NEW ISSUE – Book-Entry-Only **Ratings†**

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

$99,325,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005)

Dated: Date of Delivery **Due:** October 1, 2029, as set forth herein

The Series D Bonds initially will be issued as fully registered Bonds in denominations of $5,000 each or any integral multiple thereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as the securities depository for the Series D Bonds. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners as registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Series D Bonds. See "SERIES D BONDS — Book-Entry-Only System" herein.

Principal of and semiannual interest on the Series D Bonds will be paid by J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"). So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest will be payable on October 1, 2005 and semiannually thereafter on each April 1 and October 1 to the Bondowners of record as of the close of business on the fifteenth day of the month preceding such interest payment date.

The Series D Bonds will be subject to mandatory, optional and special redemption prior to maturity as described herein.

The Series D Bonds shall be special obligations of the Authority payable solely from the Revenues (as hereinafter defined) of the Authority, including payments to the Trustee for the account of the Authority by Worcester City Campus Corporation (the "Institution"), in accordance with the provisions of the Loan and Trust Agreement dated as of March 8, 2005 (the "Loan and Trust Agreement") among the Authority, the Institution and the Trustee. Such payments required to be paid by the Institution will be in amounts sufficient to pay, when due, interest and principal of the Series D Bonds, all in accordance with the Loan and Trust Agreement. The payments pursuant to the Loan and Trust Agreement are an unconditional obligation of the Institution. The University of Massachusetts (the "University") is obligated to transfer any funds due under the Loan and Trust Agreement not paid by the Institution in accordance with the provisions of the Financing Agreement dated as of March 8, 2005 (the "Financing Agreement") between the Authority and the University.

Payment of the principal of and interest on the Series D Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series D Bonds by Financial Guaranty Insurance Company.

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

The Series D Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institution and the University by its counsel, Krokidas & Bluestein LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Gadsby Hannah LLP, Boston, Massachusetts. It is expected that the Series D Bonds in definitive form will be available for delivery to DTC in New York, New York, or its custodial agent, on or about April 14, 2005.

Merrill Lynch & Co. **Bear, Stearns & Co. Inc.**

Dated: March 31, 2005

† See "RATINGS" herein.

AMOUNTS, MATURITIES, INTEREST RATES, AND YIELDS
$79,500,000 Serial Bonds

Amount	Due October 1	Interest Rate	Yield	CUSIP
$1,050,000	2006	3.00%	2.67%	57586CEB7
1,340,000	2007	4.00	2.94	57586CEC5
1,150,000	2007	5.00	2.94	57586CED3
2,555,000	2008	4.00	3.10	57586CEE1
2,655,000	2009	4.00	3.30	57586CEF8
2,775,000	2010	4.00	3.50	57586CEG6
2,905,000	2011	4.00	3.69	57586CEH4
490,000	2012	4.00	3.86	57586CEJ0
2,545,000	2012	5.00	3.86	57586CEK7
250,000	2013	4.00	3.98	57586CEL5
2,935,000	2013	5.00	3.98	57586CEM3
1,845,000	2014	4.00	4.07	57586CEN1
1,500,000	2014	5.00	4.07	57586CEP6
450,000	2015	4.10	4.15	57586CEQ4
3,040,000	2015	5.00	4.15*	57586CER2
620,000	2016	4.125	4.21	57586CES0
3,040,000	2016	5.00	4.21*	57586CET8
100,000	2017	4.25	4.28	57586CEU5
3,735,000	2017	5.00	4.28*	57586CEV3
120,000	2018	4.30	4.35	57586CEW1
3,905,000	2018	5.00	4.35*	57586CEX9
20,000	2019	4.30	4.38	57586CEY7
4,210,000	2019	5.00	4.38*	57586CEZ4
50,000	2020	4.40	4.41	57586CFA8
4,390,000	2020	5.00	4.41*	57586CFB6
4,660,000	2021	5.00	4.43*	57586CFC4
4,895,000	2022	5.25	4.40*	57586CFD2
5,150,000	2023	5.25	4.44*	57586CFE0
100,000	2024	4.50	4.53	57586CFF7
5,325,000	2024	5.25	4.48*	57586CFG5
325,000	2025	4.50	4.57	57586CFH3
5,380,000	2025	5.00	4.57*	57586CFJ9
5,990,000	2026	5.00	4.59*	57586CFK6

$19,825,000 5.00% Term Bond due October 1, 2029 to Yield 4.63% - CUSIP 57586CFL4

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* Priced at the stated maturity to the October 1, 2014 optional redemption date at a redemption price of 100%. See "THE SERIES D BONDS – Redemption; Optional Redemption."

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

No dealer, broker, salesman or other person has been authorized by the Authority, the Institution, the University or the Underwriters to give any information or to make any representations other than as contained in this Official Statement and the Appendices hereto in connection with the offering described herein, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any securities other than those identified on the cover page or an offer to sell or a solicitation of an offer to buy such securities in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The Authority neither has nor assumes any responsibility as to the accuracy or completeness of the information contained in this Official Statement, other than that appearing under the captions "THE AUTHORITY."

Certain information contained in this Official Statement has been obtained from the Institution, the University, The Depository Trust Company and other sources that are believed to be reliable. No representation or warranty is made, however, as to the accuracy or completeness of such information and nothing contained in this Official Statement is, or may be relied on as, a promise or representation by the Authority or the Underwriters. The information herein relating to the Institution has been provided by the Institution, and neither the Authority nor the Underwriters makes any representation with respect to or warrants the accuracy of such information.

The CUSIP (Committee on Uniform Securities Identification Procedures) numbers printed in this Official Statement have been assigned by an organization not affiliated with the Authority, the Institution, University, the Underwriters or the Trustee, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Bondowners and no representation is made as to the correctness of the CUSIP numbers printed herein. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including but not limited to the refunding or defeasance of such issue or the use of secondary market financial products. None of the Authority, the Institution, the University, the Underwriters or the Trustee has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers printed herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be used, in whole or in part, for any other purpose. The information and expression of opinions set forth herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

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OFFICIAL STATEMENT

Relating to

$99,325,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Worcester City Campus Corporation Issue
(University of Massachusetts Project), Series D (2005)

INTRODUCTORY STATEMENT

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the $99,325,000 Massachusetts Health and Educational Facilities Authority (the "Authority") Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005) (the "Series D Bonds") authorized by the Loan and Trust Agreement dated as of March 8, 2005 (the "Loan and Trust Agreement") by and among the Authority, the Worcester City Campus Corporation (the "Institution") and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"). The Series D Bonds are secured in accordance with the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act") and the Loan and Trust Agreement. The information contained in this Official Statement is provided for use in connection with the initial sale of the Series D Bonds. The definitions of certain terms used and not otherwise defined herein are contained in Appendix D - "DEFINITIONS OF CERTAIN TERMS."

Use of Proceeds

The proceeds from the sale of the Series D Bonds will be used: (i) to refund the outstanding amount of the Authority's Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A, and (ii) to pay certain costs of issuing the Series D Bonds, including the premium for a financial guaranty insurance policy to be issued by Financial Guaranty Insurance Company.

A more detailed description of the use of proceeds of the Series D Bonds, including approximate amounts, is included herein under "THE PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS."

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES D BONDS

General

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

Pursuant to a Financing Agreement dated as of March 8, 2005 (the "Financing Agreement") between the Authority and the University, the University is obligated to transfer funds due under the Loan and Trust Agreement not otherwise paid by the Institution. The obligation of the University under the Financing Agreement is payable from any and all sources of revenue legally available to the Board of Trustees of the University for payment of the Series D Bonds, provided that in the case of any funds expected to be available for expenditure by the Board of Trustees of the University pursuant to subsequent appropriation or other spending authorization by the legislature, the Board of Trustees of the University's obligation to transfer such funds is subject to such subsequent appropriation or other spending authorization. See "The Financing Agreement" below and Appendix F – "SUMMARY OF THE FINANCING AGREEMENT."

The Series D Bonds are not secured by a lien on the University's revenues or any other property of the University or Institution.

The Loan and Trust Agreement does not limit the Institution from incurring additional indebtedness.

The Institution has pledged no specific revenues nor will the Authority have a security interest in or mortgage on any of the buildings, facilities, equipment or assets of the Institution or the University. The Institution's principal revenues are, and are expected to be, rental revenues received for facilities it owns and leases to the University. See Appendices A and B for more information regarding the Institution and the University.

Pledge of Revenues under the Loan and Trust Agreement

Under the Loan and Trust Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Loan and Trust Agreement (i) all Revenues to be received from the Institution under the Loan and Trust Agreement or derived from any security provided thereunder, (ii) all rights to receive such Revenues and the proceeds of such rights, (iii) all of the Authority's rights under the Financing Agreement, except as otherwise set forth below. The assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority, (ii) the powers of the Authority as stated in the Loan and Trust Agreement to enforce the provisions thereof or (iii) the rights of the Authority under the Financing Agreement to receive payment of administrative expenses, reports, notice and indemnity against claims and to enforce remedies pursuant to the Financing Agreement.

As additional security for its payment obligations under the Loan and Trust Agreement, the Institution will grant to the Trustee a security interest in its interests in the moneys and other investments held from time to time in the funds established under the Loan and Trust Agreement.

The Financing Agreement

The University will enter into the Financing Agreement with the Authority providing for the transfer of amounts (the University's "Transfer Obligation") equal to installments of the principal (including sinking fund installments) and interest due under the Loan and Trust Agreement to the extent not otherwise paid by the Institution pursuant to the Loan and Trust Agreement. The Authority has under the Loan and Trust Agreement assigned and pledged to the Trustee its rights under the Financing Agreement other than certain rights to receive notices and give consents, certain rights to enforce the Financing Agreement, certain rights to payment of administrative expenses and indemnity rights. The University's Transfer Obligation under the Financing Agreement is a special obligation of the University which the University agrees to perform or cause to be performed, provided such transfer is only required to be made solely from any source legally available for expenditure by the Board of Trustees of the University for such purpose, provided further, that in the case of any funds expected to be available for expenditure by the Board of Trustees of the University pursuant to subsequent appropriation or other spending authorization by the legislature, the Board of Trustees of the University's obligation to transfer such funds is subject to such subsequent appropriation or other spending authorization. See Appendix A — "LETTER FROM THE UNIVERSITY" and Appendix F – "SUMMARY OF THE FINANCING AGREEMENT." The Financing Agreement permits the University to issue additional indebtedness. See "Additional Indebtedness" below.

Additional Indebtedness

The Financing Agreement permits the University, under certain circumstances, to issue additional indebtedness or to request University of Massachusetts Building Authority ("UMBA") or the Authority to issue additional indebtedness so long as such additional indebtedness is payable from all legally available funds of the University. See Appendix F -- "SUMMARY OF THE FINANCING AGREEMENT — Limitations on Additional Debt."

Under the Loan and Trust Agreement, there are no limits on the Institution's ability to incur additional indebtedness.

Limited Obligation

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

Financial Guaranty Insurance Policy

Payments to Bondowners in respect of principal of and interest on the Series D Bonds will be further secured by a municipal bond new issue insurance policy (the "Policy") to be issued by Financial Guaranty Insurance Company (the "Bond Insurer"). The Policy unconditionally and irrevocably insures the payment when due of regularly scheduled payments of principal of and interest on the Series D Bonds which shall be otherwise unpaid by reason of non-payment by the Institution of its obligations with respect to the Series D Bonds under the Loan and Trust Agreement. The Policy is non-cancelable. See "BOND INSURANCE" herein and Appendix I - "SPECIMEN FORM OF BOND INSURANCE POLICY" for more information and a discussion of the limitations of such insurance.

So long as the Policy remains in effect, and provided that the Bond Insurer shall not have defaulted on its obligations under the Policy, the Bond Insurer is deemed to be the owner of all of the Series D Bonds for the purposes of giving consents (including consents to amendments to the Loan and Trust Agreement other than those requiring unanimous consent of the affected Bondowners), notices, directions and waivers under the Loan and Trust Agreement, and no legal action with respect to the Series D Bonds may be pursued by the Trustee or any Bondowner without the consent of the Bond Insurer, all as provided in the Loan and Trust Agreement. For all purposes of the provisions of the Loan and Trust Agreement governing Events of Default and remedies, except the giving of notice of default to Bondowners, the Bond Insurer shall be deemed to be the sole holder of the Series D Bonds for so long as it has not failed to comply with its payment obligations under the Policy. See "BOND INSURANCE" herein and Appendix I - "SPECIMEN FORM OF BOND INSURANCE POLICY."

THE AUTHORITY

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

Authority Membership and Organization

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

The members of the Authority are as follows:

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

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

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

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

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

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

JOHN F. FISH; term as member expires July 1 2010.

