits with Trustee*

All moneys deposited under the Agreement with the Trustee shall be held in trust and applied in accordance with the provisions of the Agreement, and shall not be subject to lien or attachment by any creditor of the Authority or the Trustee.

All moneys deposited with the Trustee under the Agreement shall be continuously secured, for the benefit of the Authority and the Registered Owners of the Bonds in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference

in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee to give security for any moneys which shall be invested in Investment Obligations.

All moneys deposited with the Trustee shall be credited to the particular Fund, Account or subaccount to which such moneys belong.

#### *Investments*

Moneys held for the credit of the Note Payment Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the day or days preceding the date or dates of payment of the notes for the payment of which such moneys in the Note Payment Fund are held.

Moneys held for the credit of each Account within the Construction Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the respective dates as set forth in a schedule furnished by an Authorized Officer of the Authority to the Trustee at the time moneys are first deposited in such Account, as such schedule may thereafter be amended, when moneys held for the credit of such Account will be required for the purposes intended.

Moneys held for the credit of the Revenue Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, as to moneys not in excess of the amount then required as the reserve for Current Expenses, not later than the day or days preceding the date or dates upon which moneys are to be applied to the payment of Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments as set forth in a schedule filed by the Authority with the Trustee, or, as to moneys held in the Revenue Fund and to be transferred to other Funds, Accounts and subaccounts as described above in "Establishment and Application of Funds and Accounts - Revenue Fund," not later than the day preceding the date of such transfer.

Moneys held for the credit of each subaccount in the Debt Service Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations which shall mature, or which shall be subject to redemption at the option of the holder thereof, as to moneys so held in any subaccount in the Interest Account in an amount not in excess of the amount payable as interest from such subaccount at the next Interest Payment Date, not later than the day prior to such Interest Payment Date, or, as to moneys so held in any subaccount in the Principal and Sinking Fund Accounts, in amounts not respectively in excess of the amount payable from such subaccount as principal of Bonds maturing at the next maturity date or of the amount of the Sinking Fund Installment next falling due, not later than the day prior to the date of such maturity or such due date, as the case may be, or, as to other moneys, if any, so held, not later than twelve (12) months after the date of any such investment.

Moneys held for the credit of the Section 10 Reserve Fund and the Rate Stabilization Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations, provided that amounts on deposit in the Section 10 Series Account for any Series of Outstanding Guaranteed Bonds, or in any subaccounts, shall not be invested in excess of the yield or yields as set forth in the investment instructions delivered to the Trustee from time to time by an Authorized Officer, except as permitted by an opinion of bond counsel to the Authority to the effect that investments may be made at the yield or yields set forth in such opinion without adversely affecting the exclusion from gross income of the interest on such Series of Guaranteed Bonds or any other Bonds.

Moneys in any Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund shall be invested as provided in the one or more applicable Series Resolutions.

## APPENDIX D-1

Moneys held for the credit of each Account or subaccount in the Property Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Trustee in Investment Obligations which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, on the dates specified from time to time in certificate of an Authorized Officer delivered to the Trustee.

Notwithstanding any other provisions of the Agreement, the Authority may at any time deliver to the Trustee by a certificate of an Authorized Officer additional or different instructions from those set forth above regarding the investment of moneys held under the Agreement, provided that such instructions do not jeopardize the exclusion from gross income for federal income tax purposes of the interest on any Bond (as to which the Authority may rely on an opinion of bond counsel to the Authority), and provided that such additional or different instructions do not violate the requirements of the issuer of any Credit Facility with respect to the moneys to which such instructions apply. The Trustee shall comply with such instructions if (a) the Authority certifies in such certificate that such instructions do not jeopardize the exclusion from gross income for federal income tax purposes of the interest on any Bond; (b) no investment is directed to be made in any investments other than Investment Obligations; (c) the Authority certifies in such certificate that such instructions do not violate the requirements of the issuer of any Credit Facility with respect to the moneys to which such instructions apply; and (d) the Trustee's liability as set forth in the Agreement is not modified.

Investment Obligations purchased as an investment of moneys in any Fund, Account or subaccount may be purchased and held with Investment Obligations purchased as an investment of moneys in any other Fund, Account or subaccount as a part of a single investment fund but shall be deemed at all times to be a part of the Fund, Account or subaccount for which they were purchased, and the interest accruing thereon and any profit or loss realized from such investments shall be charged pro rate to each such Fund, Account or subaccount; provided, however, (a) that interest received and profits realized in excess of losses realized in any fiscal year from investments of moneys held in the Note Payment Fund shall be deemed to be proceeds of the corresponding Series of Bonds and, except to the extent provided in the Series Resolution authorizing the issuance of such Bonds to be applied to the payment of notes issued by the Authority, shall be transferred, upon the first to occur of (i) payment in full of the pertinent notes or (ii) the end of a fiscal year, to the corresponding Account within the Construction Fund, (b) that, subject to the provisions described above in "Establishment and Application of Funds and Accounts - Rebate Fund," all such interest and profits from the investment of moneys held in Construction Fund Accounts shall be retained in such Accounts, (c) that, subject to the provisions described above in "Establishment and Application of Funds and Accounts - Rebate Fund," all such interest and profits from the investment of moneys held in any Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund shall be applied as provided in the one or more Series Resolutions governing the application of moneys held in the applicable Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund and (d) that, subject to the provisions described above in "Establishment and Application of Funds and Accounts - Rebate Fund," such interest and profits from investments of moneys held in any other Fund, Account or subaccount, except as otherwise provided in a Series Resolution or in the Agreement, shall constitute Revenues and shall be transferred to the Revenue Fund. Such interest received and profits realized in excess of losses realized in any calendar year from investments of moneys held in the Section 10 Reserve Fund shall, subject to the provisions described above in "Establishment and Application of Funds and Accounts - Rebate Fund," and if and only if the amount on deposit to the credit of the Section 10 Reserve Fund on the first day of such calendar year (or on any other date of such calendar year if bond counsel to the Authority delivers an opinion to the effect that such is permitted by the Enabling Act) exceeds the aggregate of all Annual Series Requirements in effect for the Guaranteed Bonds then Outstanding for all calendar years through and including such calendar year, constitute Revenues to the extent of the amount of such excess and shall be transferred as received to the Revenue Fund to be applied to the payment of interest on Guaranteed Bonds, unless a certificate of an Authorized Officer directs that any such interest or profits be held in the Section 10 Reserve Fund. Interest and profits derived from the investment of moneys, which interest and profits are held in the Revenue Fund or which are not subject to being transferred thereto, shall, to the extent available, be deemed to be included among the amounts first requisitioned or otherwise withdrawn and expended from any Fund, Account or subaccount. The Trustee shall sell at the best price obtainable or

present for redemption any obligations so purchased whenever it shall be necessary so to do in order to provide moneys to meet any payment or transfer from any such Fund, Account or subaccount. Neither the Trustee nor the Authority shall, in the absence of bad faith, be liable on account of or responsible for the results of any such investment.

In computing the amount in any Fund, Account or subaccount held by the Trustee under the Agreement, Investment Obligations shall be valued at par if purchased at par or at amortized value if purchased at other than par. Amortized value, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (1) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price; and (2) in the case of any obligation purchased at a discount by adding the product thus obtained to the purchase price. Valuation on any particular date shall include the amount of interest then earned or accrued to such date on any Investment Obligations.

#### *Investment Advice*

The Authority shall direct all investments of moneys held under the Agreement, or the Authority may, at its expense, appoint as an investment adviser a person registered under the federal Investment Advisers Act of 1940 and having a favorable reputation for competence and experience in investing in Investment Obligations to instruct the Trustee with respect to investment and reinvestment of all or a portion of the moneys held under the Agreement. The Trustee shall have no liability of any kind to the Authority, to any Registered Owner or to any other person for or on account of any investment transaction it shall carry out in accordance with investment instructions given as provided in the Agreement. The Trustee may carry out all investment transactions through its own facilities.

### PARTICULAR COVENANTS

#### *Rate Covenant*

The Authority covenants that it will establish and revise rules and regulations to insure the use and occupancy of, and will fix, revise, adjust and collect fees, rents, rates and other charges for the use of, each Project and of all Other Projects and other property of the Authority the Revenues from which are pledged under the Agreement, in such manner and at such levels as may be necessary so that the aggregate of (i) the proceeds from such fees, rents, rates and other charges for the use of all Projects, Other Projects and other property the Revenues from which are pledged under the Agreement, (ii) all other Revenues from such Project, Other Projects and property and (iii) all appropriations, contributions, gifts and grants received by the Authority or made for the benefit of the Authority or any such Project, Other Project or property and available and applied for the purpose, will provide Revenues sufficient in each fiscal year

(a) to pay the Maintenance, Repair and Operating Expenses of such Projects, Other Projects and property, provided, that in the case of a Project with respect to which a Contract is in effect that includes undertakings by the University Trustees respecting maintenance, repair and operation thereof, such undertakings shall be deemed to fulfill the covenant of the Authority as to the sufficiency of Revenues therefor;

(b) (i) to provide for making deposits to the credit of the appropriate Accounts in the Debt Service Fund in amounts in such fiscal year equal in the aggregate to the total of (A) all interest becoming due and payable in such fiscal year on all Bonds then Outstanding, (B) the principal amount of all such Bonds maturing in such fiscal year, (C) the Sinking Fund Installments, if any, becoming due in such fiscal year in respect of all such Bonds and (D) other amounts, if any, payable in such fiscal year on the account of all such Bonds or required to be deposited in such Fiscal Year to any Account in the Debt Service Fund, and (ii) to provide for

**APPENDIX D-1**

the payment of the purchase price of Bonds tendered as provided in the one or more applicable Series Resolutions;

- (c) to pay the Current Expenses of the Authority properly allocable to such Projects, Other Projects and property;
- (d) to create and maintain such funds, accounts and reserves, if any, as may be provided for in any Series Resolution authorizing the issuance of Bonds or in a resolution thereafter adopted;
- (e) to pay the amounts of any Section 19C Payments to be paid in such fiscal year; and
- (f) to provide for making deposits to the credit of (i) the Section 10 Reserve Fund in amounts which, together with amounts deposited in the preceding fiscal year for such purpose or to be deposited in the subsequent fiscal year for such purpose will equal in the aggregate the reserve required by Section 10 of the Enabling Act to be established and maintained in such Fund in respect of each calendar year constituting a portion of such fiscal year and (ii) each Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund in amounts, if any, required by the one or more applicable Series Resolutions;

except that

- (g) as to any Project or Other Projects the Bonds or other indebtedness issued by the Authority to finance or refinance which shall have been paid or provided for in full, as described below in "Defeasance," such Revenues need only be sufficient to pay the amounts required under clauses (a), (c), (d) and (e) above;

and, so far as consistent with the foregoing requirements, so as to maintain reasonable uniformity of charges for like rooms or other accommodations, facilities and services at the University whether or not contained in or provided by a Project of the Authority.

The Authority covenants that if the amounts deposited to the credit of any Account in the Debt Service Fund, in the Section 10 Reserve Fund and any other reserve fund securing any Bonds in any fiscal year shall be less than the amounts respectively referred to above for such fiscal year, it will revise and adjust the aforesaid fees, rents, rates and other charges so as to provide funds sufficient, with all other moneys available for the purpose, to provide the payments and deposits specified above to be made from Revenues.

To the extent provided in the Enabling Act, any establishment or revision of said rules and regulations and any fixing, revision or adjustment of said fees, rents, rates or other charges by the Authority shall require the approval of the University Trustees, and the Authority covenants that it will use its best efforts to obtain such approval whenever required.

*Annual Schedule of Projected Expenses*

The Authority shall file with the Trustee an annual schedule of projected expenses (the "Annual Schedule of Projected Expenses" or "Schedule") as follows:

- (a) With or before the first remittance to the Trustee of moneys to be deposited in the Revenue Fund, the Authority shall file with the Trustee an initial Schedule signed by an Authorized Officer setting forth the amount estimated by the Authority to be payable from the Revenue Fund as Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments during the period commencing with the date thereof and ending on the next following June 30.
- (b) On or before each June 15, commencing with the June 15 next preceding the end of the period covered by said initial Schedule, the Authority shall file with the Trustee a Schedule similarly signed setting forth the amount estimated by the Authority to be payable from the Revenue Fund as Current Expenses,

Maintenance, Repair and Operating Expenses and Section 20 Payments during the period commencing on the next following July 1 and ending twelve months thereafter.

(c) If at any time prior to June 30 in any period covered by the initial or any subsequent Schedule, as the same may have theretofore been amended, the aggregate of the amounts paid from the Revenue Fund since and including the next preceding July 1 as Current Expenses, Maintenance, Repair and operating Expenses and Section 19C Payments shall exceed the amount set forth in such Schedule, the Authority shall file an amended Schedule similarly signed increasing accordingly the estimated amount to be payable as Current Expenses, Maintenance, Repair and Operating Expenses and Section 19C Payments during the balance of such period. Each amended Schedule filed by the Authority under this clause shall supersede all initial, annual and amended Schedules filed prior thereto.

*Debt Service Payments and Payment of Purchase Price*

The Authority covenants that it will promptly pay the principal of and the interest on every Bond and the purchase price of every Bond tendered as provided in the applicable Series Resolution at the place, on the dates and in the manner provided in the Agreement and in said Bond and Series Resolution, and any premium required for the retirement of said Bond by purchase or redemption, according to the true intent and meaning thereof. Except as otherwise provided in the Agreement, such principal, interest, purchase price and premium are payable solely from Revenues and Funds pledged under the Agreement.

The Authority covenants that it will perform and observe each and every agreement, condition, covenant and obligation on its part to be performed and observed under each Contract providing for the Commonwealth Guaranty to the end that the Commonwealth Guaranty therein provided and the pledge of the full faith and credit of the Commonwealth for such Commonwealth Guaranty shall remain in full force and effect and binding upon the Commonwealth as authorized by the Enabling Act and provided by such Contract, said Commonwealth Guaranty and pledge being evidenced by the guaranty executed on each applicable Guaranteed Bond by an officer of the University Trustees.

*Completion of Projects*

The Authority covenants that it will with reasonable expedition complete each Project in conformity with law and all requirements of all governmental authorities having jurisdiction thereover. The Authority further covenants that upon completion or occupancy of each Project financed by a Series of Bonds issued under the Agreement, if and to the extent that there is no obligation of the University Trustees under a Contract to undertake the operation and maintenance of any such Project, the Authority will thereafter operate and maintain, or otherwise provide for the operation and maintenance of, such Project.

*Land Covenant*

(a) The Authority covenants that each Project constructed or acquired by it is or will be located on lands as to which either (i) the same are leased by the Authority from the Commonwealth for the purpose by a good and valid lease or leases continuing or renewable at the option of the Authority for a term not shorter than the last maturity of any Bond of the Series pertaining to such Project, or (ii) good and marketable title to which is owned by the Authority in fee simple or the right to use and occupy which is vested in the Authority by valid franchises, licenses, easements, rights of way or other rights expiring not earlier than the last maturity of any such Bond.

(b) The foregoing covenant shall not apply to a Project consisting of the construction, alteration, enlargement, reconstruction, rehabilitation, remodeling and other work on any building, structure or other facility (including without limitation parking lots) not owned or leased by the Authority as lessee or sublessee and not involving the acquisition of such building, structure or facility by the Authority.

## APPENDIX D-1

### *Compliance with Contracts*

The Authority covenants that it will perform and observe each and every agreement, condition, covenant and obligation on its part to be performed and observed under each Contract, and will use its best efforts to enforce like performance and observation on the part of the Commonwealth and the University Trustees, to the end that the obligation of the Commonwealth and the University Trustees thereunder, among other things, to remit to the Authority or to the Trustee Revenues, to operate and maintain the Project and to make necessary repairs to and restoration and reconstruction of the same shall continue in full force and effect. The Authority covenants that, from and to the extent of, but not in excess of, the Revenues of each Project owned by it and any other funds available to it for the purpose, it will cure any deficiencies in the maintenance of such Project and will make all necessary repairs, restoration and reconstruction not made by the Commonwealth pursuant to the applicable Contract and that it will observe and perform all of the terms and conditions contained in the Enabling Act.

### *Payment of Lawful Charges*

The Authority covenants that it will not create or suffer to be created any lien or charge upon any Project or any part thereof or upon the Revenues therefrom except the lien and charge upon such Revenues under the Agreement, and that, from the same or other available funds, it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, as promptly as possible after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon any Project or any part thereof or the Revenues therefrom; provided, however, that nothing in the foregoing provisions in this subsection shall (a) require the Authority to pay or cause to be discharged, or make provision for, any such lien or charge so long as the validity thereof shall be contested in good faith, or (b) prohibit (i) the University Trustees or the University from using any funds of the University in accordance with law and in compliance with any Contract or any other agreement applicable to the University Trustees or the University or (ii) the Expendable Fund Balance of the University from being used in accordance with law and *in* compliance with any Contract or any other agreement applicable to the University Trustees; and provided, further, that if on any date the Authority holds or there is held for the account of the Authority Revenues in excess of the Revenues required by the provisions described above in "Rate Covenant" for the remainder of the fiscal year in which such date occurs, the Authority may apply such excess to any lawful purpose of the Authority as the Authority may from time to time determine.

### *Use of Other Funds for Projects; Sale of Projects*

Notwithstanding any other provision of the Agreement, the Authority may permit the Commonwealth or any of its agencies, departments or political subdivisions, to pay the cost of maintaining, repairing and operating any Project out of funds other than Revenues of such Project whether pursuant to the pertinent Contract or otherwise.

The Authority may also, if and to the extent now or hereafter permitted by law, sell any Project owned by the Authority or any portion thereof; provided, that if such sale is of an entire Project, the proceeds therefrom shall be in an amount sufficient, with all other moneys then held by the Trustee hereunder and available for the purpose, (a) to pay or provide for the payment in full at the first date upon which such payment may be made of all amounts then required for the payment of the principal or Redemption Price of and interest on the Bonds then Outstanding issued to finance or refinance the cost of such Project (and the determination of which Bonds of the applicable Series were so issued shall be made by the Authority in any reasonable manner if the Project was financed or refinanced by Bonds issued as part of a Series that financed or refinanced more than one Project and shall be evidenced to the Trustee by a certificate of an Authorized Officer) and (b) to pay all necessary and proper expenses payable in connection with such payment; provided, further, that if such sale is of a portion of a Project, the proceeds therefrom shall be an amount sufficient, with any other moneys then held by the Trustee under the Agreement and available for the purpose, (a) to pay or provide for the payment in full at the first date upon which such payment may be made of the principal or

Redemption Price of and interest on a principal amount of Bonds then Outstanding of the Series issued to finance or refinance the Cost of such Project bearing the same proportion to the principal amount of all such Bonds then Outstanding that (as reasonably determined by the Authority and evidenced to the Trustee by a Certificate of an Authorized Officer) the Cost of the portion of such Project to be sold bore to the Cost of the Project and (b) to pay all necessary and proper expenses payable in connection with such payment. The proceeds of any such sale shall be deposited by the Authority with the Trustee and shall be deposited by the Trustee to the credit of the Optional Redemption Account.

#### *Insurance on Projects*

The Authority covenants that (a) during the construction, alteration, enlargement, reconstruction, rehabilitation or remodeling of or other work upon each Project it will carry such builder's risk insurance, if any, as it may deem reasonable therefor, and (b) from and after the time when the contractors or any of them engaged in constructing any part of each Project shall cease to be responsible, pursuant to the provisions of the respective contracts for the construction of such part, for loss or damage to such part occurring from any cause, it will insure and at all times keep such part insured with a responsible insurance company or companies, qualified to assume the risk thereof, against physical loss or damage however caused, with such exemptions as are ordinarily required by insurers of buildings, structures or facilities of similar type and in similar locations, in such amount as it shall determine to be reasonable and in any event at least sufficient to comply with any legal or contractual requirement which, if breached, would result in assumption by the Authority of a portion of any loss or damage as a co-insurer; provided, however, that (i) if at any time the Authority shall be unable to obtain such insurance to the extent above required, either as to the amount of such insurance or as to the risks covered thereby, it will not constitute an event of default under the Agreement if the Authority shall maintain such insurance to the extent reasonably obtainable; (ii) such insurance may be provided by a policy or policies covering all insurable portions of such Project as a whole together with other insurable property of the Authority; and (iii) the requirements set forth in clause (b) above of this paragraph shall not apply to any Project owned by the Commonwealth (but the Authority may from time to time provide such insurance of the kind described in such clause (b) for any Project owned by the Commonwealth as the Authority may determine in its discretion).

All such policies shall be for the benefit of the Trustee and the Authority as their interests shall appear, shall be made payable to the Trustee (by means of the standard mortgagee clause without contribution, if obtainable) and shall be deposited with the Trustee. The proceeds of any and all such insurance shall be deposited with the Trustee, and the Trustee shall have the sole right to receive the proceeds of such insurance and to collect claims thereunder and receipt therefor. The proceeds of any and all such insurance shall be deposited to the credit of the Insurance Proceeds Account in the Property Fund.