Mr. Fish, a resident of Milton, is President and Chief Executive Officer of Suffolk Construction Company, Inc., one of the country's leading, privately held construction firms. During his 20 years as President, the Company has expanded geographically to encompass Florida, California and New England and is engaged nationally in commercial, residential, education, retail and healthcare projects. His honors and board memberships include: member of the Massachusetts Business Round Table, Board of Trustees of the Beth Israel Deaconess Medical Center, the Wang Center for the Performing Arts, Tabor Academy, The Catholic School Foundation and the Boys and Girls Club of Boston, Board of Visitors of the Dimmock Community Health Center, and 2002 Recipient of the Peter and Carolyn Lynch Award. Mr. Fish holds a B.A. from Bowdoin College.

JOHN E. KAVANAGH, III; term as member expires July 1, 2011.

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

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

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

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

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

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

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

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

Staff and Advisors

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

PALMER & DODGE LLP, attorneys of Boston, Massachusetts, are serving as General Counsel and Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Series D Bonds in substantially the form attached hereto as Appendix G.

PUBLIC FINANCIAL MANAGEMENT, INC. is serving as financial consultant to the Authority. The financial consultant advises the Authority in connection with the issuance of its obligations and certain other financial matters.

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

Powers of the Authority

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

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

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

THE SERIES D BONDS

Description of the Series D Bonds

The Series D Bonds will be dated the date of delivery and will bear interest from that date, payable on October 1, 2005, and on each April 1 and October 1 thereafter at the rates shown on the inside cover page hereof. The Series D Bonds will mature on October 1 of the indicated years and in the principal amounts as set forth on the inside cover page hereof, subject to redemption and mandatory purchase prior to maturity as set forth below. Interest on the Series D Bonds will be calculated on the basis of twelve 30-day months for a 360-day year.

Subject to the provisions discussed under "Book-Entry-Only System" below, the Series D Bonds are issuable as fully registered bonds without coupons in the minimum denomination of $5,000 or any multiple thereof. Principal of the Series D Bonds will be payable at the principal corporate trust office of the Trustee, and interest on the Series D Bonds will be paid by check or draft mailed to the registered owner as of the fifteenth (15^{th}) day of the month preceding the date on which the interest is to be paid (the "Record Date"), or by wire transfer as provided in the Loan and Trust Agreement.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series D Bonds. The Series D 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 D Bond certificate will be issued for the Series D Bonds, in the aggregate principal amount of the Series D Bonds, and will be deposited with DTC.

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

Purchases of the Series D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series D 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 D 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 D Bonds, except in the event that use of the book-entry-only system for the Series D Bonds is discontinued.

To facilitate subsequent transfers, all Series D 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 Series D 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 D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series D 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 D Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series D Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series D Bonds unless authorized by a Direct Participant in accordance with DTC's 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 D 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 D 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 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, the Obligated Group 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 Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The foregoing 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 University, the Institution or the Underwriter takes responsibility for the accuracy thereof.

No Responsibility of the Authority, the University, the Institution and Trustee. NONE OF THE AUTHORITY, THE UNIVERSITY, THE INSTITUTION OR 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 D BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE SERIES D BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES D BONDS.

Certificated Bonds. DTC may discontinue providing its services as securities depository with respect to the Series D Bonds at any time by giving reasonable notice to the Authority and the Trustee. In addition, the Authority may, with the consent of the Bond Insurer, determine that continuation of the system of book-entry transfers through DTC (or a successor securities depositories) is not in the best interests of the Beneficial Owners of the Series D Bonds. If for either reason the book-entry-only system is discontinued, Series D Bond certificates will be delivered as described in the Agreement and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, Series D Bonds may be exchanged for an equal aggregate principal amount of Series D 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 any Series D Bond 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 Series D 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 Bondowner for any exchange or registration of transfer of the Series D Bonds. The Trustee will not be required to transfer or exchange any Series D Bond during the notice period preceding any redemption if such Series D Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

Redemption

Mandatory Redemption

The Series D Bonds maturing October 1, 2029 shall be redeemed from sinking fund installments beginning on October 1, 2027, and on October 1 of each year thereafter as set forth below, at their principal amounts, without premium, plus accrued interest to the redemption date.

Year	Principal Amount
2027	$6,290,000
2028	6,600,000
2029*	6,935,000

*Final Maturity

Optional Redemption

The Series D Bonds maturing on or before October 1, 2014 are not subject to optional redemption prior to maturity unless redeemed pursuant to the special redemption provisions described below. The following Series D Bonds are also not subject to optional redemption prior to maturity unless redeemed pursuant to the special redemption provisions described below:

Maturity Date (October 1)	Interest Rate	CUSIP
2015	4.10%	57586CEQ4
2016	4.125	57586CES0
2017	4.25	57586CEU5
2018	4.30	57586CEW1
2019	4.30	57586CEY7
2020	4.40	57586CFA8
2024	4.50	57586CFF7
2025	4.50	57586CFH3

The remaining Series D Bonds maturing after October 1, 2014 are subject to optional redemption prior to maturity, on and after October 1, 2014 by the Authority with the consent of the Institution or at the direction of the Institution, as a whole or in part at any time in such order of maturities or sinking fund installments selected by the Institution, at par, plus accrued interest to date fixed for redemption.

Special Redemption

Under the special redemption provisions of the Loan and Trust Agreement, the Series D Bonds are subject to redemption as a whole or in part at any time, in any order of maturity or sinking fund installment as directed by the Institution, at their principal amounts (without premium) plus accrued interest to the redemption date, in the event of damage to or destruction of, or taking of, all or a portion of the Project that exceeds 25% of the then full insurable value of the Project, from insurance or condemnation award proceeds received as a result thereof. See Appendix E — "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Damage to or Destruction or Taking of the Project."

Purchase of Bonds

The Institution may purchase Series D Bonds of any maturity and credit them against a principal payment for such maturity or, as the case may be, any sinking fund installment for such maturity, at the principal amount or applicable redemption price, as the case may be, by delivering them to the Trustee for cancellation at least sixty (60) days before the principal payment date or sinking fund installment date.

Selection of Bonds

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

Notice of Redemption and Other Notices

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

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

Effect of Redemption

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

Acceleration of Series D Bonds

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

THE PLAN OF REFUNDING

The proceeds from the sale of the Series D Bonds will be used, together with other available funds, to refund the outstanding amount of Massachusetts Health and Educational Facilities Authority Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A (the "Series A Refunded Bonds") and to pay certain costs of issuing the Series D Bonds. A more detailed description of the use of proceeds of the Series D Bonds and other moneys and receipts, including approximate amounts and purposes, is included herein under "ESTIMATED SOURCES AND USES OF FUNDS." The advance refunding of the outstanding principal balance of the Series A Refunded Bonds will be achieved through the irrevocable deposit of a portion of the proceeds of the Series D Bonds in the Series A Refunding Trust Fund to be held by J.P. Morgan Trust Company, National Association, as trustee (the "Series A Refunding Bond Trustee") under the Series A Refunding Trust Agreement dated as of March 8, 2005 by and among the Authority, the Institution and the Series A Refunding Bond Trustee. Moneys in the Series A Refunding Trust Fund will be applied to the purchase of Government Obligations as defined in the Series A Refunding Trust Agreement (the "Government Obligations"). Based on a verification report of Grant Thornton LLP, the Government Obligations, interest thereon and the remaining moneys in the Refunding Trust Fund will be sufficient in amount and available when necessary to pay when due the principal, interest, and redemption premium, as applicable, on the Series A Refunded Bonds on and until their maturity or redemption dates. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein. None of the funds in the Series A Refunding Trust Fund shall serve as security for or be available to pay principal of or interest on the Series D Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP will verify the accuracy of mathematical computations relating to the adequacy of the maturing principal of and interest earned on the Government Obligations and any initial cash balance held by the Series A Refunding Bond Trustee to provide for the payment of the principal of, redemption premium and interest on the Series A Refunded Bonds when due, which computations support certain opinions of Palmer & Dodge LLP, Bond Counsel.

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending June 30, the amounts required in such year by the University, the Institution and other related organizations for payment of the principal of, sinking fund installments and interest on outstanding indebtedness after the issuance of the Series D Bonds:

Year Ending June 30	Principal and Sinking Fund Installments on Series D Bonds	Interest on Series D Bonds	Total Debt Service on Series D Bonds	Total Debt Service on Other University Debt[(1)]	Total Annual Debt Service
2006	-	$4,647,771	$4,647,771	$76,296,246	$80,944,017
2007	$1,050,000	4,806,145	5,856,145	76,436,914	82,293,059
2008	2,490,000	4,734,845	7,224,845	81,528,392	88,753,237
2009	2,555,000	4,628,195	7,183,195	77,080,925	84,264,120
2010	2,655,000	4,523,995	7,178,995	77,094,019	84,273,014
2011	2,775,000	4,415,395	7,190,395	75,389,184	82,579,579
2012	2,905,000	4,301,795	7,206,795	74,085,467	81,292,262
2013	3,035,000	4,170,270	7,205,270	72,784,178	79,989,448
2014	3,185,000	4,018,470	7,203,470	70,038,546	77,242,016
2015	3,345,000	3,865,695	7,210,695	64,668,472	71,879,167
2016	3,490,000	3,706,070	7,196,070	60,097,808	67,293,878
2017	3,660,000	3,532,058	7,192,058	57,143,363	64,335,420
2018	3,835,000	3,347,770	7,182,770	57,159,166	64,341,936
2019	4,025,000	3,152,065	7,177,065	57,141,228	64,318,293
2020	4,230,000	2,946,180	7,176,180	57,139,649	64,315,829
2021	4,440,000	2,729,650	7,169,650	57,125,055	64,294,705
2022	4,660,000	2,502,300	7,162,300	45,430,671	52,592,971
2023	4,895,000	2,257,306	7,152,306	45,416,153	52,568,459
2024	5,150,000	1,993,625	7,143,625	45,406,341	52,549,966
2025	5,425,000	1,716,406	7,141,406	37,634,384	44,775,791
2026	5,705,000	1,432,563	7,137,563	37,620,365	44,757,928
2027	5,990,000	1,141,000	7,131,000	33,924,723	41,055,723
2028	6,290,000	834,000	7,124,000	33,904,897	41,028,897
2029	6,600,000	511,750	7,111,750	33,189,108	40,300,858
2030	6,935,000	173,375	7,108,375	30,135,588	37,243,963
2031				59,025,338	59,025,338
2032				18,112,928	18,112,928
2033				9,391,859	9,391,859
2034				9,392,131	9,392,131
2035				9,389,597	9,389,597

[1] Includes debt of the University, the Institution and related organizations and excludes certain capital leases with annual debt service requirements of approximately $2 million and includes Revolving Loan Program Bonds, which have a variable rate of interest assumed here to be 4.50% per year. For a more complete discussion of the University's prior debt and certain revenues pledged thereto, see the section entitled "Indebtedness of the University" in Appendix A — "LETTER FROM THE UNIVERSITY."

ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds

Proceeds of Series D Bonds	$ 99,325,000.00
Net Original Issuance Premium	4,119,563.25
Total Sources of Funds	$103,444,563.25

Uses of Funds

Deposit to Refunding Trust Fund	$102,200,958.46
Issuance expenses*	1,243,604.79
Total Uses of Funds	$103,444,563.25

* Estimated amount to provide for Underwriters' discount, legal fees, bond insurance premium and other costs of issuance of the Series D Bonds.

CERTAIN RISKS

No Security Interest

The Series D Bonds are not secured by a lien on the revenues of the Institution or the University or any personal or real property of the Institution or the University.

Special Obligations under the Financing Agreement

The University's obligation under the Financing Agreement to transfer amounts sufficient to meet the obligation of the Institution to pay amounts due under the Loan and Trust Agreement constitute special obligations of the University payable only from any source legally available (the "Available Funds"), as described more fully in "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES D BONDS — The Financing Agreement" and in Appendix F — "SUMMARY OF THE FINANCING AGREEMENT" under the heading "Special Obligation of the University." Accordingly, the ability of the University to meet its payment obligations under the Financing Agreement will depend on the adequacy of the Available Funds. Such amounts may vary resulting from increases or decreases in tuition, state appropriations, student fees, auxiliary enterprise revenues, research revenues, investment earnings or gains or losses of funds held by the University as part of Available Funds, and the sufficiency of amounts received by the University constituting Available Funds. In addition, such Available Funds will be available for purposes other than payment of the University's Transfer Obligation under the Financing Agreement and, subject to certain restrictions, may be used as Available Funds for or pledged to secure other obligations of the University. The availability of the Available Funds to meet the University's Transfer Obligation under the Financing Agreement will depend on the extent to which the University utilizes such amounts for such other purposes. The extent of the University's various programs, the general financial condition of the University, and the availability of other sources of funding for University programs could affect the availability of amounts to be utilized as Available Funds. See Appendix A — "LETTER FROM THE UNIVERSITY."

Additional Indebtedness

The Loan and Trust Agreement does not limit the Institution from incurring additional secured or unsecured indebtedness by the Institution. The University's Transfer Obligation under the Financing Agreement may be affected by the issuance of additional indebtedness by the University. See "SOURCES OF PAYMENT

AND SECURITY FOR THE SERIES D BONDS — Additional Indebtedness," Appendix C — "FINANCIAL STATEMENTS OF THE UNIVERSITY" and Appendix F – "SUMMARY OF THE FINANCING AGREEMENT" under the heading "Limitations of Additional Debt."

Creditworthiness of the Bond Insurer

The Bond Insurer's obligation under the Policy issued by it is a general obligation of the Bond Insurer. Default by the Bond Insurer may result in insufficient funds being available to pay the principal of and interest on the Series D Bonds. In such event, the remedies available to the Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Bond Insurer, which has the right, acting with the Institution and the Trustee, without Bondowner consent, to amend certain provisions of the Loan and Trust Agreement, including those governing defaults and remedies.

Covenant to Maintain Tax-Exempt Status of the Bonds

The excludability of interest on the Series D Bonds from the gross income of the recipients thereof for federal income tax purposes is dependent in part on the continued compliance by the Authority, the University and the Institution with certain covenants contained in the Loan and Trust Agreement. These covenants relate generally to arbitrage limitations, use of bond proceeds, rebate of certain investment earnings to the federal government, and restrictions on the amount of costs of issuance financed with the proceeds of the Series D Bonds. Failure to comply with any of these covenants may result in the inclusion of interest on the Series D Bonds in the gross income of the recipients thereof for federal income tax purposes retroactive to the date of issuance. See "TAX EXEMPTION."

BOND INSURANCE

The Bond Insurer has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority or the underwriter as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Series D Bonds, the Bond Insurer will issue its Municipal Bond New Issue Insurance Policy for the Series D Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series D Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Institution. The Bond Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or interest (as applicable) is due or on the business day next following the day on which the Bond Insurer shall have received notice (in accordance with the terms of the Policy) from an owner of Series D Bonds or the Trustee of the nonpayment of such amount by the Institution. The Fiscal Agent will disburse such amount due on any Series D Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal or interest (as applicable) shall be vested in the Bond Insurer. The term "Nonpayment" in respect of a Series D Bond includes any payment of principal or interest (as applicable) made to an owner of a Series D Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by the Bond Insurer. The Policy covers failure to pay principal of the Series D Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Series D Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Series D Bonds is accelerated, the Bond Insurer will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, the Bond Insurer will become the owner of the Series D Bond, appurtenant coupon or right to payment of principal or interest on such Series D Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Institution, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the Trustee.

As a condition of its commitment to insure the Series D Bonds, the Bond Insurer may be granted certain rights under the documentation relating to the issuance of the Series D Bonds. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Series D Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

The Bond Insurer, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. The Bond Insurer is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. (“PMI”), affiliates of The Blackstone Group L.P. (“Blackstone”), affiliates of The Cypress Group L.L.C. (“Cypress”) and affiliates of CIVC Partners L.P. (“CIVC”) acquired FGIC Corporation (the “FGIC Acquisition”) from a subsidiary of General Electric Capital Corporation (“GE Capital”). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation’s common stock. FGIC Corporation paid GE Capital approximately $284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from the Bond Insurer, and GE Capital retained approximately $234.6 million in liquidation preference of FGIC Corporation’s convertible participating preferred stock and approximately 5% of FGIC Corporation’s common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of the Bond Insurer or any claims under any insurance policy, including the Policy, issued by the Bond Insurer.

The Bond Insurer is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law (“Article 69”), a comprehensive financial guaranty insurance statute. The Bond Insurer is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles (“SAP”) and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including the Bond Insurer, to financial guaranty insurance and certain related lines.

For the years ended December 31, 2004, and December 31, 2003, the Bond Insurer had written directly or assumed through reinsurance, guaranties of approximately $59.5 billion and $42.4 billion par value of securities, respectively (of which approximately 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately $323.6 million and $260.3 million, respectively. For the year ended December 31, 2004, the Bond Insurer had reinsured, through facultative and excess of loss arrangements, approximately 2.3% of the risks it had written.

As of December 31, 2004, the Bond Insurer had net admitted assets of approximately $3.116 billion, total liabilities of approximately $1.943 billion, and total capital and policyholders’ surplus of approximately $1.173 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The audited financial statements of the Bond Insurer as of December 31, 2004, and the audited financial statements of the Bond Insurer as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by the Bond Insurer with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of the Bond Insurer (if any) included in documents filed by the Bond Insurer with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series D Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The Bond Insurer also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of the Bond Insurer's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty Insurance Company Credit Ratings

The financial strength of the Bond Insurer is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of the Bond Insurer . Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Series D Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series D Bonds. The Bond Insurer does not guarantee the market price or investment value of the Series D Bonds nor does it guarantee that the ratings on the Series D Bonds will not be revised or withdrawn.

Neither the Bond Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Series D Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to the Bond Insurer or the Policy under the heading "BOND INSURANCE." In addition, the Bond Insurer makes no representation regarding the Series D Bonds or the advisability of investing in the Series D Bonds.

RIGHTS OF THE BOND INSURER

For all purposes of the provisions of the Loan and Trust Agreement governing Events of Default and remedies, except the giving of notice of default to Bondowners, the Bond Insurer shall be deemed to be the sole holder of the Series D Bonds for so long as it has not failed to comply with its payment obligations under the Policy. Any acceleration of the Series D Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Policy). So long as the Bond Insurer is not in default under the Policy, the Bond Insurer shall, under the terms of the Loan and Trust Agreement, at all times be deemed to be the exclusive owner of the Series D Bonds for the purpose of approvals, consents (including consents to amendments to the Agreement other than those requiring unanimous consent of the affected Bondowners), waivers or institution of any action and the direction of all remedies as set forth in the Loan and Trust Agreement. The Bond Insurer shall, to the extent it makes payment of principal of or interest on the Series D Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy. See Appendix E – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Rights of the Bond Insurer" and Appendix I – "SPECIMEN FORM OF BOND INSURANCE POLICY."

CONTINUING DISCLOSURE

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

The Institution and the University have covenanted for the benefit of Bondowners to provide certain financial information and operating data relating to the Institution and the University following the end of each of the entity's fiscal years (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed on behalf of the Institution and the University within 270 days after each fiscal year end with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository, if any. The notices of material events will be filed on behalf of the Institution and the University with the Municipal Securities Rulemaking Board and State Repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in Appendix H - "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2- 12 promulgated by the Securities and Exchange Commission. To date the Institution and the University have complied in all material respects with its previous continuing disclosure agreements.

LITIGATION

On the date of issuance of the Series D Bonds, an opinion will be delivered by Counsel to the Institution and University to the effect that to such Counsel's knowledge, no litigation or other legal action is pending or threatened wherein an unfavorable ruling or finding could adversely affect the enforceability of the documents entered into or the validity of the Series D Bonds or which contests such party's or parties' powers or authority with respect to the foregoing. See Appendices A and B with respect to the absence of any material litigation affecting the Institution or the University.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series D Bonds or questioning or affecting the validity of the Series D Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Authority to make a loan to the Institution to finance the Project in accordance with the provisions of the Act and the Loan and Trust Agreement.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series D Bonds by the Authority are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Series D Bonds will be delivered with the Series D Bonds. A copy of the proposed form of the opinion is attached hereto as Appendix G. Certain legal matters will be passed on for the Underwriters by their counsel, Gadsby Hannah LLP, Boston, Massachusetts. Certain legal matters will be passed on for the Institution and the University by its counsel, Krokidas & Bluestein LLP, Boston, Massachusetts.

TAX EXEMPTION

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

Bond Counsel is also of the opinion that, under existing law, interest on the Series D Bonds and any profit on the sale of the Series D Bonds are exempt from Massachusetts personal income taxes and that the Series D Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Series D Bonds. Prospective Bondowners should be aware, however, that the Series D Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Series D

Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series D Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Series D Bonds is less than the amount to be paid at maturity of such Series D Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series D Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series D Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Series D Bonds is the first price at which a substantial amount of such maturity of the Series D Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series D Bonds accrues daily over the term to maturity of such Series D Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series D Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series D Bonds. Bondowners should consult their own tax advisors with respect to the tax consequences of ownership of Series D Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series D Bonds in the original offering to the public at the first price at which a substantial amount of such Series D Bonds is sold to the public.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series D Bonds. Failure to comply with these requirements may result in interest on the Series D Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series D Bonds. The Authority and the Borrower have covenanted to comply with such requirements to ensure that interest on the Series D Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants. Certain requirements and procedures contained or referred to in the Loan and Trust Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series D Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series D Bonds may adversely affect the value of, or the tax status of interest on, the Series D Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Series D Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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

RATINGS

Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") and Fitch IBCA, Inc. ("Fitch") are expected to assign their municipal bond ratings of "AAA" and "AAA", respectively, to the Series D Bonds based on the issuance of the Policy by the Bond Insurer. In addition, Standard & Poor's and Fitch have each assigned an underlying municipal bond rating of "A" and "A+", respectively, to the Series D Bonds based solely on the University and without regard to the Policy. Such ratings express only the views of the respective rating agencies. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they might not be revised downward or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of the ratings might have an adverse effect on the market price of the Series D Bonds.

LEGALITY OF THE SERIES D BONDS FOR INVESTMENT AND DEPOSIT

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

COMMONWEALTH NOT LIABLE ON THE SERIES D BONDS

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

UNDERWRITING

The Series D Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the Underwriters. The Underwriters have agreed to purchase the Series D Bonds at an aggregate discount of $510,530.50 from the public offering price set forth on the inside cover page hereof. The Underwriters have agreed to accept delivery and pay for all of the Series D Bonds if any are delivered. The obligations of the Underwriters are subject to certain terms and conditions set forth in the purchase contract. The Institution has agreed to indemnify the Underwriters and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws. The Underwriters may allow concessions from the public offering price to certain dealers, banks and others. After the initial public offering at the offering price or prices set forth on the inside cover of this Official Statement, the public offering price or prices may be varied from time to time by the Underwriters.

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MISCELLANEOUS

The description of the provisions of the Act, the Loan and Trust Agreement, the Series D Bonds, the Policy, the Continuing Disclosure Agreement, and other documents contained in this Official Statement (including all Appendices hereto), and all references to other materials not purporting to be quoted in full, are only brief summaries of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents for further information, copies of which are available at the principal corporate trust office of the Trustee. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

Information relating to DTC and the book-entry system described under the heading "THE SERIES D BONDS — Book-Entry-Only System" has been furnished by DTC and is believed to be reliable, and information relating to the Bond Insurer and the Policy contained herein under the heading "BOND INSURANCE" and in Appendix I hereto has been furnished by the Bond Insurer and is believed to be reliable, but none of the Authority, the Institution, the University or the Underwriters makes any representations or warranties whatsoever with respect to any such information.

Appendix A contains certain information relating to the University. Appendix B contains certain information relating to the Institution. With respect to such information from the University and the Institution, while the information contained therein is believed to be reliable, the Authority and the Underwriters do not make any representations or warranties whatsoever with respect to such information.

The financial statements of the University at June 30, 2004 and 2003, 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 October 22, 2004, which references the report of other auditors.

Appendix D - "DEFINITIONS OF CERTAIN TERMS," Appendix E - "SUMMARY OF THE LOAN AND TRUST AGREEMENT" and Appendix F - "SUMMARY OF THE FINANCING AGREEMENT" have been prepared by Palmer & Dodge LLP, Bond Counsel. The proposed legal opinion of Palmer & Dodge LLP is set forth in Appendix G.

Appendix H contains the Form of Continuing Disclosure Agreement. Appendix I contains a Specimen Form of Bond Insurance Policy, which has been supplied by the Bond Insurer. All Appendices are incorporated as an integral part of this Official Statement.

The Authority and the Underwriters have relied on the information contained in Appendices A and B and the financial statements contained in Appendix C.

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

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

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

By: *\/s\/ Benson T. Caswell*
Executive Director

APPENDIX A

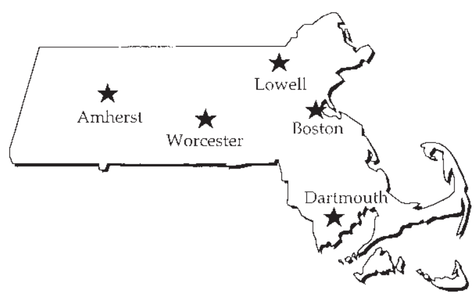
March 31, 2005

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

Members of the Authority:

In connection with the issuance by the Massachusetts Health and Educational Facilities Authority (the "Authority") of its Refunding Revenue Bonds, Worcester City Campus Corporation (University of Massachusetts Project) Issue, Series D (2005) (the "WCCC Series D 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. As used hereinafter, and 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 the following.