The Authority covenants that, immediately after any damage to or destruction of any part of any Project the estimated cost to repair, restore or reconstruct which exceeds One Hundred Thousand Dollars (\$100,000), it will, if necessary, prepare or cause the Architect or Engineer, as the case may be, for the Project to prepare plans and specifications for repairing, restoring or reconstructing the damaged or destroyed property, and in any event it will proceed with all reasonable promptness as may be required to accomplish such repair, restoration or reconstruction in accordance with the original design or to do such other work as may be advised in writing by the University Trustees.

The proceeds of all insurance referred to in this subsection shall be available for, and shall to the extent necessary be applied to, the repair, restoration or reconstruction of the damaged or destroyed property, or the doing of other work with respect thereto as the Authority may determine by resolution adopted upon advice in writing from the University Trustees, and shall be disbursed by the Trustee upon receipt of copies, certified by an Authorized Officer, of the resolution adopted by the Authority authorizing such repair, restoration and reconstruction and of such written advice and otherwise in the manner and upon the showings provided in the Agreement for payments from the Construction Fund. If such proceeds shall be insufficient for

## APPENDIX D-1

such purpose, the deficiency shall be supplied from any other moneys available for the purpose in the appropriate reserve Account or in the General Account in the Property Fund.

Upon completion of the work authorized by such resolution the Authority shall cause to be filed with the Trustee a notice and a Counsel's Opinion with respect thereto executed, approved and including statements substantially to the same effect as those provided in the Agreement for completion of construction of a Project.

Any balance of such proceeds remaining after such certificate shall have been filed shall be held by the Trustee in the Insurance Proceeds Account in the Property Fund and applied as provided herein or, if the Authority shall so direct by a certificate of an Authorized Officer, shall be transferred to one or more of the Revenue Fund, the Optional Redemption Account in the Debt Service Fund, to any Account within the Construction Fund or to the Multi-Purpose Reserve Account.

### *Use, Occupancy and Other Insurance*

The Authority covenants that it will at all times carry with a responsible insurance company or companies or companies qualified to assume the risk thereof:

(a) use and occupancy insurance covering loss of Revenues from each Project by reason of necessary interruption, total or partial, in the use thereof resulting from damage or destruction of any part thereof however caused, with such exceptions as are ordinarily required by insurers providing similar insurance, in such amount as the Authority shall estimate is sufficient to provide a full equivalent of Revenues for the fiscal year of the Authority respecting which such insurance is carried; provided, that if at any time the Authority shall be unable to obtain such insurance to the extent above required, either as to the amount of such insurance or as to the risks covered thereby, it will not constitute an event of default under the Agreement if the Authority shall carry such insurance to the extent reasonably obtainable; provided, however, that the Authority need not (but may) provide the insurance described in this subparagraph with respect to any Project owned by the Commonwealth; and

(b) such worker's compensation or employers' liability insurance as may be required by law and such public liability and property damage insurance as the Authority shall deem reasonable.

All policies providing use and occupancy insurance shall be made payable to and deposited with the Trustee, and the Trustee shall have the sole right to receive any proceeds of such policies and to collect claims thereunder. Any proceeds of use and occupancy insurance paid to the Trustee shall be deposited by it forthwith to the credit of the Revenue Fund.

Any appraisalment or adjustment of any loss or damage under any policy payable to the Trustee and any settlement or payment of indemnity under any such policy shall be agreed upon between the Authority and any insurer and shall be evidenced to the Trustee by a certificate, signed by an Authorized Officer of the Authority, which certificate may be relied upon by the Trustee as conclusive. The Trustee shall in no way be liable or responsible for the collection of insurance moneys in case of any loss or damage.

### *No Inconsistent Action by Authority*

The Authority covenants and agrees that none of the Revenues of any Project will be used for any purpose other than as provided in the Agreement and no contract or contracts will be entered into or any action taken which shall be inconsistent with the provisions of this Agreement.

### *Further Instruments and Actions*

The Authority covenants that it will, from time to time, execute and deliver such further instruments and take such further action as may be required to carry out the purposes of this Agreement.

*Records, Reports and Audits*

The Authority covenants that it will keep an accurate record of the total cost of each Project, of the Revenues collected or derived from such Project, and of the application of such Revenues collected or derived from such Project. Such records shall be open at all reasonable times to the inspection of the Trustee. The Authority covenants that it will cause any reports or audits relating to each Project to be made as required by law and that it will furnish to the Trustee a copy of each such report and audit forthwith upon receipt thereof by the Authority.

*Release of Land; Sale of Equipment*

The Authority may from time to time (a) release to the University Trustees any land leased by the University Trustees to the Authority if permitted by a lease entered into between the University Trustees and the Authority and if such release will not adversely affect Revenues, (b) sell or otherwise dispose of any machinery, fixtures, apparatus, tools, instruments or other movable property acquired by it from the proceeds of Bonds or from the Revenues of a Project, if the Authority shall reasonably determine that such articles are no longer useful or appropriate in connection with the construction or operation and maintenance of such Project, and that such sale or disposition, taking account of the application of any proceeds received from such sale or disposition and any replacement to be made of or any substitution to be made for any of the properties so sold or disposed of, shall not adversely affect the Revenues from such Project.

*Covenant as to Exclusion of Interest from Gross Income*

The Authority covenants that it will not take any action or fail to take any action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

*Notice of Default; Financial Statements*

The Authority covenants that (a) forthwith upon any officer of the Authority's obtaining knowledge of any condition or event which constitutes or, after notice or lapse of time or both, would constitute an "event of default" as defined in the Agreement, it will file with the Trustee a certificate signed by an Authorized Officer specifying the nature and period of existence thereof, and what action the Authority has taken, is taking or proposes to take with respect thereto; (b) on or before the 15th day of each July it will file with the Trustee a certificate signed by an Authorized Officer stating that, so far as is known to the signer of the certificate, the Authority is not in default under any covenant, agreement or condition contained in the Agreement and that no event has occurred which constitutes or, after notice or lapse of time or both, would constitute such an event of default or, if the Authority shall be in default, or any such event has occurred, specifying each such default and event and the nature and period of existence thereof of which the signer may have knowledge and what action, if any, the Authority has taken, is taking or proposes to take with respect thereto; and (c) it will cause an examination of its financial statements as of the end of and for each fiscal year during which Bonds shall be Outstanding under the Agreement to be made by independent certified public accountants and within one hundred eighty (180) days after the end of each fiscal year will file with the Trustee a copy of such financial statements together with the signed opinion of such independent certified public accountants with respect thereto.

Defaults; Remedies*Extended Interest*

In case the time for the payment of the interest on any Bond shall be extended, whether or not such extension be by or with the consent of the Authority, such interest so extended shall not be entitled in case of default under the Agreement to the benefit or security of the Agreement except subject to the prior payment in

**APPENDIX D-1**

full of the principal of all Bonds then Outstanding and of all interest the time for the payment of which shall not have been extended.

*Events of Default*

Each of the following events is an “event of default” under the Agreement:

- (a) payment of the principal and premium, if any, of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by required proceedings for redemption or otherwise, or payment of the purchase price of any Bond tendered as provided in the applicable Series Resolution shall not be made when such purchase price shall become due and payable; or
- (b) payment of any installment of interest on the Bonds shall not be made when due and payable;  
or
- (c) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Agreement; or
- (d) an order or decree shall be entered, with the consent or acquiescence of the Authority, appointing a receiver or receivers of any Project or any part thereof or of the Revenues thereof, or if such order or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or discharged or stayed on appeal within one hundred and twenty (120) days after the entry thereof; or
- (e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Revenues of any Project; or
- (f) the Authority shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Agreement on the part of the Authority to be performed in connection with the Bonds or any Project financed or refinanced by the Bonds, and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Registered Owners of not less than twenty per cent (20%) in principal amount of the Bonds then Outstanding.

For all purposes of the Agreement, any event of default specified in subparagraph (a) or subparagraph (b) of the preceding paragraph with respect to any one or more Bonds shall be deemed to be such an event of default on all other Outstanding Bonds of the same level or levels as the Bond or Bonds with respect to which such event of default occurred, i.e.. any such event of default with respect to one or more Senior Bonds shall be deemed to be such an event of default on all other Outstanding Senior Bonds, any such event of default with respect to one or more Bonds of any Subordinate Series, Level 2 shall be deemed to be such an event of default on all Outstanding Bonds of all Subordinate Series, Level 2, and so on.

*No Acceleration*

Notwithstanding any other provision of the Agreement to the contrary, the Bonds shall not be subject to acceleration, and all provisions with respect to events of default under the Agreement and with respect to remedies available under the Agreement shall be subject to such prohibition.

*Remedies*

Upon the happening and continuance of any event of default under the Agreement, then and in every such case the Trustee may proceed, and upon the written request of the Registered Owners of not less than twenty per centum (20%) in principal amount of the Bonds then Outstanding (or, in the case of an event of default under clause (a) or clause (b) above in "Events of Default," not less than twenty per cent (20%) in principal amount of the Bonds Outstanding as to which such event of default has occurred) shall proceed, subject to being indemnified as provided in the Agreement, to protect and enforce its rights and the rights of the Registered Owners of the Bonds under the laws of the Commonwealth or under the Agreement by such suits, actions or proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Agreement or in aid or execution of any power herein granted or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Agreement the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Authority for principal, interest or otherwise under any of the provisions of the Agreement or of the Bonds, with interest on overdue payments at the rate or rates of interest borne by the applicable Bonds, together with any and all costs and expenses of collection and of all proceedings under the Agreement and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Registered Owners, and to recover and enforce any judgment or decree against the Authority, but solely as provided in the Agreement and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect (but solely from moneys in the Debt Service Fund, the Section 10 Reserve Fund, any other reserve fund securing any Bond, the Rate Stabilization Fund and the Property Fund and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

*Application of Funds*

(a) Anything in the Agreement to the contrary notwithstanding, if at any time the moneys in the Debt Service Fund, in the Section 10 Reserve Fund, in any other reserve fund securing any Bond, in the Rate Stabilization Fund and in the Property Fund, and any other moneys available for the purpose shall not be sufficient to pay the principal and Redemption Price of or the interest on the Bonds as the same shall become due and payable or the purchase price of any Bond tendered as provided in the applicable Series Resolution, such moneys, together with any moneys then available or thereafter becoming available for such purpose, whether through the exercise of the remedies described in this section of this Summary or otherwise, shall be applied as provided in paragraph (b) below, any such application to be made, first to all Outstanding Senior Bonds, until all principal, Redemption Price and interest then due on such Senior Bonds have been paid, and second, to all Outstanding Level 2 Bonds, until all principal, Redemption Price and interest then due on such Level 2 Bonds have been paid, and third, to all Outstanding Level 3 Bonds, until all principal, Redemption Price and interest then due on such Level 3 Bonds have been paid, and so on in descending order of subordination. Any such application shall also be subject to the following:

- (i) moneys received under the Commonwealth Guaranty shall be applied only to the Guaranteed Bonds on account of which such moneys are received and shall not be applied to the payment of the fees and expenses of the Trustee;
- (ii) moneys in the Section 10 Reserve Fund shall be applied only to Guaranteed Bonds and shall not be applied to fees and expenses of the Trustee;
- (iii) moneys received under any Credit Facility or Derivative shall be applied only to the payment of amounts which are due on the Bonds secured by such Credit Facility or to which such Derivative applies and to which moneys received under such Credit Facility or such Derivative are

## APPENDIX D-1

permitted to be applied and shall be applied to the fees and expenses of the Trustee only if such application is explicitly permitted under the applicable Credit Facility or the applicable Derivative and only in amounts not in excess of the amounts permitted by such Credit Facility or such Derivative to be so applied;

(iv) moneys in any reserve fund other than the Section 10 Reserve Fund shall be applied only as provided in the one or more applicable Series Resolutions and shall be applied to fees and expenses of the Trustee only if such application is explicitly permitted by the applicable Series Resolution;

(v) amounts due to the issuer of a Credit Facility for reimbursement of any amount paid under such Credit Facility for payment of principal or Redemption Price of or interest on any Bond or the purchase price of any Bond tendered as provided in the applicable Series Resolution (but not including interest on any such amount) shall, to the extent and under the conditions set forth in the applicable Series Resolution or reimbursement agreement with the issuer of such Credit Facility, be deemed for purposes of paragraph (b) below to be payments of principal or Redemption Price of or interest on such Bond and shall be paid to such issuer in connection with the application of moneys under such paragraph, and

(vi) amounts due from or on account of the Authority under a Derivative for amounts paid made under such Derivative for payment of principal or Redemption Price of or interest on any Bond (but not including interest on any such amount) shall, to the extent and under the conditions set forth in the applicable Series Resolution or in such Derivative, be deemed for purposes of paragraph (b) below to be payments of principal or Redemption Price of or interest on such Bond and shall be paid as provided in such Derivative in connection with the application of moneys under such paragraph.

(b) All such moneys shall be applied (subject to paragraph (a) above):

first: to the payment to the Trustee of its unpaid fees and expenses, to the extent of moneys available therefor as provided in paragraph (a) above;

second: to the payment to the persons entitled thereto of all installments of interest on Bonds then due, in the order of the maturity of the installments of such interest, and, if the amounts available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and except as provided in paragraph (a) above;

third: to the payment to the persons entitled thereto of the unpaid principal and Redemption Price of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Agreement), in the order of their due dates, with interest upon such Bonds from the respective dates upon which they became due, and the unpaid purchase price of any Bond tendered in accordance with the applicable Series Resolution, and, if the amount available shall not be sufficient to pay in full the principal and Redemption Price of Bonds due on any particular date, together with such interest, and such purchase price, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal, Redemption Price and purchase price, ratably according to the amount of such principal and purchase price due on such date, to the persons entitled thereto, and in either case without any discrimination or preference, except as provided in paragraph (a) above; and

fourth: to the payment of the interest on and the principal and Redemption Price of the Bonds, to the purchase and retirement of Bonds and to the redemption of Bonds, all in accordance with the provisions described above under “Establishment and Application of Funds and Accounts” (and as provided in paragraph (a) above).

(c) Whenever moneys are to be applied by the Trustee pursuant to the above provisions, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole 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; and the Trustee shall incur no liability whatsoever to the Authority, to any Registered Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Agreement as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date (which shall be an Interest Payment Date 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 to be 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, and shall not be required to make payment to the Registered Owner of any Bond until such Bond shall be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

#### *Discontinuance of Proceedings*

In the event that any proceeding taken by the Trustee on account of any default under the Agreement shall have been discontinued or abandoned for any reason, then and in every such case the Authority, the Trustee and the Registered Owners shall be restored to their former positions and rights under the Agreement, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

#### *Control of Proceedings*

Anything in the Agreement to the contrary notwithstanding, the registered Owners of a majority in principal amount of the Bonds then Outstanding (or, with respect to an event of default described in clause (a) or clause (b) above in “Events of Default,” the Registered Owners of a majority in principal amount of the Bonds Outstanding as to which such event of default has occurred) shall have the right, subject to the Trustee's being indemnified as provided in the Agreement, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Agreement in connection with the Bonds, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Agreement.

#### *Restrictions upon Actions by a Registered Owner*

No Registered Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Agreement or for any other remedy under the Agreement unless such Registered Owner previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Registered Owners of not less than twenty per cent (20%) in principal amount of the Bonds then Outstanding (or, with respect to an event of default described in clause (a) or clause (b) above in “Events of Default,” the Registered Owners of not less than twenty per cent (20%) principal amount of the Bonds Outstanding as to which such event of default has occurred) shall have made written request of the Trustee after the right to exercise such powers of right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Agreement or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable

## APPENDIX D-1

security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in such every case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Agreement or for any other remedy under the Agreement. No one or more Registered Owners of the Bonds shall have any right in any manner whatever by action of such Registered Owner or Owners to affect, disturb or prejudice the security of the Agreement, or to enforce any right under the Agreement except in the manner provided in the Agreement, that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Agreement and for the benefit of all Registered Owners of the Outstanding Bonds, and that any individual rights of action or other right given to one or more of such Registered Owners by law are restricted by the Agreement to the rights and remedies provided in the Agreement.

Nothing in the Agreement or in the Bonds shall, however, affect or impair the absolute, unconditional and unalterable obligation of the Authority to pay when due (whether due on account of stated maturities, scheduled payments, call for redemption or otherwise) the principal and Redemption Price of and interest on the Bonds and the purchase price of any Bond tendered as provided in the applicable Series Resolution, or affect the right of any Registered Owner of a Bond to institute or require the institution of any action or proceeding against the Authority for the enforcement of such payment, or against the Commonwealth for the enforcement of its guaranty of Guaranteed Bonds.

### *Actions by Trustee*

All rights of action under the Agreement or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof on the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all of the Registered Owners, subject to the provisions of the Agreement.

### *No Remedy Exclusive*

No remedy conferred by the Agreement upon or reserved to the Trustee or to the Registered Owners is intended to be exclusive of any other remedy or remedies provided by the Agreement, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement.

### *No Delay or Omission Construed as Waiver*

No delay or omission of the Trustee or of any Registered Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Agreement to the Trustee and the Registered Owners of the Bonds, respectively, with respect to events of default, may be exercised from time to time as often as may be deemed expedient.

The Trustee may, and upon written request of the Registered Owners of not less than a majority in principal amount of the Bonds then Outstanding shall, waive any default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of this Agreement or before the completion of the enforcement of any other remedy under the Agreement, but no such waiver shall extend to or affect any other existing or any subsequent default of defaults or impair any rights or remedies consequent thereon.

### *Notice of Default*

The Trustee shall mail to all Registered Owners of Bonds then Outstanding at their addresses as they appear on the registration books written notice of the occurrence of any event of default described in clause (a) or clause (b) above in "Events of Default" promptly upon the occurrence thereof and of any other event of

default described under “Events of Default” within thirty (30) days after the Trustee shall have received written notice that any such event of default has occurred and any applicable grace period shall have expired. The Trustee shall not, however, be subject to any liability to any Registered Owner by reason of its failure to mail any such notice.

### CONCERNING THE TRUSTEE

#### *Indemnity*

The Trustee shall be under no obligation to institute any suit, or to take any remedial proceeding under the Agreement, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts created by the Agreement or in the enforcement of any rights and powers under the Agreement, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and disbursements and other reasonable disbursements, and against all liability; the Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity, and in such case the Authority shall reimburse the Trustee from the Revenues of any Project for all costs and expenses, outlays and counsel fees and disbursements and other reasonable disbursements properly incurred in connection therewith. If the Authority shall fail to make such reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of the Agreement from which the payment of fees and expenses of the Trustee is not prohibited by the Agreement and shall have a first and prior lien on such moneys for that purpose over any of the Bonds Outstanding under the Agreement.

#### *Limitation on Obligations*

The Trustee shall be under no obligation to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Authority, or to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur, or to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall have no responsibility in respect of the construction or operation of any Project, the validity or sufficiency of the Agreement or the due execution or acknowledgment thereof, or in respect of the validity of the Bonds or the due execution or issuance thereof except as represented by its own authentication, or in respect of the validity or enforceability of the guaranty by the Commonwealth executed on any Guaranteed Bond. The Trustee shall be under no obligation, except as otherwise expressly required in the Agreement, to see that any duties herein imposed upon the Authority, the Architect, the Engineer, any investment adviser appointed by the Authority, or any party other than itself, or any covenants in the Agreement on the part of any party other than itself to be performed, shall be done or performed, and the Trustee shall be under no obligation for failure to see that any such duties or covenants are so done or performed.

#### *Notice of Default*

In addition to any other notices required to be given by the Trustee under the Agreement, if on the fifteenth day of the month (or, if such fifteenth day is not a business day, on the next succeeding business day) before the date which shall be one or more of a due date for a payment of interest on Guaranteed Bonds or of a Sinking Fund Installment respecting Guaranteed Bonds or a maturity date for Guaranteed Bonds then Outstanding, the moneys held by the Trustee for or to be deposited prior to such due date to the credit of any subaccount of the Interest Account, any subaccount of the Sinking Fund Account or any subaccount of the Principal Account shall be less than the amount required on such date respectively to pay in full such interest then due, to pay such Sinking Fund Installment then due or to pay the principal of all such Guaranteed Bonds then maturing, all as the case may be, the Trustee shall on such fifteenth day (or next succeeding business day) deliver or cause to be delivered to the offices of the Secretary of Administration and Finance and of the Treasurer and Receiver-General of the Commonwealth a notice addressed to said officials and shall give

## APPENDIX D-1

copies thereof to the Authority and to the purchasers in the manner provided in the Agreement. Such notice shall state (a) the amount or amounts to become due, the nature thereof and the due date, (b) the amount or amounts of moneys held by the Trustee on such business day for the credit of the pertinent Account or Accounts and subaccount or subaccounts, (c) the amount or amounts of moneys held by the Trustee on such business day for the credit of the Section 10 Reserve Fund, each Debt Service Reserve Fund or Multi-Series Debt Service Reserve Fund, the Optional Redemption Account, the Rate Stabilization Fund, and any Account in the Property Fund which are available for the payment of such interest, such Sinking Fund Installment or such maturing principal amount, all as the case may be.