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 2004, the University enrolled approximately 46,937 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 approximately 90 miles west of Boston, is the largest in the University system. With a student body of approximately 17,767 FTE undergraduate and approximately 4,296 FTE graduate students enrolled in the fall of 2004, 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 86 bachelor's, 70 master's and 50 doctoral degree programs. During the 2003-2004 academic year, 71 associate, 3,919 bachelor and 1,357 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 41 campus residence halls in five unique residential areas. The December 2004 report of *The Top American Research Universities (The Center)* ranks UMass 46th among public research universities on nine measures of competitive success. The Amherst campus ranks among the top 25 public institutions on prominent grants and fellowships awarded to faculty, and among the top 50 public institutions on two of the measures – national academy members and doctorates awarded. The Amherst campus also ranked 69th in federal research dollars.

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 research and policy needs of business, government, and communities in the greater Boston metropolitan region. The Boston campus has a diverse student body, consisting of approximately 6,097 FTE undergraduate students and approximately 1,658 FTE graduate students enrolled in the fall of 2004. The Boston campus offers 78 undergraduate degree programs, 14 undergraduate certificate programs, 51 master's and graduate certificate programs and 13 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 2003-2004 academic year, 70 certificate, 1,543 bachelor and 702 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.

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 25 graduate programs (including 4 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 Rudolf, 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 5,976 FTE undergraduate and approximately 543 FTE graduate students enrolled in the fall of 2004. Additionally, the Division of Continuing Education had approximately 560 FTE enrolled. During the 2003-2004 academic year, 1,063 bachelor and 210 advanced degrees were conferred. *U.S. News and World Report's 2005 Edition of America's Best Colleges* has ranked the University of Massachusetts Dartmouth 13th among the top northern public universities. At UMass Dartmouth, the scholarly research and creative activities of faculty and graduate students are interwoven with the undergraduate experience. The Dartmouth campus is an active partner in research and economic development projects for the southeastern Massachusetts region, emphasizing the marine industry and economy, public policy, school outreach and artistic and cultural development.

Lowell Campus

The Lowell campus, approximately 30 miles northwest of Boston on the Merrimack River, had a student body of approximately 5,748 FTE undergraduate and approximately 1,360 FTE graduate students in the fall of 2004. The Lowell campus offers five associate's, 38 bachelor's, 31 master's 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 2003-2004 academic year, 48 associate, 1,248 bachelor, and 685 advanced degrees were conferred.

The mission of the Lowell campus is to provide educational and research programs designed to support and develop a sustainable regional industrial economic sector. It is the University's most technologically-oriented campus, focusing on an integrated strategy in which the academic disciplines of engineering, management, science, education and health are applied in the pursuit of a thriving industrial economic sector.

Worcester Campus

The Worcester campus, located approximately 40 miles west of Boston and 50 miles east of Amherst, is one of twenty-eight 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. See Appendix C.

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 2005 Edition of America's Best Graduate Schools*, the Medical School ranked 3rd 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.

The Worcester campus had approximately 845 FTE graduate and medical students enrolled in the fall of 2004. In addition, there were approximately 531 medical residents. The Worcester campus offers four master's and 13 doctoral degree programs but does not offer undergraduate degrees. During the 2003-2004 academic year, 163 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.

Center for Professional Education

In May 1999, the University announced the opening of its Center for Professional Education (the "Center") commencing with the 1999-2000 academic year. The Center was housed within the Massachusetts Technology Collaborative campus located in the 36-acre Massachusetts Technology Park in Westborough, approximately 30 miles west of Boston. The programs offered by the University and once supported through the Center have been fully integrated into UMassOnline, and as a result, the Center is no longer in operation.

UMassOnline

In February 2001, the University launched UMassOnline, the University's system-wide online education consortium. Headquartered at the President's Office Collaborative Services Facility in Shrewsbury, Massachusetts, UMassOnline helps the University to provide greater access to its educational programs and to increase revenues that can be used to support the campuses. In 2004, UMassOnline and the Continuing Education units at the five campuses collaboratively generated tuition revenue of approximately $15,000,000 and supported 16,405 enrollments. Since 2001, gross revenue growth has been 198 percent and enrollment growth was 129 percent.

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 seven-member UMassOnline team supports the campuses to develop, grow and market 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; 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 Massachusetts, New England, national and international markets.

Currently, the University offers more than 45 online degrees, certificates and continuing medical education programs, as well as 800 courses annually. UMassOnline is led by its Chief Executive Officer. (See "Administrative Officers" below).

Proposed Establishment of the University of Massachusetts School of Law

The University's Proposal

On December 21, 2004 the University Trustees (hereinafter defined) voted to approve the establishment of the University of Massachusetts School of Law by bringing the Southern New England School of Law in Dartmouth into the University system. Under the proposed plan, the University's Dartmouth campus would have administered the 250-student law school.

Under the proposal, the University would have acquired the law school's assets, which are valued at approximately $10,000,000, as well as an approximately $1,500,000 reserve fund and assume approximately $2,500,000 of debt. In addition, it was proposed that the University of Massachusetts School of Law would have been self-supporting, which means that no state funds would have been used to support the operations of the School of Law.

The Southern New England School of Law has received state and regional accreditation, but is not accredited by the American Bar Association (the "ABA"). Under the proposal, the University would have sought national accreditation from the ABA.

The Board of Higher Education's Action

On Thursday, March 31, 2005 the state's Board of Higher Education did not approve the University's proposal to establish the University of Massachusetts School of Law.

University Related Organizations

The financial statements of the University 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, 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 purposes of the Building Authority are to provide dormitories, dining commons and other buildings and structures for use of 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 part of the University in the 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.

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.

Recent amendments to Chapter 15A of the General Laws changed the method by which certain members of the BHE are approved. The BHE still consists of 11 voting members; however, seven of the voting members are now appointed by the Governor (rather than ten as previously), 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 1st of the applicable year, however University Trustees generally continue to serve until a successor University Trustee is appointed.

John A. DiBiaggio, Ph.D., Snowmass Village, Colorado *Appointed October 2003* Former President, Tufts University (retired)	2008
Edward A. Dubilo, Weston *Appointed June 1997* Senior Vice President and Financial Consultant, Citigroup Global Markets Inc.	2006
Grace K. Fey, Boston *Appointed February 1996* Executive Vice President and Director, Frontier Capital Management Co.	2005
William F. Kennedy, Quincy *Appointed August 2002* Attorney, Nutter McClennen & Fish, LLP	2006
Jeffrey King, Newton *Voting Student Member, elected 2004* University of Massachusetts, Worcester	2005
Michael E. Labrecque, Alton Bay, New Hampshire *Voting Student Member, elected 2004* University of Massachusetts, Lowell	2005
Robert M. Mahoney, Wellesley *Appointed April 1997* Vice Chairman, Citizens Financial Group, Inc.	2006
Robert B. McCarthy, Watertown *Appointed January 1999* President, Professional Fire Fighters of Massachusetts Former Captain, Watertown Fire Department (retired)	2007
Matthew J. Moseley, Bridgewater *Non-Voting Student Member, elected 2004* University of Massachusetts, Dartmouth	2005
Matthew V. Murphy, Amherst *Non-Voting Student Member, elected 2004* University of Massachusetts, Amherst	2005
William T. O'Shea, Basking Ridge, New Jersey *Appointed October 2003* President, Bell Laboratories/ CTO, Lucent Technologies	2008
Janet D. Pearl, M.D., Wellesley *Appointed October 2004* Co-Director of the Pain Management Center, St. Elizabeth's Medical Center	2009
Tuan Pham, Braintree *Non-Voting Student Member, elected 2004* University of Massachusetts, Boston	2005
Stacey R. Rainey, Boston *Appointed September 2002* Principal, The Parthenon Group	2006
Robert K. Sheridan, Hingham *Appointed August 2002* Chief Executive Officer, Savings Bank Life Insurance	2007

Administrative Officers

Jack M. Wilson, President, age 59

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, age 43

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 63

Marcellette G. Williams has been appointed to the position of Senior Vice President for Academic and Student Affairs and International Relations. Ms. Williams will assume 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 55

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 50

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 63

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.

Terence P. O'Malley, General Counsel, age 59

Terence P. O'Malley has been General Counsel at the University since April 1999. He served as Associate Counsel for the University and as Senior Litigation Counsel, representing the University and its officers and employees in civil litigation from 1982. Mr. O'Malley holds B.A. and J.D. degrees from Boston College.

John V. Lombardi, Chancellor Amherst campus, age 62

John V. Lombardi commenced his role as Chancellor of Amherst campus on July 1, 2002. Mr. Lombardi previously held the position of President of the University of Florida from 1990 to 1999. Mr. Lombardi also served as Provost and Vice President for Academic Affairs at The Johns Hopkins University from 1987 to 1990, and Dean of the College of Arts and Sciences at Indiana University Bloomington from 1985 to 1987. Mr. Lombardi holds a B.A. degree from Pomona College and M.A. and Ph.D. degrees from Columbia University.

J. Keith Motley, Interim Chancellor Boston Campus, age 49

J. Keith Motley was appointed interim Chancellor of the Boston campus on July 12, 2004. Mr. Motley has served as the Vice Chancellor for Student Affairs at the Boston campus since joining the University of Massachusetts in August 2003. Mr. Motley previously 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 58

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.

William T. Hogan, Chancellor Lowell campus, age 72

William T. Hogan has been the Chancellor of the Lowell campus since 1991 and was President of the University of Lowell from 1981 to 1991. Mr. Hogan received a B.S. degree from Northeastern University and M.S. and D.Sc. degrees from the Massachusetts Institute of Technology.

Aaron Lazare, Chancellor Worcester campus, age 69

Aaron Lazare has been the Chancellor of the Worcester campus since 1989. Prior to his current role, Dr. Lazare held the position of Professor and Chair of Psychiatry at the Worcester campus. He received his A.B. from Oberlin College and his M.D. from the Case Western Reserve University School of Medicine.

Faculty and Staff

The University had approximately 4,387 faculty members in the fall of 2004, including approximately 3,158 full-time faculty. Of the full-time faculty (excluding Worcester faculty), approximately 64 percent were tenured, approximately 22 percent were on track for tenure and the remaining approximately 14 percent were not on tenure track. In addition, the University had approximately 6,025 professional and 4,814 classified staff members in the fall of 2004, of which approximately 88 percent and 84 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 and the National Book Award. 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, 16:1 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 2004 semester, Massachusetts residents accounted for approximately 87 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 2004, total full-time equivalent enrollment at the University (including continuing education) was 46,937, representing an increase of approximately two percent over the five-year period.

Total Full-Time Equivalent Enrollment

	2000	2001	2002	2003	2004
Undergraduate	34,998	35,773	35,531	35,763	35,588
Graduate	8,846	8,618	8,690	8,698	8,702
Continuing Education	2,284	2,418	2,538	2,687	2,647
Total	46,128	46,809	46,759	47,148	46,937

The following tables show opening fall head count enrollment for each of the five campuses since 2000.

Amherst Campus

	2000	2001	2002	2003	2004*
In-state undergraduate	13,742	14,326	14,398	14,646	14,738
Out-of-state undergraduate	4,472	4,319	3,478	3,338	3,401
In-state graduate	2,359	2,260	2,250	2,373	2,300
Out-of-state graduate	2,997	3,051	3,206	3,219	3,380
Continuing Education	905	860	797	736	827
Total	24,475	24,816	24,129	24,312	24,646

Boston Campus**

	2000	2001	2002	2003	2004*
In-state undergraduate	8,528	8,710	8,220	7,976	7,397
Out-of-state undergraduate	1,088	1,066	950	749	630
In-state graduate	2,382	2,179	1,953	1,970	1,995
Out-of-state graduate	484	490	461	429	378
Continuing Education	1,431	1,555	1,768	1,982	1,837
Total	13,913	14,000	13,352	13,106	11,682

Dartmouth Campus

	2000	2001	2002	2003	2004*
In-state undergraduate	5,332	5,536	6,027	6,231	6,181
Out-of-state undergraduate	400	392	425	377	354
In-state graduate	352	376	399	421	397
Out-of-state graduate	318	336	367	352	329
Continuing Education	1,011	1,177	1,193	1,395	1,407
Total	7,413	7,817	8,411	8,776	8,299

Lowell Campus

	2000	2001	2002	2003	2004*
In-state undergraduate	5,179	5,430	5,468	5,683	5,665
Out-of-state undergraduate	799	833	740	678	651
In-state graduate	1,735	1,735	1,711	1,667	1,557
Out-of-state graduate	772	865	854	703	615
Continuing Education	4,000	3,786	3,575	3,303	2,873
Total	12,485	12,649	12,348	12,034	11,089

Worcester Campus

	2000	2001	2002	2003	2004*
Medical School	407	411	421	425	419
Other	234	275	311	350	452
Total+	641	686	732	775	871

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

Total Headcount Enrollment

	2000	2001	2002	2003	2004*
In-state undergraduate	32,781	34,002	34,113	34,536	33,981
Out-of-state undergraduate	6,759	6,610	5,593	5,142	5,036
In-state graduate	7,469	7,236	7,045	7,206	6,918
Out-of-state graduate	4,571	4,742	4,888	4,703	4,929
Continuing Education	7,347	7,378	7,333	7,416	6,944
Total	58,927	59,968	58,972	59,003	56,587

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

**The enrollment decline at Boston campus in fall 2004 is 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 2003 to fall 2004, total new freshmen enrollees remained stable, while total new transfer enrollees decreased by 2.7 percent for the system as a whole. The number of total new freshmen enrollees reflected a 3.6 percent increase in the size of the entering class at the Amherst campus, a 7.4 percent decrease in new freshmen at the Boston campus (see the above footnote **), and a 4.5 percent decrease at the Dartmouth campus. The number of total new transfer enrollees reflected a 1.3 percent decrease at the Amherst campus, a 10.9 percent decrease at the Boston campus (see the above footnote **), and a 12.1 percent increase at the Dartmouth campus. At the Lowell campus, both new freshmen and transfer enrollees remained stable.