If the University Trustees shall be obligated to pay any such amount from Pledged Funds, the Trustee shall include in its notice a request that the University Trustees transfer or cause to be transferred applicable Pledged Funds forthwith, unless such request is otherwise required to be made by any applicable Series Resolution. If (a) the University Trustees shall be obliged by the Contract or Contracts respecting Outstanding Guaranteed Bonds to give a notice respecting the availability of moneys for said purposes by said dates and (b) such notice has been given and (c) such notice states that moneys are not expected to be available by said dates in amounts sufficient to meet such purposes in full and (d) the moneys held by the Trustee as stated in the last sentence of the first paragraph above in "Notice of Default" are not sufficient, when added to whatever available amount is stated in such notice from the University Trustees, to meet such purposes in full, then the Trustee shall include in the notice to be given by it a request that the Commonwealth make funds available to honor the Commonwealth Guaranty under all such Contracts.

Except as provided above, the Trustee shall not be obliged to take notice or be deemed to have notice of any prospective event of default under the Agreement. The Trustee shall not be obliged to take notice or be deemed to have knowledge of any event of default under the Agreement, except for events of default described in clause (a) or clause (b) above in "Defaults; Remedies - Events of Default," unless an officer in the corporate trust department of the Trustee has received written notice of such event of default by the Authority or the Registered Owners of not less than twenty per cent (20%) in principal amount of the Bonds Outstanding.

### *Resignation*

The Trustee may resign at any time and thereby become discharged from the trusts created by the Agreement by notice in writing to be given to the Authority and the Registered Owners at least thirty (30) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee under the Agreement, if such new Trustee shall be appointed before the time limited by such notice and shall then accept the trusts of the Agreement.

### *Removal*

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, signed by the Registered Owners of not less than a majority in principal amount of the Bonds then Outstanding and filed with the Authority (and the Authority shall promptly deliver to the Trustee a reproduction copy of each such instrument) or by resolution of the Authority.

The Trustee may also be removed at any time for any breach of trust or violation of the Agreement by any court of competent jurisdiction upon application by the Registered Owners of not less than five per cent (5%) in principal amount of the Bonds then Outstanding.

### *Appointment of Successor Trustee*

If at any time the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as Trustee shall be taken over by any governmental official, agency, department or board, the position of Trustee shall thereupon become vacant. If at any time moneys on deposit with the Trustee shall not be secured as required by the Agreement, a vacancy in the position of

Trustee may be declared by a resolution duly passed by the Authority. If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, the Authority shall appoint a Trustee to fill such vacancy. The Authority shall send written notice of any such appointment to the Registered Owners, and the Trustee whose position is being filled shall make available to the Authority at all times during normal business hours its registration books and permit the Authority to copy such registration books.

At any time within one year after any such vacancy shall have occurred, the Registered Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Registered Owners or their attorneys in fact or legal representatives and filed with the Authority, may appoint a successor Trustee which shall supersede any Trustee theretofore appointed by the Authority. Copies of such instrument shall be delivered promptly by the Authority to the predecessor Trustee and to the Trustee so appointed by the Registered Owners.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions, the Registered Owner of any Outstanding Bond or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee hereafter appointed shall be a bank or trust company within the Commonwealth (as the words "within the Commonwealth" are used in the Enabling Act) duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, of good standing, having a combined capital and surplus aggregating not less than One Hundred Million Dollars (\$100,000,000).

The Trustee shall not be required to be "within the Commonwealth" if the Enabling Act no longer contains such requirement.

#### SUPPLEMENTAL AGREEMENTS

##### *Supplemental Agreements without Consent of Registered Owners*

The Authority and the Trustee may, from time to time and at any time, without the consent of the Registered Owners, enter into agreements supplemental to the Agreement as shall not be inconsistent with the terms and provisions of the Agreement (which supplemental agreements shall thereafter form a part of the Agreement)

- (a) to cure any ambiguity or formal defect or omission in the Agreement or in any supplemental agreement, or
- (b) to grant to or confer upon the Trustee for the benefit of the Registered Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Registered Owners or the Trustee, or
- (c) to add to the covenants and agreements of the Authority other covenants and agreements thereafter to be observed by the Authority which shall not be inconsistent with the terms and provisions of the Agreement or to surrender any right or power reserved to or conferred upon the Authority in the Agreement, or
- (d) any amendment described in "Establishment and Application of Funds and Accounts — Rebate Fund," or
- (e) for any other purpose, provided that (i) such supplemental agreement (A) does not adversely affect the interest of any Registered Owner and (B) does not make any change in the Agreement prohibited by clauses (a) through (e) below in "Modification of Agreement" and (ii) the Authority and the Trustee receive an

## APPENDIX D-1

opinion of bond counsel to the Authority to the effect that such supplemental agreement complies with subclauses (A) and (B) of this clause.

If the interest on obligations issued in bearer form should at any time qualify for exclusion from gross income for federal income tax purposes, or if the Authority desires to issue obligations the interest on which is not excludable from gross income for federal income tax purposes, and if in either case applicable law permits the issuance by the Authority of obligations in bearer form, the Agreement may be amended without the consent of the registered Owners to permit the issuance under the Agreement of obligations in such form, provided that the Authority and the Trustee receive an opinion of bond counsel to the Authority to the effect that applicable law permits the issuance by the Authority of obligations in bearer form and that such amendment will not affect the exclusion from gross income for federal income tax purposes of the interest on any Bond previously issued under the Agreement.

Any provision of the Agreement with respect to any Series of Bonds secured by a Credit Facility may be amended by the Series Resolution authorizing such Series to take into account the requirements or reasonable requests of the issuer of such Credit Facility. Such amendments may include, but not be limited to, amendments with respect to the exercise of rights of the Registered Owner of the Bonds of such Series by the issuer of such Credit Facility and subrogation of the issuer of such Credit Facility to the rights of such Registered Owners.

### *Modification of Agreement*

The Registered Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Authority and the Trustee of such agreement or agreements supplemental to the Agreement as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Agreement or in any supplemental agreement; provided, however, that nothing contained in the Agreement shall permit, or be construed as permitting (a) an extension of the maturity of the principal of, the due date of any Sinking Fund Installment or respecting the due date of any interest payment due on any Bond, or (b) a reduction in the principal amount of any Bond or the Redemption Price thereof or the rate of interest thereon, or (c) the creation of a lien or pledge of Revenues ranking prior to or on a parity with the lien or pledge created by the Agreement, or (d) a preference or priority of any Bond or Bonds over any other Bond or Bonds other than as provided in the Agreement or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental agreement. Nothing contained in the Agreement, however, shall be construed as making necessary the approval by Registered Owners of the execution of any supplemental agreement or agreements described above in "Supplemental Agreements without Consent of Registered Owners."

If the Registered Owners of not less than fifty-one per cent (51%) in aggregate principal amount of the Bonds Outstanding at the time of the execution of such supplemental agreement shall have consented to and approved the execution thereof as provided in the Agreement, no Registered Owner shall have any right to object to the execution of such supplemental agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in by manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

### *Responsibilities of Trustee*

In each and every case provided for in this section "Supplemental Agreements", the Trustee shall be entitled to exercise its discretion in determining whether or not any proposed supplemental agreement, or any term or provision therein contained, is proper or desirable, having in view the purposes of such instrument, the needs of the Authority, the rights and interests of the Registered Owners, and the rights, obligations and interests of the Trustee, and the Trustee shall not be under any responsibility or liability to the Authority or to

any Registered Owner or to anyone whomsoever for its refusal in good faith to enter into any such supplemental agreement if such agreement is deemed by it to be contrary to the provisions of this section. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any counsel approved by it, who may be counsel for the Authority, as conclusive evidence that any such proposed supplemental agreement does or does not comply with the provisions of the Agreement, and that it is or is not proper for it under the applicable provisions of the Agreement, to join in the execution of such supplemental agreement.

### DEFEASANCE

#### *Release of Agreement*

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Agreement, or if all Outstanding Bonds shall be deemed to be paid as provided in the following paragraph, and if all other sums, if any, then payable to the Trustee under the shall be paid, or the payment of such sums shall be provided for to the reasonable satisfaction of the Trustee, then the pledge of any Revenues and other moneys and securities pledged under the Agreement and all covenants, agreements and other obligations of the Authority to the Registered Owners, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or period as shall be requested by the Authority to be prepared and filed with the Authority and, upon the request of the Authority, shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the Authority all moneys or securities held by it pursuant to the Agreement which are not required for the payment of principal or Redemption Price, if applicable, of or interest on Bonds not theretofore surrendered for such payment or redemption, and for the payment of such other amounts. If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of any Outstanding Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Agreement, or if any Outstanding Bonds shall be deemed to be paid as provided in the following paragraph, such Bonds shall cease to be entitled to any lien, benefit or security under the Agreement, and all covenants, agreements and obligations of the Authority to the Registered Owners of such Bonds shall thereupon cease, terminated and become void and be discharged and satisfied.

Any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the previous paragraph if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations (including any Investment Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States, which are irrevocably payable to the Trustee and in form satisfactory to the Trustee) the principal of and the interest on which when due will provide the Trustee with moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds will not be redeemed within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice, in the manner and at the time specified in the Agreement, that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this paragraph and stating such maturity or redemption date or dates upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. None of Investment Obligations, moneys deposited with the Trustee pursuant to this paragraph or principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or

## APPENDIX D-1

Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Obligation deposited with the Trustee, if not needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligation maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date, as the case may be, and interest earned from such reinvestment shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this paragraph, Investment Obligations shall mean and include only such securities as are described in clause (a) of the definition of “Investment Obligations” in “Definitions” which shall not be subject to redemption prior to their maturity.

Anything in the Agreement to the contrary notwithstanding, the Trustee shall notify the Authority in writing of any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed six months prior to the date when such moneys would escheat under applicable law and shall, at the written request of the Authority, pay such moneys to the Authority as its absolute property and free from trust, or, if the Authority does not so request in writing, or if such payment is not permitted under applicable escheat law, shall apply such moneys as provided by such applicable law, and the Trustee shall upon such payment or application be released and discharged with respect thereto and the Registered Owners shall look only to the Authority or as such applicable law may provide for the payment of such Bonds, the Authority or any other entity being liable only to the extent of funds received from the Trustee (without regard to any interest thereon received from the Trustee) and having no liability for interest on any such funds.

### MISCELLANEOUS PROVISIONS

#### *Rights under Agreement*

Except as otherwise expressly provided in the Agreement, nothing in the Agreement expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto and the Registered Owners any right, remedy or claim, legal or equitable, under or by reason of the Agreement or any provisions hereof, the Agreement and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto and the Registered Owners.

#### *Effect of Partial Invalidity*

In case any one or more of the provisions of the Agreement or of the Bonds shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of the Agreement or of the Bonds, but the Agreement and the Bonds shall be construed and enforced as if such illegal or invalid provision has not been contained therein. In case any covenant, stipulation, obligation or agreement contained in the Bonds or in the Agreement shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the Authority to the full extent permitted by law.

#### *Effect of Covenants, etc.*

All covenants, stipulations, obligations and agreements of the Authority contained in the Agreement shall be deemed to be covenants, stipulations, obligations and agreements of the Authority to the full extent permitted by law. No covenant, stipulation, obligation or agreement contained in the Agreement shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Authority in his individual capacity, and neither any member of the Authority nor any officer thereof executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability by reason of the issuance thereof. No member, officer, agent or employee of the Authority shall incur any liability in acting or proceeding or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Agreement and the Enabling Act.

The Agreement is executed with the intent that the laws of the Commonwealth shall govern its construction.

*Reference to Interest as Excludable from Gross Income*

All references in the Agreement with respect to the exclusion, excludability, inclusion or includability or the like of interest from gross income for federal income tax purposes shall apply only to Bonds and the interest thereon as to which an opinion of counsel has been rendered to the effect that interest on such Bonds is excludable from gross income for federal income tax purposes.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX D-2**

**SUMMARY OF CERTAIN PROVISIONS OF THE SERIES RESOLUTION**

[Intentionally Left Blank]

## SUMMARY OF CERTAIN PROVISIONS OF THE SERIES RESOLUTION

*The following sets forth certain information found in the Series Resolution, including certain terms used in the Series Resolution not used elsewhere in this Official Statement, relating to Bonds bearing interest at the Weekly Rate and the Daily Rate. This summary does not purport to be complete and reference is made to the Series Resolution for full and complete statements of such terms and provisions.*

### Definitions (Section 101)

The following are definitions in summary form of certain terms contained in the Series Resolution and used in this Official Statement:

*Adjustable Rate* means any of the Auction Period Rate, Daily Rate, Weekly Rate and Term Rate.

*Alternate Credit Facility* means a letter of credit or other security or liquidity device issued in lieu of a Credit Facility then in effect in accordance with the Resolution.

*Authority Bonds* means Series 2008-1 Bonds owned by or on behalf of the Authority.

*Authorized Denominations* means (i) with respect to Series 2008-1 Bonds bearing interest at a Daily Rate, Weekly Rate or Term Rate, \$100,000 and any integral multiple of \$5,000 in excess thereof, (ii) with respect to Bonds in an Auction Mode, as set forth in Appendix C hereto, and (iii) with respect to Series 2008-1 Bonds converted to a Fixed Rate, \$5,000 and any integral multiple thereof.

*Bank-Owned Bonds* means any Series 2008-1 Bonds registered in the name of the Credit Facility Provider pursuant to the Resolution.

*Bond Counsel* means any firm of nationally recognized municipal bond attorneys selected by the Authority and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for Federal income tax purposes.

*Bondowner, Registered Owner or Holder* or any similar term means, when used with reference to a Series 2008-1 Bond or Bonds, any person who shall be the Registered Owner of any Series 2008-1 Bond.

*Business Day* means any day other than a Saturday, Sunday or day on which the New York Stock Exchange or banking institutions are authorized or required by law or executive order to be closed for commercial banking purposes in New York or Massachusetts, or in any city in which is located the designated corporate trust office of the Trustee.

*Calculation Period* means (a) during any Daily Rate Period, the period from and including a Business Day to but not including the next succeeding Business Day, (b) during any Weekly Rate Period, the period from and including the Wednesday of each week to and including the following Tuesday and with respect to a Change in the Interest Rate Mode to a Weekly Rate, the period from and including the effective date of the Change in Interest Rate Mode to and including the following Tuesday, and, thereafter, the period from and including Wednesday of each week to and including the following Tuesday; provided, however, in each case if such Wednesday is not a Business Day, such next succeeding Calculation Period shall begin on the Business Day next succeeding such Wednesday and such Calculation Period shall end on the day before such next succeeding Calculation Period, and (c) during any Term Rate Period, any period of not less than 365 days from and including a Business Day to and including any day (established by the Remarketing Agent pursuant to the Series Resolution) not later than the day prior to the maturity date of the Series 2008-1 Bonds.

*Change in Interest Rate Mode* means any change in the type of interest rate borne by the Series 2008-1 Bonds pursuant to the Series Resolution.

*Credit Facility* means the letter of credit issued pursuant to the Credit Facility Agreement and any substitute irrevocable transferable direct-pay letter of credit delivered to the Trustee pursuant to this Agreement and then in effect.

*Credit Facility Agreement* means that certain Letter of Credit and Reimbursement Agreement, dated as of March 1, 2008, by and between the Credit Facility Provider and the Authority or, if an Alternate Credit Facility has been issued, the reimbursement agreement, or corresponding agreement, if any, in connection with such Alternate Credit Facility.

*Credit Facility Provider* means initially Lloyds TSB Bank plc, acting through its New York Branch, the issuer of the Credit Facility, its successors and assigns or any issuer of any Alternate Credit Facility.

*Current Adjustable Rate* means the interest rate borne by the Series 2008-1 Bonds immediately prior to a Change in the Interest Rate Mode or the establishment of a Fixed Rate.

*Daily Period Record Date* means, with respect to each Interest Payment Date during a Daily Rate Period, the Business Day next preceding such Interest Payment Date.

*Daily Rate* means with respect to the first day of each Calculation Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Authority) by the Remarketing Agent no later than 10:00 a.m. on and as of such day (i.e., the Determination Date) as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket Series 2008-1 Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

*Daily Rate Period* means any period during which the Series 2008-1 Bonds bear interest at a Daily Rate which period shall commence on the effective date of the Change in the Interest Rate Mode to a Daily Rate and extend through the day immediately preceding the earlier of (a) the effective date of another Change in the Interest Rate Mode or (b) the Fixed Rate Conversion Date.

*Determination Date* means, for any Calculation Period, with respect to the Daily Rate, the first Business Day occurring during such Calculation Period, and with respect to the Weekly Rate or the Term Rate, the Business Day immediately preceding the first Business Day occurring during such Calculation Period.

*Electronic Means* means facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

*Expiration Date* means the stated expiration date of the Credit Facility, or such stated expiration date as it may be extended from time to time as provided in the Credit Facility, or any earlier date on which the Credit Facility shall expire.

*Expiration Tender Date* means the day five Business Days prior to the Expiration Date.

*Fixed Rate* means, with respect to the Fixed Rate Conversion Date, the rate of interest per annum established and certified to the Trustee (with a copy to the Authority) by the Remarketing Agent no later than 4:00 p.m. on the Business Day immediately preceding the Fixed Rate Conversion Date as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such date to remarket the Series 2008-1 Bonds in a secondary market transaction at a price equal to 100% of the outstanding principal amount thereof.

*Fixed Rate Conversion Date* means the date on which the Fixed Rate for any Series 2008-1 Bonds takes effect in accordance with the Series Resolution.

*Fixed Rate Period* means the period, if any, during which the Series 2008-1 Bonds bear interest at a Fixed Rate which period shall commence on the Fixed Rate Conversion Date and extend through the maturity date of the Series 2008-1 Bonds.

*Fixed Rate Record Date* means, with respect to each Interest Payment Date during the Fixed Rate Period, the fifteenth date of the month next preceding such Interest Payment Date, or, if such day shall not be a Business Day, the next preceding Business Day.

*Interest Accrual Period* with respect to the Series 2008-1 Bonds bearing interest in the Daily Mode, Weekly Mode, or Term Rate Mode, means:

(a) for any Weekly Rate Period, the first day thereof and, thereafter, each May 1 and November 1 (other than any May 1 or November 1 next succeeding the first day thereof that is not an Interest Payment Date);

(b) for any Daily Rate Period, the first day thereof and, thereafter, each May 1 and November 1 (other than any May 1 or November 1 next succeeding the first day thereof that is not an Interest Payment Date); and

(c) for any Term Rate Period, for any Term Rate Period, the first day thereof and, thereafter, each Interest Payment Date during such Term Rate Period, other than the last such Interest Payment Date.

*Interest Payment Date* means:

(a) during each Weekly Rate Period, each May 1 and November 1 commencing, as to the initial Weekly Rate Period, November 1, 2008,

(b) during each Daily Rate Period, each May 1 and November 1,

(c) the May 1 or November 1 next succeeding the Fixed Rate Conversion Date and each May 1 or November 1 thereafter; provided, however, that if the May 1 or November 1 next succeeding the Fixed Rate Conversion Date occurs less than twenty-one (21) days after the Fixed Rate Conversion Date, the first Interest Payment Date shall be the second such date following the Fixed Rate Conversion Date;

(d) the Fixed Rate Conversion Date;

(e) any day on which Series 2008-1 Bonds are subject to mandatory tender for purchase pursuant to the Series Resolution or redemption in whole pursuant to the Series Resolution;

(f) the final maturity date of the Series 2008-1 Bonds; and

(g) with respect to Bank-Owned Bonds, the dates set forth in the Credit Facility Agreement;

provided, however, that if any such date determined in any of the foregoing clauses is not a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day.

*Mandatory Purchase Date* means (i) any date on which there occurs a Change in Interest Rate Mode involving a change from the Daily Rate, the Weekly Rate, the Term Rate or the Auction Mode (including the Fixed Rate Conversion Date), (iii) the Substitution Tender Date, (iv) the Termination Tender Date and (v) the Expiration Tender Date.

*Maximum Rate* means 12% per annum for the Series 2008-1 Bonds (other than Bank-Owned Bonds).

*Mode* means, as the context may require, the Daily Rate Period, the Weekly Rate Period, the Term Rate Period, the Auction Rate Period or the Fixed Rate Period.

*Municipal Swap Index* means, with respect to any Series 2008-1 Bond bearing interest in the Daily Mode or the Weekly Mode for which a rate of interest is not set pursuant to Section 2.05 hereof, the rate per annum determined on the basis of an index based upon weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, which meets specific criteria established by The Securities Industry and Financial Markets Association.

*Notice of Election to Tender* means the notice given by a Holder of Bonds pursuant to the Series Resolution.

*Option to Convert* means the Authority's right and option to convert the rate of interest payable on the Series 2008-1 Bonds from an Adjustable Rate to the Fixed Rate as provided in the Series Resolution.

*Purchase Date* means for a Series 2008-1 Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the owner of said Bond pursuant to the provisions of the Series Resolution but only if the Registered Owner thereof shall have elected to have such Bond purchased on such date pursuant to the Series Resolution.