The University saw an increase in freshmen applications and a decrease in transfer applications in fall 2004 compared with fall 2003. The increase in total freshmen applications included a 9.1 percent increase at the Amherst campus, a 2.4 percent increase at the Boston campus, no change at the Dartmouth campus, and a 7 percent decrease at the Lowell campus. Transfer applications included a 4.2 percent decrease at the Amherst campus, a 3 percent decrease at the Boston campus, a 1.1 percent decrease at the Dartmouth campus, and a 1.7 percent increase 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 2000-2004

	2000	2001	2002	2003	2004
Applications Received	30,757	29,630	32,730	29,543	30,817
Number of Acceptances	20,480	20,829	19,720	21,920	22,835
Percent of Applicants Accepted	67%	70%	60%	74%	74%
Number of Matriculants	6,765	7,080	6,458	7,099	7,129
Percent Matriculated of Those Accepted	33%	34%	33%	32%	31%

Transfer Student Applicants, Acceptances and Matriculants, Fall 2000-2004

	2000	2001	2002	2003	2004
Applications Received	8,338	8,022	8,283	8,072	7,876
Number of Acceptances	6,251	6,312	6,301	6,191	5,895
Percent of Applicants Accepted	75%	79%	76%	77%	75%
Number of Matriculants	3,912	3,893	3,782	3,706	3,605
Percent Matriculated of Those Accepted	63%	62%	60%	60%	61%

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 (%)

	1999	2000	2001	2002	2003	2004
Range of Campus Averages	67-81	69-84	69-84	70-83	70-84	71-82

Six-Year Graduation Rates (%)

Year of Graduation	1999	2000	2001	2002	2003	2004
Graduation Rate Six Years after Matriculation	28-60	25-59	27-59	28-61	34-64	28-62

(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. Additionally, national graduation rates at public and private four-year colleges and universities have declined in recent years due to lowered academic profiles and difficult financial circumstances for the students who entered secondary schooling in the late 1980's and early 1990's.

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

SAT Scores for Incoming Freshmen

Academic Year	2002-03	2003-04	2004-05
Range of Campus Averages	1047-1124	1042-1137	1039-1137

Degrees Awarded

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

Trends in Degrees Awarded

Academic Year

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Associate/ Certificate	191	168	175	229	184	192
Bachelor	6,863	7,492	7,522	7,535	7,651	7,773
Master/ CAGS*	2,237	2,456	2,422	2,274	2,424	2,578
Doctorate/Professional	441	454	454	461	442	536

*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 state 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 state 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). On February 4, 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. On February 16, 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). 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 2002 through 2006.

AMHERST CAMPUS
Tuition & Mandatory Fees: FY 2002 – 2006

	Actual 2002*	Actual 2003**	Actual 2004***	Actual 2005****	Actual 2006*****
TUITION					
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
CURRICULUM & OTHER MANDATORY FEES					
Undergraduate (MA resident)	$3,993	$4,768	$6,518	$7,294	$7,564
Undergraduate (non-resident)	4,323	5,398	7,648	7,294	8,460
Graduate (MA resident)	3,202	4,113	5,864	6,639	6,917
Graduate (non-resident)	3,575	5,018	7,268	7,544	8,069
TOTAL MANDATORY FEES & TUITION					
Undergraduate (MA resident)	$ 5,707	$ 6,482	$ 8,232	$ 9,008	$ 9,278
Undergraduate (non-resident)	14,260	15,335	17,585	17,861	18,397
Graduate (MA resident)	5,842	6,753	8,504	9,279	9,557
Graduate (non-resident)	13,512	14,955	17,205	17,481	18,006
DORMITORY RESIDENTS ONLY					
Average Room & Board	$4,895	$5,473	$5,748	$6,189	$6,517
MANDATORY FEES, TUITION, ROOM & BOARD					
Undergraduate (MA resident)	$10,602	$11,955	$13,980	$15,197	$15,795
Undergraduate (non-resident)	19,155	20,808	23,333	24,050	24,914
Graduate (MA resident)	10,737	12,226	14,252	15,468	16,074
Graduate (non-resident)	18,407	20,428	22,953	23,670	24,523

*Includes an increase in fees approved by the University Trustees on December 10, 2001 and effective for the spring semester of fiscal year 2002.
**Includes an increase in fees approved by the University Trustees on February 6, 2002.
***Includes an annual increase in fees approved by the University Trustees on March 12, 2003 and mid-year fee increases, effective for the spring semester of fiscal year 2004, approved by the University Trustees on August 6, 2003.
****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.

BOSTON CAMPUS

Tuition & Mandatory Fees: FY 2002 – 2006

	Actual 2002*	Actual 2003**	Actual 2004***	Actual 2005****	Actual 2006*****
TUITION					
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
CURRICULUM & OTHER MANDATORY FEES					
Undergraduate (MA resident)	$2,858	$3,508	$5,258	$6,310	$6,551
Undergraduate (non-resident)	3,544	5,124	7,874	8,999	9,562
Graduate (MA resident)	2,870	3,520	5,270	6,322	6,589
Graduate (non-resident)	3,556	5,136	7,886	9,011	9,574
TOTAL MANDATORY FEES & TUITION					
Undergraduate (MA resident)	$ 4,572	$ 5,222	$ 6,972	$ 8,023	$ 8,265
Undergraduate (non-resident)	13,302	14,882	17,632	18,757	19,320
Graduate (MA resident)	5,460	6,110	7,860	8,912	9,179
Graduate (non-resident)	13,314	14,894	17,644	18,769	19,332

*Includes an increase in fees approved by the University Trustees on December 10, 2001 and effective for the spring semester of fiscal year 2002.
**Includes an increase in fees approved by the University Trustees on February 6, 2002.
***Includes an annual increase in fees approved by the University Trustees on March 12, 2003 and mid-year fee increases, effective for the spring semester of fiscal year 2004, approved by the University Trustees on August 6, 2003.
****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.

DARTMOUTH CAMPUS

Tuition & Mandatory Fees: FY 2002 – 2006

	Actual 2002	Actual 2003*	Actual 2004**	Actual 2005***	Actual 2006****
TUITION					
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
CURRICULUM & OTHER MANDATORY FEES					
Undergraduate (MA resident)	$2,712	$3,712	$5,461	$6,385	$6,619
Undergraduate (non-resident)	4,184	5,530	8,280	9,203	9,539
Graduate (MA resident)	3,088	4,195	5,946	6,868	7,117
Graduate (non-resident)	4,184	5,530	8,280	9,203	9,539
TOTAL MANDATORY FEES & TUITION					
Undergraduate (MA resident)	$ 4,129	$ 5,129	$ 6,878	$ 7,802	$ 8,036
Undergraduate (non-resident)	12,283	13,629	16,379	17,302	17,638
Graduate (MA resident)	5,159	6,266	8,017	8,939	9,188
Graduate (non-resident)	12,283	13,629	16,379	17,302	17,638
DORMITORY RESIDENTS ONLY					
Average Room & Board	$5,403	$6,526	$7,368	$7,740	$8,268
MANDATORY FEES, TUITION, ROOM & BOARD					
Undergraduate (MA resident)	$ 9,532	$11,655	$14,246	$15,542	$16,304
Undergraduate (non-resident)	17,686	20,155	23,747	25,042	25,906
Graduate (MA resident)	10,562	12,792	15,385	16,679	17,456
Graduate (non-resident)	17,686	20,155	23,747	25,042	25,906

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*Includes an increase in fees approved by the University Trustees on February 6, 2002.
**Includes an annual increase in fees approved by the University Trustees on March 12, 2003 and mid-year fee increases, effective for the spring semester of fiscal year 2004, approved by the University Trustees on August 6, 2003.
***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.

LOWELL CAMPUS

Tuition & Mandatory Fees: FY 2002 – 2006

	Actual 2002*	Actual 2003**	Actual 2004***	Actual 2005****	Actual 2006*****
TUITION					
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)+	2,183	2,183	2,183	2,183	1,637
Graduate (non-resident)+	8,567	8,567	8,567	8,567	6,425
CURRICULUM & OTHER MANDATORY FEES					
Undergraduate (MA resident)	$3,151	$3,759	$5,510	$6,437	$ 6,712
Undergraduate (non-resident)	3,675	6,084	8,834	9,857	10,499
Graduate (MA resident)++	3,351	4,193	4,900	5,811	6,070
Graduate (non-resident)++	3,675	6,084	7,318	8,297	8,810
TOTAL MANDATORY FEES & TUITION					
Undergraduate (MA resident)	$ 4,605	$ 5,213	$ 6,964	$ 7,891	$ 8,166
Undergraduate (non-resident)	12,242	14,651	17,401	18,424	19,066
Graduate (MA resident)	5,534	6,376	7,083	7,994	7,707
Graduate (non-resident)	12,242	14,651	15,885	16,864	15,235
DORMITORY RESIDENTS ONLY					
Average Room & Board	$5,215	$5,464	$5,724	$6,011	$6,311
MANDATORY FEES, TUITION, ROOM & BOARD					
Undergraduate (MA resident)	$ 9,820	$10,677	$12,688	$13,902	$14,477
Undergraduate (non-resident)	17,457	20,115	23,125	24,435	25,377
Graduate (MA resident)	10,749	11,840	12,807	14,005	14,018
Graduate (non-resident)	17,457	20,115	21,609	22,875	21,546

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*Includes an increase in fees approved by the University Trustees on December 10, 2001 and effective for the spring semester of fiscal year 2002.
**Includes an increase in fees approved by the University Trustees on February 6, 2002.
***Includes an annual increase in fees approved by the University Trustees on March 12, 2003 and mid-year fee increases, effective for the spring semester of fiscal year 2004, approved by the University Trustees on August 6, 2003.
****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.
+Fiscal year 2006 graduate tuition charges at UMass Lowell are on a 9-credit load basis.
++Fiscal year 2004, 2005 and 2006 graduate fee charges at UMass Lowell are on a 9-credit load basis.

WORCESTER CAMPUS

Tuition & Mandatory Fees: FY 2002 – 2006

	Actual 2002*	Actual 2003**	Actual 2004***	Actual 2005****	Actual 2006*****
TUITION					
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
CURRICULUM & OTHER MANDATORY FEES					
Medical School	$2,505	$3,000	$ 5,250	$ 5,653	$ 5,685
Graduate School of Nursing	2,505	3,000	5,250	5,653	5,685
Graduate School of Biomedical Sciences	1,335	1,335	3,586	3,942	3,942
Ph.D./MD (non-resident) +	N/A	N/A	25,804	N/A	N/A
Ph.D./MD (MA resident) ++	N/A	N/A	N/A	20,626	20,508
Ph.D./MD Years 1-2 (non-resident) ++	N/A	N/A	N/A	35,626	35,508
Ph.D./MD Years 3 plus (non-resident) ++	N/A	N/A	N/A	25,770	25,652
TOTAL MANDATORY FEES & TUITION					
Medical School	$10,857	$11,352	$13,602	$14,005	$14,037
Graduate School of Nursing (MA resident)	5,145	5,640	7,890	8,293	8,325
Graduate School of Biomedical Sciences (MA resident)	3,975	3,975	6,226	6,582	6,582
Graduate School of Nursing (non-resident)	12,361	12,856	15,106	15,509	15,541
Graduate School of Biomedical Sciences (non-resident)	11,191	11,191	13,442	13,798	13,798
Ph.D./MD (non-resident)	N/A	N/A	35,660	N/A	N/A
Ph.D./MD (MA resident)	N/A	N/A	N/A	23,266	23,148
Ph.D./MD Years 1-2 (non-resident)	N/A	N/A	N/A	45,482	45,364
Ph.D./MD Years 3 plus (non-resident)	N/A	N/A	N/A	35,626	35,508

*Includes an increase in fees approved by the University Trustees on December 10, 2001 and effective for the spring semester of fiscal year 2002.
**Includes an increase in fees approved by the University Trustees on February 6, 2002.
***Includes an annual increase in fees approved by the University Trustees on March 12, 2003 and mid-year fee increases, effective for the spring semester of fiscal year 2004, approved by the University Trustees on August 6, 2003.
****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.
+Fee established and approved for fiscal year 2004 by the University Trustees on November 6, 2002 (includes the above referenced mid-year fee increase approved by the University Trustees on August 6, 2003).
++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 $25,583,926 and Federal Supplemental Education Opportunity Grants of approximately $3,256,998 for the fiscal year ended June 30, 2004. Federal Pell Grants and Federal Supplemental Education Opportunity Grants have increased from approximately $19,669,996 and $2,225,514, respectively, for the fiscal year ended June 30, 2001. New loans processed by the University for eligible students under federal student loan programs and federally guaranteed loan programs totaled approximately $87,936,166 for the fiscal year ended June 30, 2004. Eligible University students also received approximately $4,643,842 through the Federal Work-Study Program for the fiscal year ended June 30, 2004.