*Rating Agency* means Fitch, Inc., Moody's Investors Service, Inc., or Standard and Poor's Ratings Group, a division of McGraw-Hill, Inc., or any successor rating agency thereto.

*Record Date* means, at any time, each Auction Period Record Date during the Auction Mode, each Daily Period Record Date during a Daily Rate Period, each Weekly Period Record Date during a Weekly Rate Period, each Term Rate Period Record Date during a Term Rate Period and each Fixed Rate Record Date during the Fixed Rate Period.

*Redemption Date* means the date fixed for redemption of the Series 2008-1 Bonds subject to redemption in any notice of redemption given in accordance with the terms hereof.

*Redemption Terms Certificate* means a certificate delivered by the Remarketing Agent (or another investment banking firm selected by the Authority) to the Credit Facility Provider, the Trustee and the Authority prior to and in connection with a conversion to any Term Rate Period or a Fixed Rate Period, which certificate shall establish, if at all, a no-call period for the Series 2008-1 Bonds being converted, and, if at all, a redemption premium or premiums for the Series 2008-1 Bonds being converted, all as certified by the Remarketing Agent as being, based upon its experience, in its belief, industry standard at the time of such conversion for tax-exempt bonds of similar remaining maturity, security and ratings as the Series 2008-1 Bonds.

*Remarketing Agent* means Lehman Brothers Inc. or its successors or assigns.

*Resolution* means this Series Resolution adopted by the Authority on March 3, 2008 authorizing the issuance of the Series 2008-1 Bonds and other matters.

*Series 2008-1 Bonds* means the Authority's \$232,545,00 Project Revenue Bonds, Senior Series 2008-1 issued pursuant to the Resolution.

*Substitution Date* means the date on which an Alternate Credit Facility is to be substituted for the Credit Facility.

*Substitution Tender Date* means the date five Business Days prior to the Substitution Date.

*Termination Date* means the date on which the Credit Facility shall terminate or be cancelled pursuant to a Termination Notice from the Credit Facility Provider.

*Termination Notice* means written notice provided by the Credit Facility Provider to the Trustee pursuant to the Credit Facility Agreement that states that an Event of Default has occurred under the Credit Facility and that the Credit Facility shall terminate and directs a mandatory tender of the Series 2008-A Bonds.

*Termination Tender Date* means the Business Day prior to the Termination Date.

*Weekly Period Record Date* means, with respect to each Interest Payment Date during a Weekly Rate Period, the Business Day next preceding such Interest Payment Date.

*Weekly Rate* means with respect to the first day of each Calculation Period during a Weekly Rate Period, a rate of interest equal to the rate of interest per annum established and certified to the Trustee (with a copy to the Authority) by the Remarketing Agent no later than 4:00 p.m. on and as of the Determination Date as the minimum rate of interest per annum which, in the opinion of the Remarketing Agent, would be necessary on and as of such day to remarket the Series 2008-1 Bonds in a secondary market transaction at a price equal to the principal amount thereof plus accrued interest thereon.

*Weekly Rate Period* means any period during which the Series 2008-1 Bonds bear interest at a Weekly Rate which period initially shall commence on the Closing Date and shall extend through the day immediately preceding the earlier of (a) the effective date of a Change in the Interest Rate Mode or (b) the Fixed Rate Conversion Date.

#### Determination of Interest in the Weekly Rate Period and the Daily Rate Period (Section 2.05)

*Determination of Interest Rate.* By 9:30 a.m. on each Determination Date for Series 2008-1 Bonds to bear a Daily Rate and by 4:00 p.m. on each Determination Date for Series 2008-1 Bonds to bear a Weekly Rate the Remarketing Agent shall determine in accordance with the terms hereof and make available to the Authority, the Trustee, the Credit Facility Provider, or any Registered Owner of a Series 2008-1 Bond the interest rate or rates determined on such Determination Date.

*Failure to Determine Interest Rate.* During any period in which the Remarketing Agent fails for any reason to determine the interest rate for any Calculation Period: (i) with respect to Series 2008-1 Bonds operating in a Daily Rate Period, the last interest rate so determined shall remain in effect for up to five successive Calculation Periods and, with respect to subsequent Calculation Periods for which the Daily Rate is not so determined, the Daily Rate shall be a rate per annum equal to 100% of the Municipal Swap Index rate most recently published by The Securities Industry and Financial Markets Association on or before the applicable Determination Date; and (ii) with respect to the Series 2008-1 Bonds operating in a Weekly Rate Period, the last interest rate so determined shall remain in effect for up to two successive Calculation Periods and, with respect to subsequent Calculation Periods for which the Weekly Rate is not so determined, the Weekly Rate shall be a rate per annum equal to 100% of the Municipal Swap Index rate most recently published by The Securities Industry and Financial Markets Association on or before the applicable Determination Date; provided, that with respect to any Determination Date, if the applicable rate is not published by the entity referred to in (i) or (ii), the Authority shall select such other publicly available rate as it shall deem most nearly equivalent thereto.

The determination of any rate of interest by the Remarketing Agent in accordance with the Resolution or the establishment of Calculation Periods by the Remarketing Agent as provided in the Resolution shall be conclusive and binding upon the Authority, the Trustee, the Credit Facility Provider, and the registered or beneficial owners of the Series 2008-1 Bonds. Failure of the Remarketing Agent, the Trustee, or DTC or any DTC participant to give any of the notices described in the Resolution, or any defect therein, shall not affect the interest rate to be borne by any of the Series 2008-1 Bonds nor the applicable Calculation Period nor in any way change the rights of the Registered Owners of the Series 2008-1 Bonds to tender their Bonds for purchase or to have them redeemed in accordance with the Resolution.

Anything herein to the contrary notwithstanding, in no event shall the interest rate borne by any Series 2008-1 Bond (excluding any Bank-Owned Bond) exceed the Maximum Rate allowable by applicable law.

Optional Conversion to an Adjustable Rate (Section 2.06)

At the direction of the Authority from time to time, the Series 2008-1 Bonds (unless in the Fixed Rate Period) may be converted, in whole or in part, from one Adjustable Rate to a different Adjustable Rate as provided in the Resolution.

*Notice of Conversion.* If the Authority elects to convert the interest rate of the Series 2008-1 Bonds to a Weekly Rate, a Daily Rate or Fixed Rate as provided in the Series Resolution, the Authority shall deliver a written notice of conversion delivered at least 30 days prior to the proposed effective date of the Change in the Interest Rate Mode to the Trustee, the Remarketing Agent, the Credit Facility Provider, and any Rating Agency then rating the Series 2008-1 Bonds. A Change in the Interest Rate Mode may only be effected on the last Interest Payment Date for a Calculation Period, as the case may be. A notice of Change in the Interest Rate Mode shall be effective only if it is accompanied by the form of opinion that Bond Counsel expects to be able to give on the proposed effective date of such Change in the Interest Rate Mode to the effect that such Change in the Interest Rate Mode is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes. The Trustee shall mail the notice received by the Authority to Bondowners no less than 15 days prior to the proposed effective date of the Change in the Interest Rate Mode.

*Conditions to Conversion.* A Change in the Interest Rate Mode to an Adjustable Rate shall be effective only if:

- a. with respect to any Change in the Interest Rate Mode, the Trustee, the Credit Facility Provider and the Remarketing Agent in the case of any Change in the Interest Rate Mode to or from the Auction Mode) shall receive, by 9:30 a.m. on the effective date of such Change in the Interest Rate Mode, an opinion of Bond Counsel to the effect that such Change in the Interest Rate Mode is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes; and
- b. with respect to any Change in the Interest Rate Mode, the Trustee, the Credit Facility Provider and the Remarketing Agent, shall receive by 4:00 p.m., on the effective date of such Change in the Interest Rate Mode, a certificate from an Authorized Officer of the Authority that all of the Series 2008-1 Bonds tendered or deemed tendered have been purchased at a price equal to the principal amount thereof plus accrued and unpaid interest, if any, with funds provided from the remarketing of such Series 2008-1 Bonds, or from funds deposited with the Trustee, and any premium, if any, has been paid from monies deposited with the Trustee.

If any of the conditions referred to in (a) or (b) above or any of the conditions required by the Resolution is not met with respect to any other Change in the Interest Rate Mode, the Series 2008-1 Bonds shall not be subject to mandatory tender and shall continue to bear interest at the Current Adjustable Rate and be subject to the provisions of the Series Resolution applicable thereto while the Series 2008-1 Bonds bear interest at such Current Adjustable Rate. If any of the foregoing conditions or any of the conditions specified in the Series Resolution for a Change in the Interest Rate Mode are not met, the Trustee shall, as soon as practicable, but in no event later than the next succeeding Business Day, give notice of the failed conversion by Electronic Means to the Authority, the Credit Facility Provider and the Holders.

Optional Conversion to Fixed Rate (Section 2.07)

The Authority reserves the right to fix the rate of interest per annum which the Series 2008-1 Bonds will bear, in whole or in part, for the balance of the term thereof. In the event the Authority as herein provided

exercises its Option to Convert, the Series 2008-1 Bonds shall cease to bear interest at the Adjustable Rate then borne by such Series 2008-1 Bonds and from the Fixed Rate Conversion Date shall bear interest at the Fixed Rate until their stated maturity or earlier redemption, subject to the terms and conditions in the Series Resolution.

*Notice of Conversion to Fixed Rate.* The Option to Convert may be exercised at any time through a written notice given by the Authority not less than 30 nor more than 45 days prior to the proposed Fixed Rate Conversion Date to the Trustee, the Remarketing Agent, and the Credit Facility Provider. The Fixed Rate Conversion Date may only be the last Interest Payment Date for a Calculation Period. A notice of conversion to a Fixed Rate shall be effective only if it is accompanied by the form of opinion that Bond Counsel expects to give on the Fixed Rate Conversion Date to the effect that the establishment of the Fixed Rate is authorized by the Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes. The Trustee shall mail the notice received from the Authority on or before the third Business Day after receipt thereof to the Holders.

*Conditions to Conversion to Fixed Rate Mode.* The Fixed Rate shall take effect only if the Trustee and the Credit Facility Provider receive on the Fixed Rate Conversion Date:

(a) by 9:30 a.m. an Opinion of Bond Counsel to the effect that the conversion to the Fixed Rate is authorized by this Series Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on such Series 2008-1 Bonds from gross income for federal income tax purposes; and

(b) by 4:00 p.m. a certificate from an Authorized Officer of the Authority that all of the Series 2008-1 Bonds tendered or deemed tendered have been purchased at a price equal to the principal amount thereof with funds provided from the remarketing of such Series 2008-1 Bonds in accordance with the Fixed Rate Commitment, and to the extent necessary, funds drawn under the Credit Facility and that accrued and unpaid interest, if any, has been or shall be paid in accordance with the Resolution from funds deposited with the Trustee, and that the premium, if any, has been paid from monies deposited with the Trustee.

If any of the foregoing conditions or any of the conditions required by the Series Resolution is not met with respect to any change from an Adjustable Rate to a Fixed Rate, the Series 2008-1 Bonds shall not be subject to mandatory tender and shall continue to bear interest at the Adjustable Rate then borne by the Series 2008-1 Bonds and be subject to the provisions of the Resolution applicable thereto while the Series 2008-1 Bonds bear interest at such Adjustable Rate. If any of the foregoing conditions to the establishment of the Fixed Rate is not met, the Trustee shall, as soon as practicable, but in no event later than the next succeeding Business Day, give notice of the failed conversion by Electronic Means to the Authority, the Holders, the Credit Facility Provider and the Authority.

If the Series 2008-1 Bonds commence to bear interest at the Fixed Rate as provided in the Series Resolution, the interest rate on such Bonds may not thereafter be changed to an Adjustable Rate.

#### Conversion Generally (Section 2.08)

If the interest rate on less than all Series 2008-1 Bonds is to be converted to a new Adjustable Rate or to a Fixed Rate pursuant to the Series Resolution, the particular Series 2008-1 Bonds to be converted shall be chosen by the Trustee, by lot; provided, however, that the portion of any Series 2008-1 Bond to be converted shall be in Authorized Denominations. In selecting Series 2008-1 Bonds for conversion, the Trustee shall treat each Bond as representing that number of Series 2008-1 Bonds which is obtained by dividing the principal amount of such registered Series 2008-1 Bond in excess of \$100,000 by \$5,000 during a Daily Rate Period or a Weekly Rate Period, such amounts being hereinafter referred to as the "applicable units of principal amount"). If it is determined that one or more, but not all of the applicable units of principal amount represented by any such Series 2008-1 Bond is to be converted, then upon notice of intention to convert such applicable unit or

units, the Holders of such Series 2008-1 Bonds shall forthwith surrender such Bonds to the Trustee for (1) payment of the purchase price (including the premium, if any, and accrued and unpaid interest to the date fixed for conversion) of the applicable unit or units of principal amount called for conversion and (2) exchange for a new Series 2008-1 Bond or Bonds in the aggregate principal amount of the balance of the principal of such Bonds not subject to conversion. If the Holders of any such Series 2008-1 Bond of a denomination greater than \$100,000 shall fail to present such Series 2008-1 Bond to the Trustee, for payment and exchange as aforesaid, such Series 2008-1 Bond shall, nevertheless, become due and payable on the date fixed for conversion to the extent of the applicable unit or units of principal amount subject to such conversion (and to that extent only).

It shall be a condition to any Change in the Interest Rate Mode that the Trustee shall have received (i) written confirmation from each Rating Agency then rating such Bonds that the ratings then assigned by such Rating Agency to such Bonds will not be reduced or withdrawn by reason of such Change in the Interest Rate Mode; provided that a withdrawal of a short-term rating from any Series 2008-1 Bonds being converted to a Fixed Rate shall not be considered to be a withdrawal of a rating for such purpose if no other ratings applicable to any or all of the Series 2008-1 Bonds will be reduced or withdrawn; and (ii) the prior written consent of the Credit Facility Provider to any such Change in the Interest Rate Mode, which consent shall not be unreasonably withheld.

#### Optional Redemption (Section 2.09)

The Series 2008-1 Bonds shall be subject to redemption, in whole or in part, at the option of the Authority upon the request of the Authority at any of the following:

- (a) During any Daily Rate Period, such Series 2008-1 Bonds shall be subject to redemption on any Business Day, as a whole or in part, at the principal amount thereof, plus accrued interest to the date fixed for redemption, if any.
- (b) During any Weekly Rate Period, such Series 2008-1 Bonds shall be subject to redemption on any Business Day, as a whole or in part, at the principal amount thereof, plus accrued interest to the date fixed for redemption, if any.
- (c) After the Fixed Rate Conversion Date, such Series 2008-1 Bonds shall be subject to redemption in whole or in part at any time on any Business Day on or after the expiration of a no-call period (as set forth in a Redemption Terms Certificate), which shall begin on the Fixed Rate Conversion Date at a Redemption Price determined in the Redemption Terms Certificate, together with, in each case, interest accrued and unpaid thereon to the redemption date.

Any optional redemption may be stated to be conditional, and shall be conditioned upon the Trustee's receipt of (i) funds sufficient to pay the Redemption Price of the Series 2008-1 Bonds to be redeemed on or prior to the Redemption Date and (ii) the prior written consent of the Credit Facility Provider to any such optional redemption, which consent will not be unreasonably withheld.

#### Mandatory Redemption (Section 2.10)

*Mandatory Redemption Due to Default Under Credit Facility Agreement.* All Series 2008-1 Bonds secured by a Credit Facility (which shall not include Bank-Owned Bonds or Authority Bonds) shall be subject to mandatory redemption in whole in an amount specified by and at the direction of the Credit Facility Provider at a Redemption Price equal to the principal amount thereof, plus accrued interest, if any, following any Event of Default under the Credit Facility Agreement. Such Series 2008-1 Bonds subject to mandatory redemption shall be redeemed on the redemption date specified by the Credit Facility Provider in such written notice (or if such date is not a Business Day, the next succeeding Business Day). Such redemption date shall be not more than ten (10) nor less than five (5) days after the date such notice is given and not less than five (5) days before the date the Credit Facility is to be terminated on account of the Credit Facility Provider's giving

of direction to the Trustee to redeem all of the Series 2008-1 Bonds. Such Series 2008-1 Bonds redeemed shall be delivered by the Registered Owners (with all necessary endorsements) to the office of the Trustee, at or before 12:00 noon on the redemption date, and payment of the Redemption Price shall be made by wire transfer in immediately available funds by the Trustee by the close of business on the redemption date. The principal of and any accrued interest on any Series 2008-1 Bonds being redeemed under this Section shall be paid from an advance under the Credit Facility.

The Trustee shall give notice by mail to all Registered Owners (with copies thereof to be given to the Remarketing Agent, the Authority, the Credit Facility Provider and any Rating Agency then rating the Series 2008-1 Bonds) prior to the close of business on the Business Day after receipt by the Trustee of such notice stating (i) the mandatory redemption; (ii) the Redemption Date; (iii) the Redemption Price; (iv) that Series 2008-1 Bonds must be surrendered to collect the Redemption Price; (v) that the Credit Facility will terminate on the date specified in such notice; (vi) that interest on such Series 2008-1 Bonds will cease to accrue to such Registered Owner from and after the Redemption Date and such Registered Owner will be entitled only to the Redemption Price on the Redemption Date.

Upon any redemption of such Series 2008-1 Bonds, notwithstanding any provision of the Series Resolution or the Trust Agreement to the contrary, (i) all Bank-Owned Bonds will be subject to mandatory redemption at the terms, in the amounts and by the means set forth in the Credit Facility Agreement and (ii) Bank-Owned Bonds will be selected prior to any other Series 2008-1 Bonds at any time if less than all of the Series 2008-1 Bonds are called for redemption.

#### Notice of Redemption (Section 2.11)

Any redemption of Series 2008-1 Bonds, either in whole or in part, may be made by mailing, not more than sixty (60) nor less than thirty (30) days prior to the redemption date, notice of the redemption to the Registered Owners of the Series 2008-1 Bonds or portions thereof to be redeemed, as provided in the Trust Agreement, and shall be made in the manner and under the terms and conditions provided in the Trust Agreement; provided, however, that failure of any Registered Owner to receive such notice so mailed to such Registered Owner or any defect therein shall not affect the validity of proceedings for the redemption of any Series 2008-1 Bonds, and failure to mail such notice to any Registered Owner entitled thereto shall not affect the validity of the proceedings for the redemption of any Series 2008-1 Bonds as to which no such failure occurred. On the date designated for redemption, notice having been mailed and moneys for payment of the Redemption Price of and interest accrued to the redemption date on the Series 2008-1 Bonds to be redeemed being held by the Trustee, all as provided in the Trust Agreement, the Series 2008-1 Bonds or portions of Series 2008-1 Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for such Series 2008-1 Bonds (or such portions thereof) on such date, plus interest accrued thereon to such date, interest on such Series 2008-1 Bonds (or such portions thereof) shall cease to accrue, such Series 2008-1 Bonds (or such portions thereof) so called for redemption shall cease to be entitled to any lien, benefit or security under the Trust Agreement, and the Registered Owners thereof shall have no rights in respect of such Series 2008-1 Bonds (or such portions thereof) except to receive payment of the Redemption Price thereof and such interest accrued thereon so held by the Trustee.

Any notice of optional redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on such Series 2008-1 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 2008-1 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the principal of, premium if any and interest on such Series 2008-1 Bonds are not on deposit with the Trustee on the redemption date, the redemption shall not be made and the Trustee shall within five Business Days thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received and that such redemption has been cancelled.

Selection of Bonds to be Redeemed Upon Redemption (Section 2.12)

If the Series 2008-1 Bonds are to be redeemed in part, the Series 2008-1 Bonds to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided (a) that such portion of any Series 2008-1 Bond to be redeemed shall be in the principal amount of \$5,000 or any integral multiple thereof, (b) that, in selecting Series 2008-1 Bonds for redemption, the Trustee shall treat each Series 2008-1 Bond as representing that number of Series 2008-1 Bonds which is obtained by dividing the principal amount of such Series 2008-1 Bond by \$5,000, (c) that, to the extent practicable, the Trustee will not select any Series 2008-1 Bond for partial redemption if the amount of such Series 2008-1 Bond remaining Outstanding would be reduced by such partial redemption to less than the lowest Authorized Denomination and (d) Bank-Owned Bonds shall be redeemed prior to any Series 2008-1 Bonds which are not Bank-Owned Bonds. If, however, the Series 2008-1 Bonds are to be redeemed in part while the book-entry-only system through DTC is in effect, the Series 2008-1 Bonds to be redeemed shall be selected by DTC in increments of \$5,000 and otherwise as described in the foregoing sentence in such manner as DTC may determine.