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 2004, Commonwealth appropriations (net of tuition) provided approximately 24 percent of all operating and non-operating revenues of the University (not including University Related Organizations), tuition and fees accounted for approximately 22 percent of all operating and non-operating revenues and other non-appropriated funds provided the remaining 54 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, 2004 and for the year then ended, 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 of Massachusetts Office of 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 $1.8 billion capital plan for fiscal years 2005-2009 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 University of Massachusetts Building Authority, bonds issued by the Massachusetts Health and Educational Facilities Authority, Commonwealth appropriations, and private fund raising. The University has already incurred approximately $525,000,000 of indebtedness in order to fund the current fiscal year 2005-2009 capital plan. See "Indebtedness of the University" below.

The major projects in the 2005-2009 capital plan and their estimated total project cost include (a) at the Amherst campus, deferred maintenance on the central heating plant for approximately $97,600,000, the construction of a recreation center for approximately $50,400,000, the construction of an integrated science building (phase 1A) to provide modern teaching laboratory facilities for chemistry and life sciences for approximately $66,790,000, phase II of the construction of the integrated science building for approximately $72,000,000, the construction of an engineering building for approximately $25,000,000, OIT/Telecom projects for approximately $13,700,000, the construction of an art building to provide essential replacement space for a number of art programs currently housed in obsolete space for approximately $16,100,000, repairs to the University Campus Center for approximately

$9,000,000, housing repairs and renovations for approximately $27,500,000, renovations to the nursing building for approximately $16,300,000, an energy conservation project for approximately $42,734,000, the construction of graduate student housing (phase 1) for approximately $30,000,000, the construction of student housing for approximately $100,000,000, science facilities improvements for approximately $26,400,000, the construction of a new parking structure for approximately $18,000,000, renovations to the Goodell building for approximately $16,000,000, renovations to the student union for approximately $60,000,000, steamline repairs for approximately $10,000,000, renovations to science facilities for purposes of modernization and lab safety for approximately $25,000,000, classroom and instructional technological improvements for approximately $15,000,000, the construction of a laboratory building and new greenhouses for the College of Natural Resources and the Environment for approximately $65,000,000, and deferred maintenance and modernization for approximately $21,000,000; (b) at the Boston campus, campus center retrofitting for approximately $21,500,000, preservation of the pump station on a parcel of land known as the calf pasture for approximately $22,200,000, deferred maintenance on the parking garage to repair upper and lower level garages and plaza for approximately $42,200,000, the construction of an environmental science and technology park for approximately $25,100,000, construction of a new parking garage with approximately 1500 spaces for approximately $39,600,000, telecom update to fiberoptics for approximately $10,700,000, sprinklers and fire protection improvements for approximately $15,000,000, deferred maintenance repairs, renovations and improvements for approximately $11,000,000 and scientific and information technology equipment for approximately $12,000,000; (c) at the Dartmouth campus, technology upgrades for approximately $23,300,000, repairs to residence halls for approximately $10,000,000, the construction of student housing for approximately $78,300,000, the construction of an addition to the campus center for approximately $15,000,000, the construction of a visitor/admissions/security building for approximately $12,200,000 and the construction of a multipurpose field house for approximately $18,750,000; (d) at the Lowell campus, academic, library and administrative technology equipment for approximately $30,000,000, the construction of two new parking garages, the first (UML East) for approximately $12,750,000 and the second (UML North) for approximately $23,000,000, the construction of a nanomanufacturing center for approximately $32,000,000, a campus-wide energy conservation project for approximately $12,100,000, renovations to the School of Health and Environment for approximately $15,000,000 and renovations to modernize the north quadrangle for approximately $10,250,000; and (e) at the Worcester campus, construction of a biolabs manufacturing plant for approximately $80,000,000, granite façade replacement for approximately $55,000,000, renovations to the basic and student laboratory wings at the Medical School for approximately $12,200,000, network infrastructure for approximately $10,000,000, the construction of a medical office building for approximately $30,000,000, the power plant expansion (phase II) for approximately $30,500,000 and a new parking garage for approximately $20,000,000.

In 1996, the University initiated an active program to address deferred maintenance needs at its campuses. As a result, the University has expended approximately $1.04 billion since fiscal year 2000 to repair and renovate facilities from a combination of University sources, including bonds issued by the University of Massachusetts Building Authority and bonds issued by the Massachusetts Health and Educational Facilities Authority, and direct Commonwealth support. Addressing deferred maintenance remains a priority within the University's capital plan. The University's 2005-2009 capital plan includes approximately $430,000,000 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 24 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 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 years 2004 and 2005, the Amherst campus was permitted to retain tuition for out of state students as part of a pilot program authorized by the Commonwealth. In fiscal year 2004, the Amherst campus retained approximately $26,700,000 of tuition through this program.

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

	2000	2001	2002	2003	2004**
Gross Commonwealth Appropriations	$473,931	$513,896	$469,477	$443,375	$365,086
Plus: Fringe Benefits*	93,600	117,900	90,904	88,365	85,348
Less: Tuition Remitted*	(103,733)	(103,036)	(95,341)	(84,303)	(52,280)
Net Commonwealth Appropriations	$463,798	$528,760	$465,040	$447,437	$398,154

*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 in the fiscal year 2004 State Budget approved a two-year pilot program, as described on the previous page, for the Amherst campus to retain tuition for non-resident students.

As a result of the fiscal stress that continued to face the Commonwealth at the start of fiscal year 2004, the University's state appropriation initially decreased by an additional approximately $80,500,000 or 18.5% from fiscal year 2003 to 2004. In response to the initial fiscal year 2004 reduction and the reductions in state support that occurred in fiscal years 2002 and 2003, the President and University Trustees continued to implement a fiscal stabilization plan to enable the University to continue to provide quality services to students. This plan consists of increased charges to students, private fund raising efforts and a series of targeted cost-cutting measures, including involuntary terminations and strategic hiring for positions vacated through the state's early retirement incentive programs. In fiscal year 2002, the University Trustees ended a six-year freeze on student charges by increasing mandatory fees on all of the campuses, except Dartmouth, for the spring semester of the 2001-2002 academic year. As described in the "Tuition and Fees" section above, the University Trustees also approved additional mandatory student fee increases for fiscal years 2003, 2004, 2005 and 2006.

Since the passing of the initial fiscal year 2004 state budget, the Legislature approved three important supplemental appropriations to the University for fiscal year 2004 totaling approximately $44,960,000. These additional appropriations support general operations, began to fund the outstanding collective bargaining contracts that have been unfunded since June 30, 2001, and restored a state matching program to encourage alumni fundraising. This recognition and renewed support for the University by the Legislature can also be seen in the fiscal year 2005 state budget, in which the University's state appropriation increased by $28,810,000 to cover the full fiscal year 2005 costs of the collective bargaining agreements funded by the 2004 supplemental appropriation noted above. In addition, on March 9, 2005 the Legislature approved another supplemental appropriation to the University totaling approximately $21,651,754 to retroactively fund a portion of outstanding collective bargaining contracts.

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 76 percent of the University's operating and non-operating revenues for fiscal year 2004 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.

Financial Reporting Model

Effective with the fiscal year ending June 30, 2002, the University implemented the financial reporting model prescribed by the Governmental Accounting Standards Board (the "GASB") Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities,* an Amendment of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as well as Statement No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and Statement No. 38, *Certain Financial Statement Note Disclosures* (collectively referred to as the "GASB Model"). The GASB Model has replaced the external financial statements historically presented by the University.

The GASB Model requires that financial statements be reported on a consolidated basis and establishes standards for external financial reporting by public colleges and universities. The statements presented using the GASB Model are the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows. The statement of net assets is presented using a classified format, separating assets and liabilities into their current and long-term portions. The University's fund balances have been re-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 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.

The University's capital assets are presented net of accumulated depreciation in the statement of net assets. Previously, the historical costs of capital assets were not systematically reduced to reflect use of these assets over time. As part of the adoption of the GASB Model, accumulated depreciation for prior periods is reflected as a restatement to net assets, and current year's depreciation expense is shown as an operating expense on the combined statement of revenues, expenses and changes in net assets. The University's combined statement of changes in fund balances and combined statement of current funds revenues, expenditures, and other changes as presented in previous years have been condensed into one new statement of revenues, expenses and changes in net assets. The

GASB Model requires that revenues be reported net of discounts and allowances. As a result, certain amounts previously reported as 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 financial aid expense and included in supplies and services. Tuition and fees and tuition remitted to the Commonwealth have been classified as operating revenue. State appropriations, investment revenue, gifts and interest on indebtedness have been classified as non-operating activity in the statement of revenues, expenses and changes in net assets. The statement of cash flows presents cash flow information about operating, financing and investing activities. In addition, a discussion and analysis of the University's financial condition and financial results prepared by management has been added, as Required Supplementary Information preceding the financial statements, and several modifications to footnote disclosures have been made.

For more detailed information, including the Statement of Cash Flows, see the University's financial statements.

Summary of Operations
(GASB Financial Reporting Model)

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

	2002	2003	2004
ASSETS	***University**	***University**	***University**
Current Assets	$366,765	$359,428	$464,582
Noncurrent Assets			
Investment in Plant Net of Accumulated Depreciation	1,032,092	1,109,079	1,163,700
All Other Noncurrent Assets	579,628	602,133	929,967
Total Assets	**$1,978,485**	**$2,070,640**	**$2,558,249**
LIABILITIES			
Current Liabilities	$315,848	$320,040	$348,643
Noncurrent Liabilities	706,419	695,902	1,040,976
Total Liabilities	**$1,022,267**	**$1,015,942**	**$1,389,619**
NET ASSETS			
Invested in Capital Assets Net of Related Debt	$653,755	$685,453	$713,903
Restricted			
Nonexpendable	14,306	14,390	14,433
Expendable	73,872	101,738	124,272
Unrestricted	214,285	253,117	316,022
Total Net Assets	**$956,218**	**$1,054,698**	**$1,168,630**

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

REVENUES	2002	2003	2004
Operating Revenues	***University**	***University**	***University**
Tuition and Fees (net of scholarship allowances of $63,185 at June 30, 2004, $52,271 at June 30, 2003 and $39,094 at June 30, 2002)	$282,142	$288,690	$361,762
Federal Grants and Contracts	223,767	256,579	277,166
State Grants and Contracts	58,189	55,294	53,788
Local Grants and Contracts	2,918	3,240	3,123
Private Grants and Contracts	61,421	61,895	67,673
Sales & Service, Educational	11,133	14,454	15,978
Auxiliary Enterprises	124,149	153,263	163,894
Other Operating Revenues			
Sales & Service, Independent Operations	32,457	51,595	61,245
Sales & Service, Public Service Activities	97,381	143,115	184,427
Other	31,114	35,038	35,362
Total Operating Revenues	**$924,671**	**$1,063,163**	**$1,224,418**

Source: Annual Audited Financial Report for Fiscal Year 2004. (Certain prior year amounts have been reclassified to conform with the current year presentation.)

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* See footnote following the next table.