Tender Upon Election of Holder (Section 2.13)

During any Daily Rate Period or Weekly Rate Period, any Series 2008-1 Bond or portion thereof in a principal amount equal to an Authorized Denomination (so long as the principal amount not purchased is an Authorized Denomination) shall be purchased on the demand of the Holder thereof on any Business Day at a price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon delivery to the Trustee and the Remarketing Agent at their respective principal offices, by the close of business on any Business Day of a Notice of Election to Tender; provided, however, that the substance of such Notice of Election to Tender must also be given telephonically to the Remarketing Agent prior to or simultaneously with delivery of such written Notice of Election to Tender to the Remarketing Agent. The date on which such Series 2008-1 Bond shall be purchased at the request of the Holder thereof (i) if the Series 2008-1 Bond then bears interest at a Daily Rate, shall be the date of delivery of such Notice of Election to Tender if such Notice of Election to Tender is delivered to the Trustee and the Remarketing Agent by 10:00 a.m. on such date or may be any Business Day thereafter, or (ii) if the Series 2008-1 Bond then bears interest at a Weekly Rate, shall be a Business Day at least seven days after the date of the delivery of such Notice of Election to Tender to the Trustee and the Remarketing Agent.

Promptly upon receipt of a Notice of Election to Tender delivered in accordance with the Series Resolution, the Trustee shall notify, or cause to be notified, the Authority and the Remarketing Agent by telephone, promptly confirmed in writing, of such receipt, specifying the contents thereof.

Any Notice of Election to Tender shall be irrevocable. If a Holder fails to deliver the Series 2008-1 Bonds referred to in such notice to the Trustee, such Series 2008-1 Bonds shall nevertheless be deemed to have been purchased on the date established for the purchase thereof, and, to the extent that there shall be on deposit in the Bond Purchase Account on such date an amount sufficient to pay the principal amount thereof, plus accrued interest, if any, no interest shall accrue on such Series 2008-1 Bonds from and after the date of purchase and such Holder shall have no rights hereunder thereafter as the owner of such Series 2008-1 Bonds except the right to receive the purchase price of such Series 2008-1 Bonds.

The right of a Holder to tender a Series 2008-1 Bond to the Trustee shall terminate after the Fixed Rate Conversion Date.

Mandatory Tender (Section 2.14)

(a) *Upon Change in the Interest Rate Mode.* Upon any Change in the Interest Rate Mode for the Series 2008-1 Bonds, such Series 2008-1 Bonds bearing a Daily Rate, Weekly Rate, Term Rate or Auction

Period Rate during the Auction Mode shall be subject to mandatory tender for purchase on the effective date of such Change in the Interest Rate Mode at a price equal to the principal amount thereof plus accrued interest and premium, if any, in accordance with the Series Resolution.

(b) *Upon Fixed Rate Conversion Date.* The Series 2008-1 Bonds, as applicable, shall also be subject to mandatory tender for purchase in accordance with the Series Resolution on the Fixed Rate Conversion Date at a price equal to the principal amount thereof plus accrued interest and premium, if any.

(c) *Upon Substitution of the Credit Facility.* The Series 2008-1 Bonds shall also be subject to mandatory tender for purchase in accordance with the Series Resolution on the Substitution Tender Date.

(d) *Upon Expiration of the Credit Facility.* The Series 2008-1 Bonds shall also be subject to mandatory tender for purchase on the Expiration Tender Date if, by the renewal date (i) an extension of the Credit Facility has not been obtained or an Alternate Credit Facility has not been delivered to the Trustee and (ii) the Authority has not delivered a notice with respect to a Change in Interest Rate Mode for which a Credit Facility is not required.

(e) *Upon Termination of the Credit Facility.* All Series 2008-1 Bonds secured by a Credit Facility shall be subject to mandatory tender at a purchase price equal to the principal amount thereof, plus accrued interest, if any, in whole, on the Termination Tender Date, upon receipt by the Trustee of a notice from the Credit Facility Provider stating that an Event of Default has occurred under the Credit Facility Agreement and that the Credit Facility will terminate ten (10) days after receipt of such notice by the Trustee and directing that such Series 2008-1 Bonds shall be subject to mandatory tender rather than mandatory redemption.

*Notice of Mandatory Tender.* If the Series 2008-1 Bonds are subject to mandatory tender pursuant to subsections (a) - (d) above, the Trustee shall give notice of such mandatory purchase by mail or through DTC, if applicable, to the Registered Owners of the Series 2008-1 Bonds subject to mandatory purchase no less than ten (10) days prior to the Mandatory Purchase Date. If the Bonds are subject to mandatory tender pursuant to subsection (e) above, the Trustee shall give notice of such mandatory purchase by mail or through DTC, if applicable, to the Registered Owners of the Series 2008-1 Bonds subject to mandatory purchase no less than five (5) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the purchase price and that interest on Series 2008-1 Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Series 2008-1 Bond shall not affect the validity of the mandatory purchase of any other Series 2008-1 Bond with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Registered Owner. Series 2008-1 Bonds purchased pursuant to this Section shall be delivered by the Registered Owners (with all necessary endorsements) to the office of the Trustee, at or before 10:00 A.M. on the Mandatory Purchase Date, and payment of the purchase price of such Series 2008-1 Bonds shall be made by wire transfer in immediately available funds by the Trustee by the close of business on such Mandatory Purchase Date.

Any such notice of mandatory tender for purchase required by the Series Resolution shall be given by the Trustee, in the name of the Authority (with copies thereof to be given to the Remarketing Agent, the Authority, the Credit Facility Provider and any Rating Agency then rating the Series 2008-1 Bonds and in the case of Series 2008-1 Bonds bearing interest at the Auction Rate, the Auction Agent, and, upon request, the Authority) by first-class mail to the Holders of the Series 2008-1 Bonds subject to purchase at their addresses shown on the books of registry.

#### General Provisions Applicable to Optional and Mandatory Tender (Section 2.15)

If interest has been paid on the Series 2008-1 Bonds, or an amount sufficient to pay interest thereon has been deposited in the Interest Account of the Debt Service Fund, or an amount sufficient to pay accrued interest thereon, if any, has been set aside in the Bond Purchase Account, and the purchase price equal to the

principal of, and premium, if any, on the Series 2008-1 Bonds shall be available in the Bond Purchase Account for purchase of Series 2008-1 Bonds subject to tender for purchase, and if any Holder fails to deliver or does not properly deliver the Series 2008-1 Bonds to the Trustee for which a Notice of Election to Tender has been properly filed or which are subject to mandatory tender for purchase on the purchase date therefor, such Series 2008-1 Bonds shall nevertheless be deemed tendered and purchased on the date established for the purchase thereof, no interest shall accrue on such Series 2008-1 Bonds from and after the date of purchase and such former Holders shall have no rights hereunder as the Registered Owners of such Series 2008-1 Bonds, except the right to receive the purchase price of, premium, if any, on and interest to the purchase date, if any, on such Series 2008-1 Bonds upon delivery thereof to the Trustee in accordance with the provisions of the Series Resolution. The purchaser of any such Series 2008-1 Bonds remarketed by the Remarketing Agent shall be treated as the Registered Owner thereof for all purposes of the Resolution. If the ownership of the Series 2008-1 Bonds is no longer maintained in book-entry form by DTC the payment of Series 2008-1 Bonds optionally tendered shall be subject to delivery of such Series 2008-1 Bonds duly endorsed in blank for transfer or accompanied by an instrument of transfer thereof in form satisfactory to the Trustee executed in blank for transfer at the designated corporate trust office of the Trustee at or prior to 10:00 A.M., on a specified purchase date. The Trustee may refuse to make payment with respect to any Bonds tendered for purchase not endorsed in blank or for which an instrument of transfer satisfactory to the Trustee has not been provided.

The purchase price of Series 2008-1 Bonds subject to tender for purchase in an aggregate principal amount of at least one million dollars (\$1,000,000) shall be payable in immediately available funds or by wire transfer upon written notice from the Holder thereof containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed, if such written notice is received by the Trustee not less than five days prior to the related purchase date.

Upon receipt of notice of the optional tender or mandatory tender of the Series 2008-1 Bonds, the Remarketing Agent shall, subject to the provisions of the Remarketing Agreement, offer for sale and use its best efforts to find purchasers for all Series 2008-1 Bonds or portions thereof properly tendered. The Remarketing Agent shall cause the purchase price for such tendered Series 2008-1 Bonds to be paid to the Trustee in immediately available funds at or before 1:00 p.m. on the purchase date. Not later than 11:00 A.M. on such purchase date the Remarketing Agent shall determine the principal amount of tendered Series 2008-1 Bonds it has successfully remarketed and with respect to which it has received funds from the purchasers thereof, and the Remarketing Agent not later than 11:30 A.M. on such purchase date shall notify the Trustee and the Authority of such amount, as well as the principal amount of Series 2008-1 Bonds tendered or deemed tendered for purchase on such date which it has not remarketed or received funds from the purchasers thereof.

In the event there is a deficiency between (i) the principal amount of the Series 2008-1 Bonds tendered or deemed tendered for purchase on any Purchase Date or Mandatory Purchase Date and (ii) the principal amount of such Bonds that have been successfully remarketed by the Remarketing Agent and with respect to which the Remarketing Agent has received funds from the purchasers thereof, the Trustee, by telex, telecopy or telegraphic demand given before 12:00 P.M., shall draw on the Credit Facility in accordance with the terms thereof so as to receive thereunder by 2:00 P.M. on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of Series 2008-1 Bonds on such date, to enable the Trustee to pay the purchase price all Series 2008-1 Bonds so tendered or deemed tendered for purchase on such purchase date.

#### Remarketing of the Series 2008-1 Bonds (Section 2.18)

The Remarketing Agent shall use its best efforts to offer for sale, provided that Series 2008-1 Bonds shall not be remarketed to the Authority or the University:

- (a) all Series 2008-1 Bonds or portions thereof as to which Notice of Election to Tender has been given;

(b) all Series 2008-1 Bonds required to be purchased pursuant to the Series Resolution; and

(c) all Bank-Owned Bonds (A) purchased on a Purchase Date or a Mandatory Purchase Date described in clause (a) or (b) above.

Series 2008-1 Bonds with respect to which the Trustee has received from the Credit Facility Provider an instruction not to remarket any Series 2008-1 Bonds shall not be remarketed unless an Alternate Credit Facility is in full force and effect or unless the Credit Facility Provider has reinstated the Credit Facility and such Credit Facility is in full force and effect.

Series 2008-1 Bonds not remarketed shall be held by the Trustee. Series 2008-1 Bonds previously purchased with moneys drawn under the Credit Facility shall not be released by the Trustee upon remarketing unless the Trustee has received written evidence from the Credit Facility Provider that the Credit Facility has been reinstated.

*Notice of Remarketing; Registration Instructions; New Series 2008-1 Bonds.* On each Purchase Date or Mandatory Purchase Date, as the case may be:

(a) unless the Remarketing Agent has notified the Trustee otherwise, the Remarketing Agent shall notify the Trustee by Electronic Means not later than 11:00 A.M. of the amount of tendered Series 2008-1 Bonds which were successfully remarketed, the names of the tendering Registered Owners and the registration instructions (i.e., the names, addresses and taxpayer identification numbers of the purchasers and the desired Authorized Denominations) with respect thereto; and

(b) the Trustee shall authenticate new Series 2008-1 Bonds for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 11:30 A.M.

(c) Transfer of Funds; Draw on Credit Facility. On each Purchase Date or Mandatory Purchase Date, as the case may be, the Trustee shall draw on the Credit Facility by 12:00 P.M. in an amount equal to the purchase price of all Series 2008-1 Bonds tendered or deemed tendered less the aggregate amount of remarketing proceeds received from the remarketing of Series 2008-1 Bonds.

#### Delivery of Series 2008-1 Bonds (Section 2.20)

On each Purchase Date or Mandatory Purchase Date, as the case may be, the Series 2008-1 Bonds shall be delivered as follows:

(a) Series 2008-1 Bonds sold by the Remarketing Agent shall be delivered by the Remarketing Agent to the purchasers of those Series 2008-1 Bonds by 12:00 P.M.; and

(b) Series 2008-1 Bonds purchased by the Trustee with moneys drawn under the Credit Facility shall be registered immediately in the name of the Credit Facility Provider or its nominee on or before 2:30 P.M.

#### Undelivered Series 2008-1 Bonds (Section 2.21)

If Series 2008-1 Bonds to be purchased are not delivered by the Registered Owners to the Trustee by 12:00 noon on the Purchase Date or the Mandatory Purchase Date, as the case may be, the Trustee shall hold any funds received for the purchase of those Series 2008-1 Bonds in trust in a separate account and shall pay such funds to the former Registered Owners of the Series 2008-1 Bonds upon presentation of the Series 2008-1 Bonds. Such undelivered Series 2008-1 Bonds shall be deemed to be purchased and shall cease to accrue interest as to the former Registered Owners on the Purchase Date or the Mandatory Purchase Date, as the case may be, and moneys representing the purchase price shall be available against delivery of those Series 2008-1 Bonds at the principal office of the Trustee; provided, however, that any funds which shall be so held by the

Trustee and which remain unclaimed by the former Registered Owner of a Series 2008-1 Bond not presented for purchase for a period of three years after delivery of such funds to the Trustee, shall, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Trustee's satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Registered Owner of such Series 2008-1 Bond shall look only to the Authority and then only to the extent of the amounts so received by the Authority without any interest thereon and the Trustee shall have no further responsibility with respect to such moneys or payment of the purchase price of such Series 2008-1 Bonds. The Trustee shall authenticate a replacement Series 2008-1 Bond for any undelivered Series 2008-1 Bond which may then be remarketed by the Remarketing Agent.

Credit Facility; Alternate Credit Facility (Section 2.23)

While the Credit Facility is in effect with respect to any Series 2008-1 Bond, the Trustee shall, on the Business Day preceding each Interest Payment Date and principal payment date for any such Series 2008-1 Bond before 2:00 P.M. on such day, draw on the Credit Facility in accordance with the terms thereof so as to receive thereunder with respect to Series 2008-1 Bonds covered by the Credit Facility by 12:30 P.M. on said Interest Payment Date and principal payment date an amount, in immediately available funds, equal to the amount of interest and principal due and payable on the Series 2008-1 Bonds on such Interest Payment Date and principal payment date. The proceeds of such draws from the Credit Facility shall be deposited in the Credit Facility Account.

If at any time there shall have been delivered to the Trustee (i) an Alternate Credit Facility in substitution for the Credit Facility then in effect, (ii) an opinion of Bond Counsel and (iii) written evidence satisfactory to the Credit Facility Provider of the provision for purchase from the Credit Facility Provider of all Bank-Owned Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all other amounts due it under the Credit Facility Agreement on or before the effective date of such Alternate Credit Facility, then the Trustee shall accept such Alternate Credit Facility on the Substitution Tender Date and shall surrender the Credit Facility then in effect to the Credit Facility Provider on the Substitution Date. The Authority shall give the Trustee, the Remarketing Agent and the Credit Facility Provider written notice of the proposed substitution of an Alternate Credit Facility for the Credit Facility then in effect no less than forty-five (45) days prior to the proposed Substitution Tender Date. The Trustee shall give notice of such proposed substitution by mail to the Registered Owners of the Series 2008-1 Bonds subject to mandatory purchase no less than thirty (30) days prior to the proposed Substitution Tender Date.

The Trustee shall not sell, assign or otherwise transfer the Credit Facility, except to a successor Trustee hereunder and in accordance with the terms of the Credit Facility and this Series Resolution.

The Remarketing Agent (Section 2.24)

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least thirty (30) days' notice to the Authority, the Trustee and the Credit Facility Provider. The Remarketing Agent may be removed at any time, at the direction of the Authority, by an instrument filed with the Remarketing Agent, the Trustee and the Credit Facility Provider and upon at least thirty (30) days' notice to the Remarketing Agent. Any successor Remarketing Agent shall be selected by the Authority with the consent of the Credit Facility Provider (which consent shall not be unreasonably withheld) and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars (\$15,000,000), and shall be authorized by law to perform all the duties set forth in the Resolution. The Authority's delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Resolution and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of this Series Resolution.

**APPENDIX D-3**

**SUMMARY OF THE CONTRACT**

[Intentionally Left Blank]

## SUMMARY OF THE CONTRACT

*Except as otherwise expressly provided herein, capitalized terms shall be used as defined in the Trust Agreement dated as of November 1, 2000 by and between the Authority and the trustee named therein or its successor (the "Project Trust Agreement") or the Trust Agreement dated as of December 1, 2000 by and between the Authority and the trustee named therein or its successor (the "Facilities Trust Agreement" and together with the Project Trust Agreement, the "Trust Agreements"). Bonds issued pursuant to the Project Trust Agreement are referred to herein as "Project Revenue Bonds, and bonds issued pursuant to the Facilities Trust Agreement are referred to herein as "Facilities Revenue Bonds." The trustees named in each Trust Agreement are referred to herein as the "Bond Trustee."*

### Issuance of Bonds; Projects (Section 2)

The Authority shall issue the Bonds, consisting of Project Revenue Bonds, Senior Series 2008-1 (the "2008-1 Bonds") and Senior Series 2008-2 (the "2008-2 Bonds") and Facilities Revenue Bonds, Senior Series 2008-A (the "2008-A Bonds" or the "Guaranteed Bonds" and together with the 2008-1 Bonds and the 2008-2 Bonds, the "Bonds") to achieve its corporate purposes in undertaking the Projects and related expenses. The Authority shall apply the proceeds of the Bonds as set forth in the Act, the applicable Trust Agreement, the applicable Series Resolution and the Contract, including the payment of costs of the Projects, as defined in the Act. The costs of the Projects, excluding capitalized interest on the Bonds, the funding of the Section 10 Reserve Fund for the Guaranteed Bonds and costs of issuance of the Bonds shall not exceed \$550,000,000, or such higher amount approved by the Trustees (the "Maximum Project Costs").

### Credit of the Commonwealth; Commonwealth Guaranty (Section 3)

The Commonwealth agrees to guarantee to the Owners of all Guaranteed Bonds and to the Trustee, as trustee for such Owners, the payment of the principal of and interest on all of the Guaranteed Bonds as the same become due and payable, and in case the Authority shall default in making any such payment as and when the same shall be due and payable, the Commonwealth hereby agrees to make such payment as the same becomes due and payable and hereby pledges its full faith and credit for the performance of this guaranty, provided that the total amount of bonds and notes issued by the Authority and guaranteed by the Commonwealth under the Act shall not exceed the amount from time to time authorized by the Act to be so guaranteed, exclusive of such bonds and notes as the Act may permit to be excluded from such amount. Such guaranty shall be executed on each of the Guaranteed Bonds in the following form:

#### GUARANTY

For consideration paid, The Commonwealth of Massachusetts, acting pursuant to the power conferred upon it by Chapter 773 of the Acts of 1960, as amended, and by every other enactment thereunto it enabling, hereby unconditionally guarantees to the registered owner of this bond and to the trustee under the trust agreement referred to therein, as trustee for such registered owner, the punctual payment, in all respects in accordance with the provisions of said bond and said trust agreement, of the principal thereof and the interest thereon as the same shall respectively become due and payable and, in the case of the failure of the University of Massachusetts Building Authority to make any such payment of either principal or interest as the same shall become due and payable, The Commonwealth of Massachusetts hereby agrees itself to make such payment punctually and hereby pledges its full faith and credit for the performance of this guaranty.

IN WITNESS WHEREOF, THE COMMONWEALTH OF MASSACHUSETTS has caused this guaranty to be signed in its name and on its behalf by an officer of the Trustees of the University of Massachusetts thereunto duly authorized, as of the date of said bond.

MASSACHUSETTS

THE COMMONWEALTH OF

By \_\_\_\_\_ [facsimile signature] \_\_\_\_\_  
 Authorized Officer  
 Trustees

However, the faith and credit of the Commonwealth are not and shall not be pledged to the payments required under the provisions of Section 12 or in respect of any other obligation assumed by the Commonwealth hereunder. The financial assistance provided pursuant to Section 12 shall be provided solely from the sources identified therein. No provision of the Contract shall create or be deemed to create any obligation by the Commonwealth to appropriate funds for any purposes under the Contract other than performance of the Commonwealth Guaranty on the Guaranteed Bonds.

Undertaking and Completion of Projects (Section 4)

The Authority shall proceed with all reasonable speed to undertake, plan, construct, and complete the Projects in accordance with the written requests authorized by the Trustees, subject to such further approvals by the Trustees and other officials as may be required by the Act or the Contract. The Authority may use any mode of procurement of design and construction with regard to each Project that is from time to time permitted by the Act or other applicable law.

The Authority may engage such consulting architects, engineers, and other experts as it deems advisable in connection with the Projects. The plans and specifications for each of the Projects shall comply, or provide for compliance, with all applicable building codes, laws relating to health, safety and access and other applicable laws and with all applicable rules and regulations promulgated thereunder by any governmental authority. Upon award of a contract or contracts for the doing of any work included in the Projects, the Authority shall provide and maintain competent and adequate architectural and engineering observation of the Projects as the Authority deems appropriate until acceptance thereof by the Trustees for occupancy. The Authority and the Trustees shall permit each other free access to the Project at all times. The Authority shall permit the Trustees to examine such records of the Authority pertaining to the Projects as the Trustees may desire, and the Trustees shall permit the Authority to examine such records of the Trustees pertaining to the Projects as the Authority may desire.