(continued)

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

EXPENSES	**2002**	**2003**	**2004**
Operating Expenses	***University**	***University**	***University**
Educational and General			
Instruction	$391,988	$376,264	$401,416
Research	245,027	268,700	284,433
Public Service	66,978	66,284	59,794
Academic Support	97,613	95,263	97,559
Student Services	74,061	70,285	70,962
Institutional Support	100,325	116,785	114,423
Operation and Maintenance of Plant	110,282	101,908	103,736
Depreciation and Amortization	82,142	103,981	101,465
Scholarships and Fellowships	19,346	24,198	26,792
Auxiliary Enterprises	124,059	131,499	124,127
Other Expenditures			
Independent Operations	20,385	26,777	27,189
Public Service Activities	89,450	115,981	144,163
Total Operating Expenses	**$1,421,656**	**$1,497,925**	**$1,556,059**
Operating Loss	**($496,985)**	**($434,762)**	**($331,641)**
NONOPERATING REVENUES/(EXPENSES)			
Federal Appropriations	$5,900	$5,139	$6,849
State Appropriations	465,040	447,437	398,154
Gifts	11,130	13,359	16,731
Investment Income	17,703	20,660	26,806
Endowment Income	743	1,202	1,047
Interest on Indebtedness	(26,116)	(27,145)	(30,230)
Other Nonoperating Income	16,597	5,315	13,373
Net Nonoperating Revenues	**$490,997**	**$465,967**	**$432,730**
Income/(Loss) Before Other Revenues, Expenses, Gains and Losses	**($5,988)**	**$31,205**	**$101,089**
Capital Appropriations	$63,633	$30,491	$19,135
Capital Grants and Contracts	93	30,800	
Additions to Permanent Endowments			
University Related Organization Transactions	10,385	10,391	676
Disposal of Plant Facilities	(17,009)	(10,733)	(14,099)
Gain from Disposal of Previously Discontinued Operations	10,561		
Other Additions/Deductions	(543)	6,326	7,131
Total Other Revenues, Expenses, Gains, and Losses	**$67,120**	**$67,275**	**$12,843**
Total Increase in Net Assets	**$61,132**	**$98,480**	**$113,932**
NET ASSETS			
Net Assets at Beginning of Year, as reported	$1,865,505	$956,218	$1,054,698
Cumulative effect of change in accounting principle**	(970,419)		
Net Assets at Beginning of Year, restated	$895,086		
Net Assets at End of Year	**$956,218**	**$1,054,698**	**$1,168,630**

Source: Annual Audited Financial Report for Fiscal Year 2004. (Certain prior year amounts have been reclassified to conform with the current year presentation.)

Note: See footnote explanations at the top of the next page.

*Beginning in fiscal year 2002, for financial reporting purposes, Worcester City Campus Corporation ("WCCC") is included and categorized as a part of the University. In the "Historical Summary of Operations (Old Financial Reporting Model)" presented below, WCCC was categorized separately from the University and was reported in the financial statements as a part of University Related Organizations.

** The cumulative effect of adopting the new accounting standards, which are summarized in the "Financial Reporting Model" section of this document and described in greater detail in Note 1 of the University's financial statements, is a reduction to the University's beginning net assets at July 1, 2001.

Historical Summary of Operations (Former Financial Reporting Model)

The University is not required and has chosen not to restate prior year financial information in connection with the implementation of the new financial reporting model. The significant changes caused by these new accounting standards and the time required to implement the changes on a consistent basis for all of the financial components of the University made a restatement of prior year financial statements impractical. As such, historical financial data are not comparable to the data presented in the foregoing tables.

Combined Statement of Current Fund Revenues, Expenditures and Other Changes For the Years Ended June 30 (Accrual basis in thousands)

	2000	2001
Revenues:		
Tuition and Fees (1)	$275,536	$287,131
Federal Appropriations	6,015	6,012
State Appropriations (1)	463,798	528,760
Federal Grants and Contracts	135,103	151,435
State Grants and Contracts	47,079	52,575
Local Grants and Contracts	7,027	5,059
Private Gifts, Grants and Contracts	70,119	75,724
Endowment Income	1,624	1,404
Sales & Services, Educational	10,702	11,508
Sales & Services, Auxiliary Enterprises	169,592	146,643
Sales & Services, Independent Operations	25,867	30,377
Sales & Services, Public Services Activities	71,127	58,850
Recovery of Indirect Costs	49,421	54,195
Net Increase/(Decrease) in the Fair Value of investments	5,670	996
Other Investment Income	15,851	18,993
Other	29,995	38,754
Total Current Funds Revenues	**$1,384,526**	**$1,468,416**

Note: The University's financial statements for the year ended June 30, 2001 include a net $14,300,000 cumulative adjustment as of July 1, 2000 as a result of the adoption of Governmental Accounting Standards Board Statement No. 33. Therefore, certain amounts presented for fiscal year 2000 are not comparable.

(1)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. 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 previously presented in the "Management of Appropriated Funds" section.

Combined Statement of Current Fund Revenues, Expenditures and Other Changes, (continued)

	2000	2001
Expenditures:		
Instruction	$369,840	$394,710
Research	191,867	215,002
Public Service	97,580	134,491
Academic Support	94,085	112,429
Student Services	64,546	74,321
Institutional Support	124,006	116,092
Operation and Maintenance of Plant	82,957	93,188
Scholarships and Fellowships	93,665	88,721
Auxiliary Enterprises	139,919	123,861
Independent Operations	20,471	24,538
Total Current Funds Expenditures	**$1,278,936**	**$1,377,353**
Transfers and Other Changes:		
Mandatory Transfers		
Principal and Interest	($31,065)	($29,829)
Loan Fund Matching	(79)	(81)
Nonmandatory Transfers		
Unexpended Plant Funds	(28,259)	(52,297)
Renewals and Replacements	(23,084)	(19,248)
Quasi Endowment	-	(2,099)
University Related Organizations Transactions	-	(9,809)
Other	2,222	8,017
Other Changes		
Refunds to Grantors	(1,141)	(1,298)
Excess of Restricted Receipts Over Transfers to Revenue	1,859	-
Total Transfers and Other Changes	**($79,547)**	**($106,644)**
Total Increase/(Decrease) for the Year from Continuing Operations	**$26,043**	**($15,581)**
Discontinued Operations		
Loss from Disposal of Previously Discontinued Operations (2)	**(15,105)**	**(4,246)**
Total Increase/(Decrease) for the Year	**$ 10,938**	**$ (19,827)**

Source: Annual Audited Financial Reports for Fiscal Years 2000-2001.

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(2) The fiscal year 2000 and 2001 losses from disposal of previously discontinued operations represent the write-off of certain funds held by UMass Memorial, net of previously established reserves.

Summary of Financial Results, Fiscal Years 2002 through 2004

Fiscal Year 2004

Financial Highlights

In fiscal year 2004, the University's operating cash and cash equivalents (not including University Related Organizations) increased by $34,300,000 from approximately $3,600,000 in fiscal year 2003 to approximately $37,900,000 in fiscal year 2004.

The University's net assets (not including University Related Organizations) increased approximately $114,000,000 from $1.05 billion in fiscal year 2003 to approximately $1.17 billion in fiscal year 2004. The major components of the increase are: increases in student fee rates across all campuses; continued cost cutting in response to ongoing uncertainty with the state budget; and increases in public service activities at the Worcester campus.

The University expended approximately $103,700,000 on plant operations and maintenance activities during fiscal year 2004.

Summary of Assets and Liabilities

At June 30, 2004, the University's total assets (not including University Related Organizations) were approximately $2.56 billion, an increase of approximately $488,000,000 over the approximately $2.07 billion in assets recorded for fiscal year 2003. The University's largest asset is its net investment in its physical plant of approximately $1.16 billion at June 30, 2004 (approximately $1.11 billion in fiscal year 2003). Other significant University assets include current and noncurrent investments and cash and securities held by the University Trustees. Much of the increase in assets can be attributed to increases in accounts receivable and cash and securities held by the University Trustees from new bonds.

University liabilities (not including University Related Organizations) totaled approximately $1.39 billion at June 30, 2004, an increase of approximately $373,700,000 over fiscal year 2003. Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to approximately $1.01 billion at June 30, 2004. This represents an increase of approximately $362,500,000 over long-term debt obligations of approximately $646,600,000 in fiscal year 2003. This increase reflects the new borrowing by the University of Massachusetts Building Authority during fiscal year 2004.

The University's current assets of approximately $464,600,000 were sufficient to cover current liabilities of approximately $348,600,000, as the current ratio was 1.33 dollars in assets to every one-dollar in liabilities. In fiscal year 2003 the current ratio was 1.12 (approximately $359,400,000 in current assets and $320,000,000 in current liabilities).

The University's unrestricted and restricted expendable net assets totaled approximately $440,300,000, which represents approximately 28.3 percent of total operating expenditures of approximately $1.56 billion during fiscal year 2004.

In fiscal year 2004, the University's unrestricted net assets totaled approximately $316,000,000. 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 2004 were approximately $1.22 billion. This is an increase of approximately $161,300,000 over fiscal year 2003 operating revenues of $1.06 billion. The most significant sources of revenue for the University are tuition and fees of approximately $361,800,000, grants and contracts of approximately $401,750,000 and auxiliary services of approximately $163,900,000. Tuition and fees, grants and contracts, and auxiliary services represent 30 percent, 33 percent and 13 percent of the total operating revenues, respectively.

In fiscal year 2004, University operating expenditures, including depreciation and amortization of approximately $101,500,000, totaled approximately $1.56 billion. Of this total, approximately $843,200,000 or 54 percent was used to support the academic core activities of the University, including approximately $284,400,000 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, a significant portion of the state appropriation supports payroll and benefits of University employees.

Continued deterioration in the state's economic condition resulted in an additional reduction in the state appropriation to the University of approximately $80,500,000 from fiscal year 2003 to the beginning of fiscal year 2004. The total reduction in the state maintenance appropriation from fiscal year 2001 therefore was over $127,800,000 or (26%). Later in fiscal year 2004, the Commonwealth passed a supplemental appropriations bill which included approximately $10,000,000 in state funds for the general operations of the University as well as approximately $26,000,000 to fund one-half of the fiscal year costs of the previously unfunded collective bargaining agreements. This action reduced the year-to-year change in state appropriation.

Fiscal Year 2003

Financial Highlights

In fiscal year 2003, the University's operating cash and cash equivalents decreased by $8,300,000 from approximately $11,900,000 in fiscal year 2002 to approximately $3,600,000 in fiscal year 2003. This decrease is due to cash being used for investing activities, primarily the strategic investment of excess cash.

The University's net assets (not including University Related Organizations) increased approximately $98,500,000 from approximately $956,200,000 in fiscal year 2002 to over $1.05 billion in fiscal year 2003. The major components of the increase are: increases in tuition and fee rates across all campuses; aggressive cost cutting in response to anticipated state budget cuts; increases in building construction with funds from capital gifts, grants and contracts, including approximately $30,800,000 of special payments received from UMass Memorial Health Center in support of the granite façade replacement project on the Worcester Campus; and increases in manufacturing and royalty net operating income derived from the operations of the Massachusetts Biologics Laboratories.

The University expended approximately $102,000,000 on plant operations and maintenance activities during fiscal year 2003.

Summary of Assets and Liabilities

At June 30, 2003, the University's total assets (not including University Related Organizations) were approximately $2.07 billion, an increase of approximately $92,200,000 over the approximately $1.98 billion in assets recorded for fiscal year 2002. The University's largest asset is its net investment in its physical plant of approximately $1.1 billion at June 30, 2003 (approximately $1.03 billion in fiscal year 2002). Other significant University assets include current and noncurrent investments and cash and securities held by the Trustees. Most of the increase can be attributed to the increase in both investment in plant and grant and contract receivables.

University liabilities (not including University Related Organizations) totaled approximately $1.02 billion at June 30, 2003, a decrease of approximately $6,300,000 over fiscal year 2002. Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to approximately $646,600,000 at June 30, 2003. This represents a decrease of approximately $14,300,000 over long-term debt obligations of approximately $660,900,000 in fiscal year 2002. This decrease is principally due to scheduled debt repayments while incurring no new debt.

The University's current assets of approximately $359,400,000 were sufficient to cover current liabilities of approximately $320,000,000, as the current ratio was 1.12 dollars in assets to every one-dollar in liabilities. In fiscal year 2002 the current ratio was 1.16 (approximately $366,800,000 in current assets and $315,800,000 in current liabilities).

The University's unrestricted and restricted expendable net assets totaled approximately $354,900,000, which represents 23.7 percent of total operating expenditures of approximately $1.5 billion during fiscal year 2003.

In fiscal year 2003, the University's unrestricted net assets totaled approximately $253,100,000. 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 2003 were approximately $1.06 billion. This is an increase of approximately $138,500,000 over fiscal year 2002 operating revenues of approximately $924,700,000. The most significant sources of revenue for the University are tuition and fees of approximately $288,700,000, grants and contracts of approximately $377,000,000 and auxiliary services of approximately $153,263,000. Tuition and fees, grants and contracts, and auxiliary services represent 27 percent, 36 percent and 14 percent of the total operating revenues, respectively.

In fiscal year 2003, University operating expenditures, including depreciation and amortization of approximately $104,000,000, totaled approximately $1.5 billion. Of this total, approximately $806,500,000 or 54 percent was used to support the academic core activities of the University, including approximately $268,700,000 in support of research.

State Appropriations

State appropriations represent approximately 29.3 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, a significant portion of the state appropriation supports payroll and benefits of University employees.

Continued deterioration in the state's economic condition resulted in an additional reduction in the state appropriation to the University of approximately $24,300,000 from fiscal year 2002 to fiscal year 2003. The total reduction in the state maintenance appropriation from fiscal year 2001 therefore was over $47,300,000 or (9.8%).