The Authority and the Trustees shall use their best efforts to cause the Projects to be completed so as to be ready for use (and, where applicable, occupancy) as promptly as reasonably possible and, upon completion of all work in connection with any of the Projects, the Authority shall furnish the Trustees with a certificate or certificates to the effect that such work has been completed free from defects and inadequacies and otherwise in conformity with the working drawings and detail specifications as amended or modified by any change order or additional work authorizations, that no mechanics', laborers', materialmen's or other liens exist or can be created on the Projects on account of such work, and that the Authority has made payment in full for the doing of the work in question, or has made other proper arrangements so that it is not longer liable for any claims for payment for such work or materials or supplies furnished to such portion of the Projects.

Operation, Maintenance and Repair of Projects (Section 5)

The Authority shall administer and operate each of the Projects in accordance with the Act, the Contract and the applicable Trust Agreement. The Authority shall establish and revise rules and regulations to insure the use (and, where applicable, occupancy) of, and fix and revise fees, rents, rates and other charges for the use of, the Projects as set forth in the Contract.

Such rules and regulations and such fees, rents, rates and other charges shall be so fixed and adjusted in respect of the aggregate of all revenues from the Projects and from any other projects or property the revenues from which are pledged under the Trust Agreements (collectively, the "Revenues") (1) so as to maintain, so far as consistent with the requirements of the Contract, a reasonable uniformity in charges for like rooms and other accommodations at the University whether or not contained in a project of the Authority and (2) so as to provide Revenues sufficient to:

- (a) pay the cost of maintaining, repairing and operating the Projects and such other projects and property, if any, to the extent that the Trustees have not undertaken to provide such maintenance, repair and operation,
- (b) pay the fees and expenses of the Bond Trustee, fees and expenses of any paying or fiscal agent appointed by the Authority in connection with the issuance of the Bonds or any other notes or bonds secured or provided for under the Trust Agreements, premiums of insurance maintained by the Authority with respect to the Projects and such other projects and property and rentals payable by the Authority under any lease or leases of land on which the Projects or any other such project or property may be located,
- (c) pay the principal of (including Sinking Fund Installments) and the interest on the Bonds and notes and bonds issued to finance or refinance such other projects or property, as such principal and interest shall become due and payable,
- (d) pay such portions of the operating and administrative expenses of the Authority (which shall include any amount (the "Rebate Amount") required by the Internal Revenue Code of 1986, as amended or other applicable law to be rebated by the Authority with respect to the Bonds to the United States of America and not provided from other funds of the Authority) as the Authority shall deem properly allocable to the Projects and such other projects and property,
- (e) pay amounts payable by the Authority under the Series Resolutions, any Derivatives, any Liquidity Facility, any Credit Facility or any other contract or other arrangement with respect to the Bonds,
- (f) create or maintain reserves, if any, for such of the foregoing purposes as may be provided for in any resolution of the Authority as required or permitted by either Trust Agreement,
- (g) pay the amount, if any, required by Section 19C of the Enabling Act to be paid to the Treasurer and Receiver-General of the Commonwealth out of such revenues, and
- (h) in the case of the Guaranteed Bonds, create the Section 10 Reserve Fund.

Without limiting the generality of the foregoing paragraph (the "General Paragraph"), with respect to Specific Revenue Projects, such rules and regulations and such fees, rents, rates and other charges shall be so fixed and adjusted so as to provide Revenues for each such Project at least sufficient to (a) pay the reasonable and necessary costs of (i) services, facilities, supplies, materials and utilities necessary for or incident to the maintenance, repair (including reconstruction, rehabilitation, replacement and restoration) and operation of each such Project and the facilities and services provided thereby, (ii) billing and collecting fees, rents, rates and other charges for the use of each such Project or any facility or service provided thereby and (iii) keeping books of account with respect to such maintenance, repair and operation (such costs hereinafter collectively

referred to as “Specific Revenue Projects Expenses”), and (b) pay such amounts described in clause (b), clause (c), clause (d) clause (e), clause (f), clause (g), and clause (h) of the General Paragraph as the Authority shall deem properly allocable to each such Project. If the Authority should on any one or more occasions determine that all or any portion of any amount described above in this paragraph shall be paid from University Eligible Gifts, Authority Eligible Gifts, other available Authority revenues or all funds of the University permitted by law to be applied thereto, the Authority may deduct from the amount of such Revenues required to be provided as described above in this paragraph the amount that the Authority has determined shall be so paid.

The foregoing paragraph is subject to the qualification that any of the amounts referred to therein that are payable from amounts receivable by the Authority pursuant to the Prior Contracts need not be included in the fees, rents, rates and other charges with respect to the Projects fixed and adjusted pursuant to the Contract.

Any establishment or revision of rules and regulations insuring use and occupancy and any fixing, revising or adjustment of fees, rents, rates or other changes by the Authority as aforesaid shall require the approval of the Trustees as provided in the Act.

With respect to the fixing of fees, rents, rates or other charges in respect of the maintenance, repair and operation of the Projects, other than the Specific Revenue Projects, the undertakings by the Trustees herein to perform such maintenance, repair and operation shall constitute such fees, rents, rates and other charges.

The Authority shall at all times conduct its business and affairs in such manner that:

- (1) each of the Projects will be separately and distinctly accounted for relative to any other project or enterprise developed, administered or engaged in by the Authority;
- (2) such portion of the office and general administrative expenses of the Authority as is charged to each of the Projects and the basis upon which the same is apportioned can be readily determined; and
- (3) all revenues, income, reserves and funds, from whatever source, received or held by the Authority for purposes of or in connection with the undertaking, completion, operation or maintenance of the Projects or for any of the purposes set forth in any resolution authorizing the issue of the Bonds or in the Bonds or in the Trust Agreements or received by or for the account of the Authority as proceeds of insurance upon or as damages award for the taking or condemnation of any of the Projects or any portion thereof, shall at all times be separately accounted for from all funds of the Authority allocable to projects and property of the Authority respecting which the Authority has issued notes or bonds or other than bonds issued under either Trust Agreement and notes to be refunding by bonds issued under either Trust Agreement; provided that the Authority may, except as the Trust Agreements or any resolution of the Authority authorizing any issue of notes to be refunded by bonds to be issued under the Trust Agreements may otherwise provide as to proceeds of such notes or of bonds issued thereunder, mingle all revenues, income, reserves and funds, from whatever source, received or held by the Authority for the purposes of or in connection with the undertaking, completion, operation or maintenance of any project financed or to be financed or refinanced by bonds secured by the Trust Agreements or for like purposes of or in connection with any other project or property of the Authority the revenues from which are pledged or assigned by the Trust Agreements.

The Authority hereby authorizes and directs the Trustees to make and revise rules and regulations concerning the conduct of persons while on or in the Projects and the bringing into or onto, keeping in or on and removal from the Projects of property of others than the Authority, to enforce such rules and regulations and to establish and impose penalties for violation of the same. All such rules, regulations and penalties shall be subject to the approval of the Authority, which shall not be reasonably withheld, shall comply with the Act, the Contract, any other contract or agreement between the Authority and the Trustees relating to the Projects and the Trust Agreements, and, shall be made and revised so as to be nearly identical as possible with rules,

regulations and penalties from time to time promulgated by the Trustees respecting other like facilities under their control.

The obligation of the Trustees hereunder to operate the Projects, keep them in good order and repair and maintain them shall include, but not be limited to, the furnishing of all supplies and materials needed or desirable for such operation, keeping in good order and repair, and maintenance, the making of all interior and exterior repairs to the buildings and structures included in the Projects and all repairs to other improvements and to equipment and furnishings included in the Projects, the maintenance of the Projects and the replacement, restoration and reconstruction of any structure, improvement or item of equipment or furnishings or portion thereof worn out, damaged or destroyed by whatever cause.

Expenses incurred by the Trustees in connection with the repair and maintenance of the Projects shall be paid for or reimbursed to the Trustees from Revenues. The Authority, in its discretion, may (a) authorize the Trustees to deduct from Revenues, prior to remittance of Revenue to the Bond Trustee, amounts equal to amounts budgeted by the Authority for such expenses, or (b) instruct the Trustees to certify to the Authority the amount of such expenses, if any, incurred by the Trustees and not authorized to be deducted, such amounts to be reimbursed to the Trustees from Revenues transmitted to the Bond Trustee. Any amount deducted by the Trustees pursuant to (a) and not expended for such expenses during the period for which it was budgeted by the Authority shall be certified to the Authority by the Trustees within 30 days and shall be retained by the Trustees and used solely for expenses of repair and maintenance of the Projects. In the event the Authority incurs an expense for repair or maintenance of the Projects, the Trustees shall remit to the Authority such portion of the Revenues deducted under (a) as is necessary to reimburse the Authority.

#### Taking or Condemnation of the Projects (Section 6)

The Commonwealth hereby assigns to the Authority all of the rights which it may now or hereafter have on account of any taking or condemnation of any Project owned by the Authority or leased by the Authority as lessee or sublessee from any entity other than the Commonwealth or any taking or condemnation of any portion of any such Project.

#### Authority's Annual Certification to Trustees (Section 7)

On or before July 1, 2008 (for the period through October 31, 2009), and each March 1 thereafter for the twelve-month period commencing the next succeeding November 1, the Authority shall certify in writing to the Trustees (and provide a copy to the Bond Trustee) the amount estimated for each component of the Projects, detailing (i) the projected costs of operating, maintaining and repairing the Projects, (ii) the Authority's projected debt service costs and fees and expenses related to the Bonds, including without limitation any payments with respect to any Liquidity Facility, Credit Facility or Derivatives, (iii) the Authority's projected operating and administrative costs, (iv) any projected required deposits to reserves, including without limitation the Section 10 Reserve Fund, Capital Improvements Reserve Fund and the General Reserve Fund, (v) any projected payments to the Commonwealth pursuant to Section 19C of the Act, (vi) any additional reserves it may propose to create or augment consistent with the Trust Agreements and (vii) the amount, if any, payable to the Trustees to reimburse Specific Revenue Project expenses incurred by the Trustees (collectively, the "Certified Amount"). Such certificate, which may be revised from time to time as necessary, shall state the dates within such period when any portion of the Certified Amount shall be due, the portion of the Certified Amount due on such dates, the payee of such amount and payment instructions, the source of such payments and the amount payable from each source. The Certified Amount shall also detail the fees, rents, rates and other charges proposed for the use of the Projects, which shall be fixed so as to be sufficient, in the aggregate, together with other available moneys, to cover all of the costs and transfers to reserves as aforesaid allocable to the Projects.

Pledge of Trust Funds and Other Available Funds (Section 8)

The Trustees, in the name and on behalf of the Commonwealth, hereby pledge to the making of payments required by Section 12 any funds held as trust funds under the provisions of Section 11 of Chapter 75 of the Massachusetts General Laws and any funds administered by the Trustees as gifts, grants or trusts under the provisions of clause (e) of the fifth paragraph of Section 1A of Chapter 75 of the Massachusetts General Laws permitted by law to be pledged for such purpose (collectively, "Trust Funds"). The Trustees hereby pledge to the making of payments required by Section 12 all available funds of the University (collectively with the Trust Funds, the "Pledged Funds").

All Revenues collected or received by the Authority, from whatever source, as payment of fees, rents, rates or other charges for the use and occupancy of a Project, including without limitation Revenues from Specific Revenue Projects and from the Unrestricted Net Assets shall be held in trust for the Authority separate from all other moneys, held by the Authority, the University or the Commonwealth. Such Pledged Funds shall be applied solely as provided in the Act, the Contract (including the Certified Amount), the Series Resolutions or the Trust Agreements and shall be remitted by the Trustees to the Bond Trustee under the Trust Agreements at such times and in such amounts as may be directed in writing by the Authority in accordance with the Authority's annual Certified Amount.

General Reserve Fund (Section 9)

The Authority shall deposit into the General Reserve Fund from time to time, amounts received by the University on account of the Derivatives related to the Bonds, which amount shall be set forth in the certifications provided to the Trustees pursuant to Section 7 hereof, initially based on an amount equal to .19875% per annum of the notional amounts thereof. Amounts on deposit in the General Reserve Fund may be invested in any investment by which the Authority is from time to time permitted by law to invest its moneys. Moneys and investments in the General Reserve Fund shall be held separately from all other moneys and investments of the Authority. Moneys in the General Reserve Fund may be applied to any lawful purpose of the Authority. Moneys may be withdrawn from the General Reserve Fund by any authorized officer of the Authority. The Authority may, but is not required to, certify to the Trustees from time to of time an amount (a "Replenishment Amount") to replenish all or a portion of amounts previously withdrawn from the General Reserve Fund.

Capital Improvements Reserve Account (Section 10)

A Capital Improvements Reserve Account shall be funded in connection with Projects funded from the proceeds of Facilities Revenue Bonds in an amount determined by the Authority, in consultation with the Vice President for Management and Fiscal Affairs and Treasurer of the University, and set forth in the certificates provided to the Trustee pursuant to Section 7. Moneys in the Capital Improvements Reserve Account may applied to any lawful purpose of the Authority. Moneys may be withdrawn from the Capital Improvements Reserve Account by any authorized officer of the Authority. The Authority may, but is not required to, certify to the Trustees from time to time an amount (a "Replenishment Amount") to replenish all or portion of amounts previously withdrawn from the Capital Improvements Reserve Account.

Pledged Funds (Section 11)

Pledged funds are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to the pledge created by the Contract and the Trustees shall take all actions necessary to protect and effectuate such pledge provided, however, that nothing described in this paragraph shall be deemed to limit the right of the Trustees, to the extent permitted by law, to create a pledge, lien or other charge on any or all such Pledge Funds junior and subordinate to the pledge created hereby.

Payments from Pledged Funds (Section 12)

The Certified Amount shall be paid from Revenues generated from Specific Revenue Projects, University Eligible Gifts, Authority Eligible Gifts, other available Revenues of the Authority and, in the case of Projects financed by the 2008-1 Bonds and the 2008-2 Bonds, all funds of the University permitted by law to be applied thereto, including without limitation amounts available in the University's Unrestricted Net Assets.

"University Eligible Gifts" shall consist of gifts, grants and other contributions made to the University, the University of Massachusetts Foundation, Inc. (or its successors), the University of Massachusetts Dartmouth Foundation, Inc. (or its successors), the University of Massachusetts Amherst Foundation, Inc. (or its successors) or any other entity (other than the Authority) on behalf of the University required or permitted to be applied to pay all or a portion of the Certified Amount and determined by the University from time to time to be so applied (any such determination to be in compliance with any requirements of the University Eligible Gifts and to designate each Project all or a portion of the Certified Amount allocable to which is to be paid from one or more University Eligible Gifts and the amount of each University Eligible Gift to be applied to the payment of the Certified Amount allocable to each such Project).

"Authority Eligible Gifts" shall consist of gifts, grants and other contributions made to the Authority or any other entity on behalf of the Authority required or permitted to be applied to pay all or a portion of the Certified Amount and determined by the Authority from time to time to be so applied (any such determination to be in compliance with any requirements of the Authority Eligible Gifts and to designate each Project all or a portion of the Certified Amount allocable to which is to be paid from one or more Authority Eligible Gifts and the amount of each Authority Eligible Gift to be applied to the payment of the Certified Amount allocable to each such Project).

"Unrestricted Net Assets" means the accumulation of excess unrestricted revenues over expenditures with respect to the University for all prior years and for each current year from the unrestricted current fund, the quasi endowment fund, the unexpended unrestricted plant fund and the unrestricted renewal and replacement plant fund. Prior to fiscal year 2002, such amounts were referred to as the "Expendable Fund Balance."

The University shall cause to be available in the Unrestricted Net Assets at all times amounts sufficient to pay such portion of the Certified Amount required to be paid therefrom and to provide for any other payments required under the Prior Contracts or under the HEFA Financing Agreements.

On or before June 1, 2008, and on or before April 1 of each year thereafter, the President of the University or the Vice President for Management and Fiscal Affairs and Treasurer of the University shall certify in writing to the Authority whether or not there are sufficient funds in the Unrestricted Net Assets to pay the amounts so required to be paid therefrom and, if so, that such funds will be held in trust in the Unrestricted Net Assets for the equal and ratable benefit of the Authority and each other person or entity for whose benefit amounts will be applied to the payment of amounts required to be paid therefrom and will not be expended for any other purpose. Such funds will be so held and not expended for any other purpose; provided, however, that if any portion of the Certified Amount is paid from University Eligible Gifts, Authority Eligible Gifts, other Authority revenues or Revenues from Specific Revenue Projects, then after any such payment an amount equal to such portion so paid need no longer be held in the Unrestricted Net Assets.

In the event of the absence or inability of the President of the University or the Vice President for Management and Fiscal Affairs and Treasurer of the University, or in the event that either such office should no longer exist, such certification may be made by any other officer of the University knowledgeable about the financial affairs of the University. The Trustees hereby authorize and, pursuant to Chapter 3A of Chapter 75 of the Massachusetts General Laws and every other authority thereunto the Trustees enabling, delegate power to the President of the University, the Vice President for Management and Fiscal Affairs and Treasurer of the

University and any such other officer to deliver the certificate described in the preceding paragraph and to do all other acts and things necessary or desirable to cause the University to comply with its obligations described in this section.

If such certification states that sufficient funds are not available in the Unrestricted Net Assets to pay such amounts, such certification shall state the amount of funds in the Unrestricted Net Assets that are available to pay a portion of such amounts and a ratable portion of such funds in the Unrestricted Net Assets shall be held in trust for the benefit of the Authority to be applied to the payment pro rata of all amounts payable to or for the account of the Authority from the Unrestricted Net Assets. The University will continue to be obligated to pay any portion (or, if applicable, all) of the Certified Amount payable from all funds of the University permitted by law to be applied thereto notwithstanding any shortfall in amounts available in the Unrestricted Net Assets.

If such certification states that sufficient funds are not available in the Unrestricted Net Assets to pay such amounts, or if the Authority has not received such certificate as required herein, the Authority will promptly adopt or revise mandatory fees, rates, rents and other charges for the use of the Projects and any portion thereof to be charged and billed to and collected from students in the University and provide for the billing, collection and remittance of such fees rates, rents and other charges by the Trustees at such times and in such manner as in the judgment of the Authority will produce moneys sufficient and available to meet the requirements hereof. The Authority shall promptly notify the Trustees in writing of the matters set forth in the foregoing sentence. The Trustees hereby approve, and agree to confirm such approval from time to time, all fees, rents, rates and other charges adopted or revised by the Authority as described in this paragraph and agree to cause the same to be billed to and collected from students in the University as the Authority may provide and remitted as the Authority may provide.

Amounts payable to the Authority pursuant to the Contract from any funds of the University permitted by law to be applied thereto shall be paid from an account of the University, unless the Authority shall give its prior written consent to another source of payment.

#### The University (Section 13)

The Trustees shall make available to the Authority the services of officers and employees of and facilities in the University for the-performance of the Projects, including the following, in each case, as applicable to the Projects or portions thereof:

- (a) renting, leasing, or otherwise making available rooms, accommodations or other facilities in such Projects for use by students or others provided in the Act, the activities of which are a part of the activities at the University and are subject to regulation by the Trustees;
- (b) purchasing, preparing, selling and serving food, beverage or other concession items and such other items as may from time to time be appropriate or desirable to be offered for sale in conjunction with food, beverages or other concessions;
- (c) operating any dining, kitchen, dishwashing and like facilities, any parking facilities and any extra-curricular use facilities included in the Projects and procuring all equipment, materials and supplies necessary therefor and consumed thereby;
- (d) billing and collecting rents, fees, rates and other charges as provided in the Contract, which billing and collecting may be performed in such manner, and in combination with any other charges in such amounts, as the Trustees in their discretion may deem appropriate, subject to the provisions of Section 12;
- (e) within 20 days after the end of each month, certifying in writing to the Authority the aggregate amount of Revenues remitted by the Trustees to the Bond Trustee or otherwise expended by the

Trustees from Revenues during the prior month and cumulatively for the then current fiscal year, including in particular, with respect to Revenues related to Specific Revenue Projects;

(f) cleaning the Projects, heating such buildings, and structures therein or portions thereof as may require for heat for use, and furnishing steam service, electricity, water, gas and other utilities to the Projects as required;

(g) operating the Projects; and

(h) keeping the Projects in good order and repair, and maintaining the same, in at least the same manner and to at least the same extent as other comparable properties at the University owned by the Commonwealth or operated by the Trustees at the University or, as to any structure or facility not comparable to any other such property, in good and safe order and condition.

In performing the foregoing services the Trustees may act in the name of the Commonwealth or in their name, as may be consistent with law, and, subject to the provisions of Section 12, in their discretion as to the manner, method and time of performance.

During the period the Projects are being undertaken and completed the Trustees shall also furnish to the site thereof (a) steam for temporary heating purposes, (b) electricity for temporary light and power and (c) water for construction purposes, such utilities to be furnished at such points and in such manner as is set forth in the working drawings and detail specifications approved by the Trustees for the doing of work upon the Projects.

The University acknowledges that use of the Projects or portions thereof by any individual or entity that is not a state, a political subdivision thereof or an integral part of a state or political subdivision thereof may jeopardize the tax-exempt status of interest on the Bonds. The University will follow the guidelines to avoid such private use of the Projects, as set forth in the University Tax Certificate delivered in connection with the issuance of the Bonds, which would jeopardize the tax-exempt status of the Bonds. During the time that any Bond is outstanding, the University will consult with the Authority and with bond counsel to the Authority regarding the impact of any private use of the Projects on the tax-exempt status of the Bonds and will not enter into any transaction which might result in a private use without notifying the Authority.

Defaults by the Authority; Rights of the Commonwealth; Defaults by the Trustees; Rights of the Authority. (Section 14)

Upon the failure of the Authority to pay debt service on any Bond (other than as a result of the failure of the Trustees hereunder) or to observe or perform any other agreement or condition hereunder (or failure to cure the same), after 15 days notice thereof to the Authority by the Trustees, the Authority shall be deemed to be in default hereunder. Thereupon, the Commonwealth may, acting by and through the Trustees, take immediate possession of the Projects and possess and operate the same with all the rights and powers, and subject to all the obligations, of the Authority, in the premises until such time as the Trustees may declare the default to be cured. No action by the Trustees hereunder, and no default or breach by the Authority, shall in any way affect the obligations of the Commonwealth hereunder.

Upon the failure of the Authority or the Trustees to make any payment required under the provisions of the Contract, or to observe any other covenant or requirement imposed by the Contract, the Authority or the Trustees, as the case may be, shall be deemed in default hereunder. Thereupon, the Authority or the Trustee may institute legal proceedings to enforce such covenant or requirement or to enforce the pledge and lien granted under the provisions of the Contract and may take such other actions or exercise such other remedies as may be available at law or in equity to enforce the provisions of the Contract. Without limiting the generality of the foregoing, in the case of an Authority default, the Commonwealth may, acting by and through the Trustees, take immediate possession of the Projects and possess and operate the same with all the rights and powers, and subject

to all the obligations, of the Authority in the premises until such time as the Trustees may declare the default to be cured, and, in the case of the a Trustees default, the Authority may itself undertake to perform such obligations, and may employ such persons or entities and make such expenditures as are reasonably necessary for the performance thereof, until such time as the Authority may declare the default to be cured.

No action by the Authority to enforce the Contract against the Trustees, or any other action of the Authority under the Contract, and no default or breach by the Trustees, shall in any way affect the obligations of the Commonwealth or the Trustees hereunder. Whenever a breach of the Contract, whether substantial or otherwise, and whether before or after notice of the breach has been given to the Authority or the Trustees, has been corrected, the obligations and rights hereunder shall be reinstated and performance of the Contract shall continue as if such breach had never occurred.

#### Section 15. Insurance.

The Authority shall purchase and maintain in effect with respect to each of its Projects policies of insurance and fidelity bonds against such risks and losses and in such amounts as it shall deem to be reasonable. Subject to any contrary requirements in the Trust Agreement, the Authority shall use the proceeds of any use and occupancy insurance to replace revenues lost by reason of interruption of the use of the applicable Project and shall apply insurance proceeds received in respect of damage or destruction to a Project to the replacement, restoration or reconstruction of such Project.

#### Notices and Demands (Section 16)

Any notice or demand permitted or required under the Contract to be given or served by any of the parties hereto to or upon another party hereto shall be in writing and shall be signed in the name of the party giving or serving the same. Such notice or demand shall be mailed by registered mail (postage and registry charges prepaid) or served on the President of the University, if such notice is to the Commonwealth or the Trustees, or otherwise on the Executive Director of the Authority. Notice shall be deemed to have been received at the time of actual service or three days after the date of the mailing by registered mail properly addressed. The principal office of the President of the University shall be deemed to be 225 Franklin Street, 12<sup>th</sup> Floor, Boston, Massachusetts 02110 or such other place as the Trustees may designate by written notice to the Authority. The principal office of the Authority shall be deemed to be 225 Franklin Street, 12<sup>th</sup> Floor, Boston, Massachusetts 02110 or such other place as the Authority may designate by written notice to the President of the University.

#### Non-Assignability. (Section 20)

The Contract is not assignable except that if by act of the General Court the powers, functions, duties and property of the University or the Authority are transferred to another political subdivision, agency, board, commission, department, authority or institution of the Commonwealth, the rights and obligations of the Contract shall be deemed to have been assigned thereby to such transferee, and provided further that the Authority's rights to receive moneys hereunder and to enforce the provisions of the Contract may be assigned to the Bond Trustee.

#### Amendments. (Section 21)

The Contract may be amended only by the execution of an Amendment in writing by the Authority, the Trustees and the Commonwealth, acting by and through the Trustees, or their successors.

**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Intentionally Left Blank]

**APPENDIX E**

**MINTZ LEVIN**

One Financial Center  
 Boston, MA 02111  
 617-542-6000  
 617-542-2241 fax  
 www.mintz.com

April \_\_, 2008

University of Massachusetts Building Authority  
 225 Franklin Street, 12th Floor  
 Boston, MA 02110

Re: University of Massachusetts Building Authority (the "Authority") Project  
 Revenue Bonds, Senior Series 2008-1 (the "Bonds")

We have acted as bond counsel to the Authority in connection with the issuance by the Authority of the Bonds pursuant to (i) Chapter 773 of the Acts of 1960, as amended (the "Act"), (ii) the Trust Agreement dated as of November 1, 2000 (the "Trust Agreement") between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"), and (iii) the Series Resolution adopted March 3, 2008 (the "2008-1 Series Resolution"). In such capacity, we have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion, including without limitation the Contract for Financial Assistance, Management and Services dated as of April 1, 2008 (the "Contract"), among the Authority, the University of Massachusetts, acting by and through the Board of Trustees (the "Trustees"), and The Commonwealth of Massachusetts (the "Commonwealth"), acting by and through the Trustees. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Trust Agreement and the 2008-1 Series Resolution.

Under the Trust Agreement, the Authority has pledged certain revenues (the "Revenues") for the payment of the principal of and interest on the Bonds when due.

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

Based upon and subject to the foregoing, we are of the opinion that, under existing law:

1. The Authority is validly existing as a body politic and corporate and public instrumentality of the Commonwealth with the power to enter into the Trust Agreement and the 2008-1 Series Resolution, perform the agreements on its part contained therein and issue the Bonds.
2. The Trust Agreement, the 2008-1 Series Resolution and the Contract have been duly authorized, executed and delivered by the Authority and constitute valid and binding

obligations of the Authority enforceable upon the Authority.

3. The Contract has been duly authorized, executed and delivered by the Commonwealth and constitutes a valid and binding obligation of the Commonwealth enforceable upon the Commonwealth.

4. Pursuant to the Act, the Trust Agreement creates a valid lien on the Revenues and other funds pledged by the Trust Agreement for the security of the Bonds issued thereunder on a parity with other bonds issued under the Trust Agreement.

5. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Trust Agreement. Neither the Commonwealth nor any political subdivision or instrumentality thereof, including the Authority, is obligated to pay the principal of or redemption premium, if any, or interest on the Bonds except from the Revenues and other funds provided therefor as aforesaid in the Trust Agreement and the 2008-1 Series Resolution, and neither the faith and credit nor the taxing power of the Commonwealth nor of any political subdivision or instrumentality thereof, including the Authority, is pledged to the payment of the principal of or redemption premium, if any, or interest on the Bonds.

6. Under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended, which requirements must be satisfied after the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excludable from the gross income of the holders of the Bonds. Failure so to comply could cause the interest on the Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of the Bonds. While interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed under federal tax law on individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations. We express no opinion regarding other federal tax consequences of holding the Bonds.

7. Interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds, the Trust Agreement and the Contract may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

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

Very truly yours,

[Intentionally Left Blank]

## SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

### The Authority and University Disclosure Agreement

In the Authority and University Disclosure Agreement the University will undertake, for the benefit of the Registered Owners and the beneficial owners of the Series 2008-1 Bonds, to provide to the Authority not later than 270 days after the end of each fiscal year of the University, commencing with the fiscal year ending June 30, 2008, the annual financial information described below, together with audited financial statements of the University for such fiscal year if audited financial statement are then available; provided, however, that if audited financial statements of the University are not then available, such audited financial statements shall be delivered to the Authority when they become available (but in no event later than 350 days after the end of such fiscal year (the “prior fiscal year”). The University’s annual financial statements for each fiscal year will be prepared on an accrual basis in accordance with generally accepted accounting principles as in effect from time to time (or as otherwise may be required or permitted by law) and will consist of a combined statement of net assets, a combined statement of revenues, expenses and changes in net assets and the combined statement of cash flows (or such other items as may be required or permitted by law or by generally accepted accounting principles as in effect from time to time or by other accounting principles as in effect from time to time in accordance with which the financial statements of the University may be prepared). Such financial statements will be audited by a group of certified public accountants appointed by the University. The annual financial information regarding the University to be provided to the Authority shall consist of financial and operating data, in each case updated through the last day of the prior fiscal year unless otherwise noted, relating to the following information contained in Appendix A – “Letter from the University” to this Official Statement and in each case substantially in the same level of detail as is found under the subheading under such caption referenced in parentheses after each item:

1. number of full-time equivalent undergraduates and graduates at each campus of the University as of the fall of the prior fiscal year (“Amherst Campus,” “Boston Campus,” “Dartmouth Campus,” “Lowell Campus,” “Worcester Campus,” “Center for Professional Education” and “UMass Online”);
2. degrees and programs offered at each campus of the University (“Amherst Campus,” “Boston Campus,” “Dartmouth Campus,” “Lowell Campus,” “Worcester Campus,” “Center for Professional Education” and “UMass Online”);
3. organizations related to the University (“University Related Organizations”);
4. number and members of the Trustees or other chief governing body of the University and general governmental structure (“Board of Trustees”);
5. number of faculty members and the number of full-time faculty members, the percentage of tenured faculty members and the full-time equivalent student to the full-time equivalent faculty ratios for each campus of the University (except the Worcester campus) (“Faculty and Staff”);
6. academic programs (to the extent not covered under 2 above) and accreditation (“Academic Programs and Accreditation”);
7. applicants, acceptances and matriculations each fall shown on a five year comparative basis through the fall of the prior fiscal year for first year applicants and transfer students, opening fall head count enrollment for each campus shown on a five year comparative basis through the fall of the

prior fiscal year and total head count enrollment and total full-time equivalent enrollment shown on a five year comparative basis (“Enrollment”);

8. tuition and fees shown on a five-year comparative basis through the prior fiscal year for each campus of the University (“Tuition and Fees”);

9. student financial aid amounts (“Student Financial Aid”);

10. sources of revenues of the University (“University Revenues and Budgeting,” “Budget Process - General Operations,” “Budget Process - Sales and Services (Designated Funds)” and “Budget Process - Restricted Funds”);

11. modifications to the University’s five-year capital plan and status of completion of the University’s five-year capital plan (“Current and Future Capital Plans”);

12. modifications to the budget process (“Budget Process”);

13. management of appropriated funds, including appropriations received by the University shown on a five year comparative basis and management of non-appropriated funds (“Management of Appropriated Funds” and “Management of Non-Appropriated Funds”);

14. combined statement of revenues and expenses, including current fund revenues and expenditures and other changes (accrual basis) on a five-year comparative basis through the prior fiscal year (“Financial Reporting Model” and “Historical Summary of Operations (Former Financial Reporting Model”);

15. University and Foundation endowment assets shown on a five-year comparative basis (“Endowment and Fundraising”);

16. indebtedness of the University (“Indebtedness of the University”);

17. unrestricted net assets (“Unrestricted Net Assets – previously referred to as expendable fund balances”);

18. additional indebtedness (“Additional Indebtedness”);

19. capitalize leases (“Capitalized Leases”);

20. insurance (“Insurance”);

21. technological initiatives (“Technological Initiatives”);

22. litigation (“Litigation”); and

23. employee relations (“Employee Relations”).

The Authority and University Disclosure Agreement also requires the Authority to transmit the financial statements of the University and the annual financial information regarding the University to each NRMSIR (within the meaning of Rule 15c2-12 (the “Rule”)) promptly upon the receipt thereof and to give notice to each NRMSIR of any failure by the University to provide such financial statements or annual financial information.

In the Authority and University Disclosure Agreement the Authority will undertake, for the benefit of the Registered Owners and the beneficial owners of the Series 2008-1 Bonds, to provide to each NRMSIR no later than 270 days after the end of each fiscal year of the Authority, commencing with the fiscal year ending June 30, 2007, the annual financial information described below, together with audited financial statements of the Authority for such fiscal year if audited financial statement are then available; provided, however, that if audited financial statements of the Authority are not then available, such audited financial statements shall be delivered to each NRMSIR when they become available (but in no event later than 350 days after the end of such fiscal year (the “prior fiscal year of the Authority”). The Authority’s annual financial statements for each fiscal year will be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as in effect from time to time (or as otherwise may be required or permitted by law) and will consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. Such financial statements will be audited by a group of independent certified public accountants appointed by the Authority. The annual financial information to be provided by the Authority shall consist of financial and operating data, in each case updated through the last day of the prior fiscal year of the Authority unless otherwise noted, relating to the following information contained in this Official Statement and in each case substantially in the same level of detail as is found in the section of the Official Statement referenced in parentheses after each item:

1. any material change in the provisions of the Contract (“Security and Sources of Payment for the Bonds -- General”);
2. annual debt service requirements on the Bonds (“Annual Debt Service Requirements on the Bonds”);
3. any material change in the Enabling Act or other law of the Commonwealth with respect to the Authority (“The Authority -- General”); and
4. any amendment to the Trust Agreement made with the consent of the registered owners of the Bonds issued thereunder and any other amendment to the Trust Agreement which, in the opinion of the firm of attorneys serving as bond counsel to the Authority at the time the Authority submits the information required by the University and Authority Disclosure Agreement, is material to the interests of the registered owners of the Bonds (“Summary of Legal Documents - Summary of the Trust Agreement”).

If the Authority and University Disclosure Agreement is amended with respect to the annual financial information to be submitted by the University or the Authority thereunder, the annual financial information containing the amended financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of financial information being provided. If the Authority and University Disclosure Agreement is amended with respect to the accounting principles to be followed in preparing financial statements of the University or the Authority, the annual financial information of the University or the Authority, as applicable, for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and the financial statements or information prepared on the basis of the former accounting principles. Such comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the University or the Authority, as applicable, to meet its obligations with respect to the Series 2008-1 Bonds. To the extent reasonably feasible, the comparison will also be quantitative. The University will give notice of any change in its accounting principles to the Authority as promptly as practicable after such change has been determined, and the Authority will submit such information to each NRMSIR promptly upon the receipt thereof. The Authority will give notice of each change in its accounting principles to each NRMSIR as promptly as practicable after such change has been determined.

The Authority and University Disclosure Agreement will also require the Authority to submit in a timely manner to the MSRB notice of any of the following events with respect to the Series 2008-1 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
5. substitution of credit or liquidity providers, if any, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Series 2008-1 Bonds;
7. modifications to rights of holders of the Series 2008-1 Bonds;
8. bond calls;
9. defeasances;
10. release, substitution, or sale of property, if any, securing payment of the Series 2008-1 Bonds; and
11. rating changes.

To the extent permitted by law, the provisions of the Authority and University Disclosure Agreement shall be enforceable against the University with respect to the obligations of the University thereunder, and against the Authority with respect to the obligations of the Authority thereunder, in accordance with the terms thereof by any owner of a Series 2008-1 Bond, including any beneficial owner acting as a third party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the University or the Authority, as the case may be). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Series 2008-1 Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the University or the Authority, as applicable, and to compel the University or the Authority as applicable, and any of the officers, agents or employees of, as applicable, the University or the Authority, to perform and carry out their duties under such provisions of the Authority and University Disclosure Agreement; provided, however, that the sole remedy for a violation of the Authority and University Disclosure Agreement shall be limited to an action to compel specific performance of the obligations of the University or the Authority, as applicable, under the Authority and University Disclosure Agreement and shall not include any rights to monetary damages. The Authority and University Disclosure Agreement shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer in effect, whichever occurs first.

Any filing with the NRMSIRs or the SID under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

The Authority and University Disclosure Agreement may be amended, changed or modified by the University and the Authority, without the consent of, or notice to, any owners of the Series 2008-1

Bonds (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided pursuant to the Authority and University Disclosure Agreement by the University or the Authority and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the University or the Authority for the benefit of the owners of the Series 2008-1 Bonds, (d) to modify the contents, presentation and format of the annual financial information of the University or the Authority from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the duties of the University or the Authority in the Authority and University Disclosure Agreement in a manner consistent with or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the duties, as amended, would have complied with the requirements of the Rule at the time of the offering of the Series 2008-1 Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Series 2008-1 Bonds, as determined either by a party unaffiliated with the University or the Authority (such as the firm serving at the time as bond counsel to the Authority) or by the vote or consent of the Registered Owners of a majority in outstanding principal amount of the Series 2008-1 Bonds affected thereby at or prior to the time of such amendment, which consent shall be obtained as provided in the Trust Agreement with respect to consents of Registered Owners.

[Intentionally Left Blank]

**APPENDIX G**

**CERTAIN INFORMATION REGARDING THE BANK**

[Intentionally Left Blank]

**THE LLOYDS TSB BANK GROUP  
“Disclosure Statement”**

Lloyds TSB Bank plc (the “Bank”) is a wholly-owned subsidiary of Lloyds TSB Group plc (“LTSB Group”). The Bank and its subsidiaries (the “Bank’s Group”) comprise one of the leading United Kingdom-based financial services groups, whose businesses provide a wide range of banking and financial services in the United Kingdom and overseas.

At the end of 2006, total consolidated assets of LTSB Group were nearly £344 billion. The total number of persons employed by LTSB Group and its subsidiaries was approximately 76,000.

The activities of the Bank’s Group are organised into three divisions described below:

**UK Retail Banking**

UK Retail Banking provides banking, financial services, mortgages and private banking to some 16 million personal customers through our multi-channel distribution capabilities.

**Insurance and Investments**

Insurance and Investments offers life assurance, pensions, and investment products, general insurance and fund management services.

**Wholesale and International Banking**

Wholesale and International Banking provides banking and related services for major United Kingdom and multinational corporates and financial institutions, and small and medium-sized United Kingdom businesses. It also provides asset finance and share registration services to personal and corporate customers, manages Bank’s Group’s activities in financial markets through its treasury function and provides banking and financial services overseas.

**Availability of Public Information**

The Bank will provide, upon request, to each person to whom this Official Statement is delivered a copy of the most recently available (i) Annual Report and Accounts of LTSB Group for the fiscal year ended December 31, 2006 (ii) Annual Report on Form 20F of LTSB Group. Written requests should be directed to the Bank at 1251 Avenue of the Americas, 39<sup>th</sup> Floor, New York, New York 10020; Attention: Structured Finance. Additional information (including a full copy of such Report and Accounts) is available from the LTSB Group web site at <http://www.investorrelations.lloydstsb.com>

[Intentionally Left Blank]

**APPENDIX H**

**FORM OF LETTER OF CREDIT**

[Intentionally Left Blank]

## APPENDIX H

## LLOYDS TSB BANK PLC

## IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

April 24, 2008

U.S. Bank National Association  
 One Federal Street, 3rd Floor  
 Boston, Massachusetts 02110  
 Attn.: Corporate Trust Department

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

Ladies and Gentlemen:

At the request and for the account of the University of Massachusetts Building Authority (the "Issuer") pursuant to the Letter of Credit and Reimbursement Agreement, dated as of April 1, 2008, between the Issuer and Lloyds TSB Bank plc, acting through its New York Branch (the "Bank") (as amended and supplemented from time to time, the "Reimbursement Agreement"), the Bank hereby establishes this Irrevocable Letter of Credit (the "Letter of Credit") in your favor as Trustee under the "Series Resolution Authorizing the Issuance of Project Revenue Bonds, Senior Series 2008-1 and Providing for Certain Other Matters," adopted by the Authority on March 3, 2008 (as amended and supplemented from time to time, the "Resolution"), for the holders of the Issuer's above-referenced bonds (the "Bonds") in accordance with the following terms and conditions. Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Reimbursement Agreement.

1. **Expiration.** This Letter of Credit automatically shall expire at the close of business on the earliest of:

(a) April 23, 2013; provided that, if the Bank provides you as Trustee with a written notice in the form of Exhibit I hereto that this Letter of Credit shall be extended, the term of this Letter of Credit shall be extended to the date provided in such notice;

(b) the Bank's receipt of your certificate in the form of Exhibit E, F or G hereto appropriately completed, together with this Letter of Credit; and

(c) ten (10) days after you have received notice from the Bank stating that an Event of Default has been declared under the Reimbursement Agreement, stating that the

Letter of Credit will be terminated and demanding that the Trustee cause the Bonds to be redeemed or subject to mandatory tender pursuant to the Resolution.

In the event such expiration date shall not be a Business Day (as hereinafter defined), then this Letter of Credit shall expire on the next succeeding Business Day.

2. **Stated Amount.** The maximum aggregate amount available under this Letter of Credit shall be \$248,905,975, which amount as from time to time reduced and reinstated as provided in paragraphs 3 and 4 is hereinafter referred to as the “Stated Amount.” Of the Stated Amount, up to \$232,545,000 is available for the payment of the unpaid principal of, or the portion of the purchase price corresponding to principal of, the Bonds (the “Principal Portion”) and up to \$16,360,975 is available for the payment of the unpaid interest accrued on, or the portion of the purchase price corresponding to interest accrued on, the Bonds (214 days of interest at 12.00% per annum based on actual days elapsed and a year of 365 days (the “Interest Portion”). The Bank hereby irrevocably authorizes you to draw on this Letter of Credit, in accordance with the terms and conditions hereof, in an aggregate amount not to exceed the amount set opposite its name on the signature page of this Letter of Credit (as such amount may be reduced and/or reinstated as provided herein, the Bank’s “Letter of Credit Commitment”) for the payment of principal, purchase price and interest on the Bonds. On each date on which payment is to be made on the Bonds, you may submit an Interest Drawing, a Principal Drawing or a Purchase Drawing (hereinafter collectively referred to as a “demand for payment”) to the Bank as provided in Section 6 hereof in an amount equal to the lesser of (i) the Stated Amount or (ii) the amount of principal, purchase price and/or interest due on the Bonds on such date. The Letter of Credit Commitment shall be reduced and reinstated in the same manner as the Stated Amount is reduced and reinstated hereunder.

The Bank shall remit the amount of each drawing as directed by the Trustee as provided in paragraph 7(b) hereof.

3. **Reductions in the Stated Amount.** The Stated Amount shall be reduced automatically from time to time as follows:

(a) effective on the date specified in your certificate in the form of Exhibit D, the Interest Portion shall be reduced to \$15,825,803, representing the unpaid interest accrued on, or that portion of the purchase price corresponding to interest accrued on, the Bonds (207 days of interest at 12.00% per annum based on actual days elapsed and a year of 365 days) and, thereafter, subject to any reduction or reinstatement to the Principal Portion pursuant to paragraphs 3 and 4 hereof on or prior to such date, the Stated Amount from and after such date will be \$248,370,803,

(b) upon our honoring of a demand for payment hereunder, the Stated Amount shall be reduced by an amount equal to the amount of such demand for payment, and

(c) upon our receipt of your certificate in the form of Exhibit D hereto appropriately completed, the Stated Amount shall be reduced by an amount equal to the amount specified in such certificate, provided that no reduction under this clause (c) shall duplicate any reduction under (a) or (b) above.

Upon such a reduction, we may require you to return this Letter of Credit and to accept in substitution hereof a substitute Letter of Credit for a Stated Amount reflecting such reduction, but otherwise identical in form and substance to this Letter of Credit.

**4. Automatic Reinstatement.**

(a) Reductions under paragraph 3(b) with respect to any demand for payment of interest on the Bonds (except for that portion of the purchase price corresponding to unpaid interest, if any, on such Bonds) shall be reinstated automatically unless you receive the notice described in paragraph 1(c) hereof (which may include delivery by prepaid telecopier or other telecommunication other than electronic mail) on or before the close of business on the tenth (10th) day after such demand for payment was honored by us.

(b) Reductions under paragraph 3(b) with respect to any demand for payment of the purchase price of Bonds tendered or deemed to have been tendered pursuant to Section 2.13 or 2.14 of the Resolution (each a “Tender”) shall be reinstated automatically to the extent (i) such Bonds are released by us in accordance with the Resolution or (ii) such Bonds cease to be Bank Bonds pursuant to the Resolution upon the determination of the Bank or a Bank Bondowner (which determination by such Bank Bondowner shall be evidenced by written notice thereof provided to the Bank, the Issuer and the Tender Agent) not to sell such Bank Bonds following receipt of a Notice of Purchase from the Remarketing Agent pursuant to Section 2.03(b) of the Reimbursement Agreement that it has located a purchaser who desires to purchase such Bank Bonds. Any such automatic reinstatement shall be in (y) an amount equal to the purchase price of such released Bonds previously paid with proceeds of this Letter of Credit or (z) an amount equal to the principal amount of the Bonds held by the Bank or the Bank Bondowner that are no longer Bank Bonds.

(c) Reductions under paragraph 3(b) or paragraph 3(c) with respect to any demand for payment of the (i) principal of the Bonds or (ii) purchase price of Bonds tendered or deemed to have been tendered pursuant to Section 2.12 of the Resolution (a “Mandatory Tender”) shall not be subject to reinstatement.

**5. Documents To Be Presented.** Funds under this Letter of Credit are available to you against:

(a) in the case of a demand for payment of the unpaid interest accrued on the Bonds, a certificate signed by you in the form of Exhibit A hereto appropriately completed (an “Interest Drawing”);

(b) in the case of a demand for payment of the unpaid principal of the Bonds, a certificate signed by you in the form of Exhibit B hereto appropriately completed (a “Principal Drawing”); and

(c) in the case of a demand for payment of the purchase price of the Bonds pursuant to a Mandatory Tender or a Tender, a certificate signed by you in the form of Exhibit C hereto appropriately completed (a “Purchase Drawing”).

## 6. Method and Notice of Presentment.

(a) The certificates referenced in paragraph 5 (each a “demand for payment”) may be delivered to the Bank in person, by mail, by an express delivery service or by telecopy, at such number or numbers as we shall notify you from time to time in writing. A demand for payment shall be presented during our business hours on a Business Day on or prior to the expiration hereof at the office of the Bank located at 1251 Avenue of the Americas, 39th Floor, New York, New York 10020, Attention: Letter of Credit Department, Telephone No.: (212) 930-8933, Telecopy No.: (212) 930-5099 or at such other address as the Bank may notify you in writing from time to time. As used herein, “Business Day” means any day other than (i) a Saturday or Sunday or (ii) a day on which the New York Stock Exchange or our office at which demands for payment under this Letter of Credit are required to be made are closed.

(b) Prior to the delivery of any demand for payment, you shall give the Bank telephonic notice of your intention to deliver such demand for payment, stating the method of presentment and the amount of such demand for payment; provided, however, that your failure to give such telephonic notice shall not affect our obligation to honor a demand for payment which is otherwise made in strict conformity with the terms hereof. The telephonic notice required hereunder shall be given to the Bank, Attention: Letter of Credit Department, Telephone No.: (212) 930-8933, or such other person or persons as we shall notify you in writing from time to time.

## 7. Time and Method for Payment.

(a) If demand for payment is made on a Business Day in strict conformity with the terms and conditions hereof, payment shall be made to you (i) in the case of a Principal Drawing or an Interest Drawing, if a demand for payment is received by us prior to 2:00 p.m., not later than 12:30 p.m. on the next succeeding Business Day or such later date as you may specify in such demand for payment; and (ii) in the case of a Purchase Drawing, if a demand for payment is received by us prior to 12:00 p.m., not later than 2:30 p.m. on the same Business Day or such later date as you may specify in such demand for payment. If such demand for payment is received by us after 12:00 p.m., such demand shall be deemed to have been received on the next Business Day. All times referenced herein are as of New York, New York time.

(b) Unless otherwise agreed or otherwise indicated in the certificate making a Letter of Credit demand for payment, payment under this Letter of Credit shall be made by Fedwire in immediately available funds to the Trustee, ABA Number: 091000022, Account Number: 173103321092: Corporate Trust Clearing, Att: Jim Coolidge (617-603-6611).

(c) All payments made by the Bank under this Letter of Credit shall be made with its own funds.

8. **Transferability.** This Letter of Credit is transferable in its entirety; but not in part, to any transferee who has succeeded you as Trustee under the Resolution and may be

successively transferred. Transfer of the available balance under this Letter of Credit to such transferee shall be effected by the presentation to us of this Letter of Credit accompanied by a certificate substantially in the form of Exhibit H hereto.

9. **GOVERNING LAW AND CUSTOMS.** TO THE EXTENT NOT INCONSISTENT WITH THE EXPRESS PROVISIONS HEREOF, THIS LETTER OF CREDIT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500 (THE "UCP"), EXCEPT FOR ARTICLE 41 AND THE FIRST SENTENCE OF ARTICLE 48(G) THEREOF. AS TO MATTERS NOT GOVERNED BY THE UCP, THIS LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK INCLUDING, WITHOUT LIMITATION, THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE OF NEW YORK.

10. **Irrevocability.** This Letter of Credit shall be irrevocable.

11. **No Negotiation.** A demand for payment under this Letter of Credit shall be presented directly to us and shall not be negotiated to or by any third party.

12. **Excluded Bonds.** No demand for payment under this Letter of Credit may be made with respect to any Bank Bond (as defined in the Reimbursement Agreement), any Bond bearing interest at the Term Rate, the Auction Period Rate or the Fixed Rate (as such terms are defined in the Resolution), or any Bond registered in the name of, or held by you for the account or benefit of, the Issuer (the Bonds referred to in this Paragraph 12 being referred to collectively as the "Excluded Bonds").

13. **Address for Communications.** Communications with respect to this Letter of Credit shall be in writing and shall be addressed to us at the address referenced in paragraph 6, specifically referring thereon to this Letter of Credit. Copies of such communications and any demand for payment shall also be sent to us at 1251 Avenue of the Americas, 39th Floor, New York, New York 10020, Attention: Letter of Credit Department, Telephone No.: (212) 930-8933, Telecopy No.: (212) 930-5099; provided, however, that the failure to send such copies shall not affect our obligations hereunder.

14. **Complete Agreement.** This Letter of Credit, including Exhibits A through I hereto, sets forth in full the terms of our undertaking. Reference in this Letter of Credit to other documents or instruments is for identification purposes only and such reference shall not modify or affect the terms hereof or cause such documents or instruments to be deemed incorporated herein with the terms and conditions of this Letter of Credit.

We hereby agree with you to honor your demand for payment presented in strict compliance with the terms and conditions of this Letter of Credit.

Very truly yours,

Letter of Credit Commitment:  
\$248,905,975

Lloyds TSB Bank plc, New York Branch

\$232,545,000 of which is available for payment of the principal of the Bonds or that portion of the purchase price of Bonds corresponding to the principal of Bonds.

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

\$16,360,975 of which is available for the payment of interest on the Bonds or that portion of the purchase price of Bonds corresponding to interest on the Bonds.

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

**EXHIBIT A****CERTIFICATE FOR INTEREST DRAWING**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000

University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”) with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that:

1. The Trustee is the Trustee under the Resolution and is making this demand for payment of interest accrued on the Bonds in accordance with the Resolution, which interest is payable on \_\_\_\_\_, \_\_\_\_ (the “Payment Date”).
2. The amount of interest on the Bonds that is payable on the Payment Date equals \$\_\_\_\_\_.
3. Demand is hereby made under the Letter of Credit for \$ \_\_\_\_\_ which amount does not exceed (i) the amount in paragraph (2) or (ii) the Interest Portion of the Stated Amount.
4. The amount demanded hereunder does not include any amount payable with respect to an Excluded Bond.
5. The proceeds hereof shall be applied solely to the payment of unpaid interest on the Bonds.
6. Payment of this demand for payment is requested on or before 2:00 p.m., on the later of (i) the Payment Date (or if the Payment Date is not a Business Day, the next succeeding Business Day) and (ii) the Business Day next succeeding the Business Day on which this Certificate is received or deemed to have been received by the Bank in accordance with paragraph 7(a) of the Letter of Credit.

7. Payment of this demand for payment shall be made in accordance with the payment instructions provided in paragraph 7(b) of the Letter of Credit.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT B****CERTIFICATE FOR PRINCIPAL DRAWING**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”) with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that:

(1) The Trustee is the Trustee under the Resolution and is making this demand for payment of principal of the Bonds in accordance with the Resolution, which principal is payable on \_\_\_\_\_ (the “Payment Date”), by reason of: [check (a) or (b) as applicable]

\_\_\_\_\_(a) scheduled maturity; or

\_\_\_\_\_(b) redemption in whole or in part.

(2) The amount of principal of the Bonds that is payable on the Payment Date equals \$\_\_\_\_\_.

(3) Demand is hereby made under the Letter of Credit for \$\_\_\_\_\_, which amount does not exceed (i) the amount in paragraph (2) or (ii) the Principal Portion of the Stated Amount.

(4) The amount demanded hereunder does not include any amount payable with respect to an Excluded Bond.

(5) The proceeds hereof shall be applied solely to the payment of the principal of Bonds in accordance with Section 8.2 of the Resolution.

(6) Payment of this demand for payment is requested on or before 2:00 p.m., on the later of (a) the Payment Date (or if the Payment Date is not a Business Day, the next succeeding Business Day) and (b) the Business Day next succeeding the Business Day on which this Certificate is received or deemed to have been received by the Bank in accordance with paragraph 7(a) of the Letter of Credit.

(7) Payment of this demand for payment shall be made in accordance with the payment instructions provided in paragraph 7(b) of the Letter of Credit.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT C****CERTIFICATE FOR PURCHASE DRAWING**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”) with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that:

(1) The Trustee is the Trustee under the Resolution and is making this demand for payment of the purchase price of Bonds tendered or deemed to have been tendered pursuant to: [check (a) or (b) as applicable]

\_\_\_\_(a) an optional tender in accordance with the Resolution; or

\_\_\_\_(b) a mandatory tender in accordance with the Resolution.

(2) The portion of the purchase price corresponding to unpaid interest to have accrued, if any, on such Bonds to the date on which such Bonds are to be purchased (the “Purchase Date”) equals \$\_\_\_\_\_.

(3) The portion of the purchase price corresponding to unpaid principal of such Bonds equals \$\_\_\_\_\_.

(4) The purchase price of such Bonds equals \$\_\_\_\_\_, being equal to the sum of (2) plus (4).

(5) The amount of moneys which are to be applied pursuant to the Resolution to the payment of the purchase price prior to funds drawn under the Letter of Credit equals \$\_\_\_\_\_.

(6) Demand is hereby made under the Letter of Credit for \$\_\_\_\_\_, which amount does not exceed (a) the amount in paragraph 2(c) of the Letter of Credit less the amount in paragraph 2(d) of the Letter of Credit, (b) in the case of the portion of such purchase price corresponding to the interest on such Bonds, the Interest Portion of the Stated Amount, or (c) in the case of the portion of such purchase price corresponding to the principal of such Bonds, the Principal Portion of the Stated Amount.

(7) The amount demanded hereunder does not include any amount payable with respect to an Excluded Bond.

(8) The proceeds hereof shall be held in trust for the sole benefit of the Bank until such proceeds are (a) used to purchase Bonds at the purchase price against delivery of such Bonds or Bonds issued in lieu thereof to or at the direction of the Bank or (b) returned to the Bank.

(9) Payment of this demand for payment is requested on or before 2:00 p.m. on the later of (a) the Purchase Date (or if the Purchase Date is not a Business Day, the next succeeding Business Day) and (b) the Business Day on which this Certificate is received or deemed to have been received by the Bank in accordance with paragraph 7(a) of the Letter of Credit.

(10) Payment of this demand for payment shall be made in accordance with the payment instructions provided in paragraph 7(b) of the Letter of Credit.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT D****CERTIFICATE REGARDING REDUCTION OF STATED AMOUNT**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000

University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”) with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that either:

(A) effective [\_\_\_\_\_], the Stated Amount of the Letter of Credit is to be reduced due to a reduction of the interest portion of the Letter of Credit, from \$[\_\_\_\_\_] available for the payment of the unpaid interest accrued on, or the portion of the purchase price corresponding to interest accrued on, the Bonds ([\_\_\_\_\_] days of interest at 12.00% per annum based on actual days elapsed and a year of 365 days) to \$[\_\_\_\_\_] representing the unpaid interest accrued on, or that portion of the purchase price corresponding to interest accrued on, the Bonds ([\_\_\_\_\_] days of interest at [\_\_\_\_\_] % per annum based on actual days elapsed and a year of 365 days) so that from and after [\_\_\_\_\_], the Stated Amount will equal \$[\_\_\_\_\_];

OR

(B) (1) Bonds in the aggregate principal amount of \$\_\_\_\_\_ were paid or deemed to have been paid pursuant to Section [\_\_\_\_\_] of the Resolution on \_\_\_\_\_;

(2) \_\_\_\_\_ days’ interest at \_\_\_% per annum (based on a year of 365 days/360 days) on the principal amount of the Bonds referenced in paragraph (1) is \$\_\_\_\_\_; and

(3) Pursuant to paragraph 3 of the Letter of Credit, the Stated Amount shall be reduced automatically by \$\_\_\_\_\_, such reduction to be allocated so that the Principal Portion and the Interest Portion of the Stated Amount shall be reduced by the amounts stated in paragraphs (1) and (2), respectively, upon receipt by the Bank of this Certificate.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of  
the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT E**

**TERMINATION CERTIFICATE-DEFEASANCE**

LLOYDS TSB BANK PLC  
IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
acting through its New York Branch  
1251 Avenue of the Americas – 39th Floor  
New York, New York 10020  
Attn: Letter of Credit Department  
Telecopy No.: (212) 930-5099

\$232,545,000  
University of Massachusetts Building Authority  
Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”), with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that all outstanding Bonds have been paid or deemed to have been paid in full in accordance with the Resolution.

The Letter of Credit is attached hereto and being surrendered to you herewith.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT F****TERMINATION CERTIFICATE-CONVERSION DATE**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”), with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that all of the Bonds have been converted to Bonds bearing interest at the Term Rate, the Auction Period Rate or the Fixed Rate, as defined in the Resolution.

The Letter of Credit is attached hereto and being surrendered to you herewith.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT G****TERMINATION CERTIFICATE-ALTERNATE CREDIT  
FACILITY**

LLOYDS TSB BANK PLC  
IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
acting through its New York Branch  
1251 Avenue of the Americas – 39th Floor  
New York, New York 10020  
Attn: Letter of Credit Department  
Telecopy No.: (212) 930-5099

\$232,545,000  
University of Massachusetts Building Authority  
Project Revenue Bonds, Senior Series 2008-1

The undersigned, a duly authorized signatory of U.S. Bank National Association (the “Trustee”), hereby certifies to Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”), with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, that the conditions precedent to the acceptance of an Alternate Credit Facility (as defined in the Resolution) as provided in Section 2.23 of the Resolution have been satisfied.

The Letter of Credit is attached hereto and being surrendered to you herewith.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

U.S. Bank National Association, as Trustee

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

**EXHIBIT H****NOTICE OF TRANSFER**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

Lloyds TSB Bank plc,  
 acting through its New York Branch  
 1251 Avenue of the Americas – 39th Floor  
 New York, New York 10020  
 Attn: Letter of Credit Department  
 Telecopy No.: (212) 930-5099

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

Ladies and Gentlemen:

For value received, the undersigned hereby irrevocably transfers to [insert name and address of transferee] all rights of the undersigned with respect to the Letter of Credit.

By this transfer, all rights of the undersigned beneficiary in the Letter of Credit are transferred to the transferee, and the transferee shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments, whether now existing or hereafter made. The Letter of Credit may hereafter be amended, extended or increased without necessity of any consent of or notice to the undersigned, and you are requested to give notice thereof directly to the transferee. The undersigned hereby certifies that the transferee has become successor Trustee under the Indenture (as defined in the Letter of Credit).

The original of the Letter of Credit is returned herewith, and in accordance therewith the undersigned asks you to either reissue the Letter of Credit in the name of the transferee or otherwise amend the Letter of Credit to reflect this transfer, and forward it directly to the transferee with your customary notice of transfer.

U.S. Bank National Association, as Trustee

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

H-18

**EXHIBIT I****NOTICE OF EXTENSION**

LLOYDS TSB BANK PLC  
 IRREVOCABLE LETTER OF CREDIT NO.: NYSB2008329

University of Massachusetts Building  
 Authority  
 225 Franklin Street, 12th Floor  
 Boston, Massachusetts 02110  
 Attention: Executive Director

\$232,545,000  
 University of Massachusetts Building Authority  
 Project Revenue Bonds, Senior Series 2008-1

The undersigned, the duly authorized officers of Lloyds TSB Bank plc, acting through its New York Branch (the “Bank”), hereby advises you, with reference to the above-referenced Irrevocable Letter of Credit (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in your favor, that:

- (1) At the request and for the account of the Issuer, we hereby extend the date referenced in paragraph 1(a) of the Letter of Credit (as such date may have been extended previously from time to time) to \_\_\_\_\_, \_\_\_\_\_.
- (2) Except as specifically provided in paragraph (1) above, all of the terms and conditions of the Letter of Credit remain unchanged and in full force and effect.
- (3) This Notice of Extension is an integral part of the Letter of Credit.

IN WITNESS WHEREOF, the undersigned, on behalf of the Bank, have executed and delivered this Notice of Extension as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

LLOYDS TSB BANK plc,  
acting through its New York Branch

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

Name:

Title:

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

Name:

Title:

cc: U.S. Bank National Association, as Trustee

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