Fiscal Year 2002

Cumulative Effect of Adopting the New GASB Model

As previously described, during fiscal year 2002, the University adopted the New GASB Financial Reporting Model. The cumulative effect of adopting these new accounting standards is a reduction to the University's beginning net assets at July 1, 2001 of approximately $970,400,000. The reduction consists primarily of approximately $938,300,000 of accumulated depreciation and approximately $30,700,000 to reclassify the liability for refundable advances under the Federal Perkins loan program from a component of fund balance to liability. The total net assets at July 1, 2001 as restated were reduced from approximately $1.87 billion to $895,100,000.

Financial Highlights

In fiscal year 2002, the University's total cash and cash equivalents decreased by approximately $24,200,000. This decrease is due to cash used for operating activities, primarily payments to suppliers and employees.

The University's net assets increased approximately $61,100,000 from the restated July 1, 2001 beginning balance.

The University expended approximately $110,300,000 on plant operations and maintenance activities during fiscal year 2002. The significant activity included on-going construction of a campus center at the Boston campus, a student center at the Lowell campus and new residence halls at the Dartmouth campus.

Summary of Assets and Liabilities

At June 30, 2002, total University assets (not including University Related Organizations) were approximately $2.0 billion. The University's largest asset was its net investment in its physical plant of approximately $1.0 billion at June 30, 2002. Other significant assets include current and noncurrent investments and cash and securities held by the Trustees.

University liabilities totaled approximately $1.0 billion at June 30, 2002. The University's long-term debt of approximately $623,000,000, consisting of bonds payable and capitalized lease obligations, is its largest liability. The University's current assets of approximately $366,800,000 were sufficient to cover current liabilities of approximately $315,800,000, as the current ratio was approximately 1.2 dollars in assets to every one-dollar in liabilities.

The University's unrestricted and restricted expendable nets assets totaled approximately $288,200,000, which represents 20 percent of total operating expenditures during fiscal year 2002.

The University's expendable fund balance, which is now referred to as "unrestricted net assets", totaled approximately $214,300,000. The adoption of the New GASB Reporting Model warranted this change in terminology on the University's financial statements. As previously stated, under the heading New Financial Reporting Model, unrestricted net assets 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.

Summary of Operating Revenues and Operating Expenditures

The total operating revenues for fiscal year 2002 were approximately $924,700,000. The most significant sources of revenue for the University were tuition and fees of approximately $282,100,000, grants and contracts of approximately $346,300,000, and auxiliary services of approximately $124,100,000. Tuition and fees, grants and contracts, and auxiliary services represent 31 percent, 37 percent and 13 percent of the total operating revenues, respectively.

The University's operating expenditures including depreciation and amortization of approximately $82,100,000 totaled approximately $1.4 billion. Of this total, approximately $875,700,000 or 61 percent was used to support the academic core activities of the University including approximately $245,000,000 in research.

State Appropriations

In fiscal year 2002, State appropriations represented approximately two-thirds of the budgeted general operating revenues and approximately 32.8 percent of all operating and non-operating revenues. The University received a reduction in its base appropriations in fiscal year 2002 of approximately $19,500,000 and a reduction of approximately $5,700,000 in Library Reference Material funding (total reduction, was approximately $25,200,000). In February of 2002, the Commonwealth further reduced the University's appropriation by an additional approximately $3,500,000 bringing the total fiscal year 2002 reduction to approximately $28,700,000.

Endowment and Fundraising

The combined University and Foundation endowment has increased to approximately $211,800,000 at June 30, 2004, from approximately $70,000,000 at June 30, 1995. The University raised $70,925,751 in cash, pledges, gifts-in-kind, and private research grants in fiscal year 2004. The number of endowed chairs has grown from four in 1995 to 50 in 2004, enhancing the University's academic reputation.

At June 30, 2004, the Foundation held approximately $191,100,000 of the total endowments reported below. The Foundation's total investment return for fiscal year 2004, including realized and unrealized activity was a net gain of approximately $16,400,000. 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 2004.

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

2000	2001	2002*	2003	2004
$149,675	$158,362	$183,611	$190,893	$211,795

*The fiscal year 2002 endowment assets were adjusted upwards by approximately $20,300,000 as a result of a reclassification by the Foundation in its fiscal year 2003 financial statements of such assets from cash to short-term funds.

Indebtedness of the University

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

University of Massachusetts Building Authority

The University of Massachusetts Building Authority ("UMBA") was created under Chapter 773 of the Acts of 1960 of the Commonwealth of Massachusetts (as amended the "Enabling Act") for the general purposes of aiding and contributing to the performance of the educational and other purposes of the University by providing buildings and structures for the use of the University (the "UMBA Projects"). The Enabling Act empowers UMBA to borrow money to achieve any of its corporate purposes and to enter into contracts with the University which provide, among other things, for the University to act as UMBA's agent in collecting rates, rents, fees and other charges imposed by UMBA for the use of the UMBA Projects and, in the case of certain bonds, payments by the University of amounts sufficient to pay debt service for bonds issued to finance the UMBA projects. The Enabling Act prohibits UMBA from initiating any project except upon written request made of UMBA by authority of the University Trustees and upon written approval from the Commissioner of Administration of the Commonwealth.

As of June 30, 2004, UMBA had outstanding bonds of approximately $655,890,000 (the "UMBA Bonds"), for which the University is contractually obligated to provide for the payment of debt service or act as the UMBA's agent to collect rates, rents, fees and other charges. Of the UMBA Bonds, approximately $475,500,000 are essentially general obligations of the University payable from all funds of the University permitted to be applied thereto. With respect to these bonds, the University has contracted with UMBA 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 UMBA. 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 $8,000,000 in the 12-months ended June 30, 2004; (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 $628,000 in the 12-months ended June 30, 2004; (iii) parking fees assessed for users of the Worcester parking garage, which amounted to approximately $2,700,000 in the 12-months ended June 30, 2004; 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 $30,000,000 for the 12-months ended June 30, 2004.

On August 7, 2003, UMBA issued $137,970,000 in 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 13, 2004, UMBA issued $183,965,000 in Project and Refunding Revenue Bonds Senior Series 2004-1 (the "2004-1 Bonds"), $96,025,000 in Facilities Revenue Bonds, Senior Series 2004-A (the "2004-A Bonds"), and $25,875,000 in 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, UMBA 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.

Massachusetts Health and Educational Facilities Authority

University of Massachusetts Series C

In June 2002, the Authority 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 has 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, the Authority 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.

University of Massachusetts Series A

In March 2000, the Authority 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 will finance and refinance 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 C

In April 2002, the Authority 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. 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 C Bonds. The University's rental payments to WCCC are payable from any funds legally available for application thereto other than moneys appropriated by the Massachusetts legislature.

WCCC Series B

In June 2001, the Authority 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 is being used to finance 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 Authority to make payments from any funds of the University permitted to be applied thereto funds of amounts due on the WCCC Series B Bonds and 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.

WCCC Series A

In March 2000, the Authority 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 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 A Bonds and 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 A 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 A Bonds.

The WCCC Series D Bonds are being issued in the principal amount and are payable from the sources described in the forepart of this Official Statement for the purpose of refunding the above-described WCCC Series A Bonds.

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

As of June 30, 2004, the outstanding principal amount of Authority and UMBA debt secured by the University's unrestricted net assets was approximately $709,275,000. The chart below details the unrestricted net assets (not including University Related Organizations) in fiscal years 2000-2004.

Fiscal Year	**2000**	**2001**	**2002**	**2003**	**2004**
Unrestricted Net Assets	$193,463,000	$191,400,000	$214,285,000	$253,117,000	$316,022,000

Additional Indebtedness

Under the terms of the trust agreements and financing agreements securing the above-referenced indebtedness issued by the Authority, the University may, without limit, issue additional indebtedness or request UMBA or the Authority to issue additional indebtedness on behalf of the University so long as such indebtedness is payable from all available funds of the University. 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 UMBA to issue additional indebtedness on behalf of the University that is not payable from all funds of the University permitted 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 UMBA, (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 $44,700,000 at June 30, 2004.

In addition, on July 8, 2004, the University entered into a new Master Lease Financing Agreement in the amount of approximately $42,800,000. The lease is being used to acquire and install equipment to accomplish the energy and water conservation measures under the Energy Service Agreement in various facilities throughout the Amherst campus.

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 UMBA located on a campus of the University, such as the Mullins Center, dining commons, and most dormitories, are insured by UMBA. 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 policies. Employees of the University are covered for Worker's Compensation protection under Chapter 152 of the Massachusetts General Laws.

Technological Initiatives

The University is in 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 plans to implement the Student Administration suite for Boston, Dartmouth and Lowell campuses in spring of 2005. In addition, the University will continue to secure these assets by staying current with vendor releases, i.e., upgrades that will enable additional functionality and incorporate major changes in technology. As such, the University will initiate the upgrade of its financial systems to the latest release and concurrently implement the new Grants Management product suite, with an expected completion at the end of calendar year 2005. 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 2005 and fiscal year 2006 will be increasing the reporting services and capabilities of the University's systems to better support operational and management planning efforts.

The University has also invested in new systems to support its UMassOnline e-learning initiative and, as a result, is implementing a new WebCT-based learning management system in fiscal year 2005. This will provide increased functionality as well as the opportunity to consolidate all current courses under enterprise application, with improved performance and a consistent look and feel for the University's growing customer base (over 16,000 course enrollments in calendar year 2004).

The University continues to invest in existing infrastructure to address growth and obsolescence in fiscal year 2005. These areas include investments in storage solutions, retirement of aged servers and services, and upgrades to key systems.

The University continues to invest in its statewide inter-campus network, known as the Massachusetts Information Turnpike Initiative ("MITI"). This effort, initially funded 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 intends to continually invest in this asset in fiscal year 2005 and beyond, increasing its capacity.

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 litigation will not have any material effect on the financial position or financial results of the University.

Employee Relations

The University employs approximately 15,226 full and part-time faculty, professional and clerical support staff, of which approximately 8,760 are covered by collective bargaining units. Of those covered, approximately 2,565 are faculty, approximately 2,045 are professional staff, approximately 4,000 are clerical and maintenance support staff, and 150 are police officers. In total, the University has 31 collective bargaining units (including three graduate employee units). The majority of the University's collective bargaining contracts expired on or before June 30, 2004. Negotiations are currently underway for successor agreements to these contracts. The University employees covered by University controlled collective bargaining units cannot strike. The Commonwealth appropriates supplemental funds to support collective bargaining wage increases 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 as their bargaining agent. The labor negotiations with the resident assistants at Amherst campus have recently been concluded and a contract is in place for the July 2003 through June 2005 time period.

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: March 31, 2005

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APPENDIX B

March 31, 2005

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

Members of the Authority:

In connection with the issuance by the Massachusetts Health and Educational Facilities Authority (the "Authority") of its Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005) (the "Series D Bonds"), we are pleased to submit the following information with respect to the Worcester City Campus Corporation ("WCCC"), the Project and other pertinent matters for inclusion in this Official Statement. As used hereinafter, and unless otherwise indicated by context, all utilization and financial data for any year refers to the fiscal year ended June 30. Unless otherwise indicated, WCCC is the source of all information included in the following.

Worcester City Campus Corporation

WCCC is a not-for-profit Massachusetts corporation that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. WCCC operates exclusively to foster, promote and support the University of Massachusetts (the "University") Worcester campus in all its locations. In particular, WCCC operates to support certain real estate operations of the University, and in conjunction therewith to receive, hold, manage, develop, improve, demolish, renovate, lease, convey, grant easements or otherwise deal in real and personal property connected with such University operations. WCCC also supports health care institutions in the Worcester area connected to the operation of the University, including UMass Memorial Health Care, Inc.

WCCC is included and categorized as a component unit of the University in the financial statements of the University at June 30, 2004 and 2003, and for each of the fiscal years then ended. Prior to the fiscal year ended June 30, 2002, WCCC was categorized separately from the University and was reported in the financial statements as a University Related Organization as that term is defined by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The financial statements of the University, which are included in this Official Statement as Appendix C, have been audited by PricewaterhouseCoopers, LLP, independent accountants, as set forth in their report dated October 22, 2004, which references the report of other auditors.

WCCC's subsidiary, Worcester Foundation for Biomedical Research, Inc. ("WFBR"), is a Massachusetts not-for-profit corporation that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. WFBR's purpose is to solicit, receive and administer and make gifts and donations to the University of Massachusetts Medical School ("UMMS") to support research activities, and to carry on any other activity that may be lawfully carried on by a corporation formed under Chapter 180 of Massachusetts General Laws and which is not inconsistent with WFBR's qualification as an organization described in Section 501(c)(3) of the Internal Revenue Code.

WCCC does not have any employees. Services for accounting, treasury, and facility maintenance are provided by the University at agreed upon amounts and are accrued monthly according to contracts between WCCC and the University.

There are no actions pending or, to the knowledge of management of WCCC, threatened against WCCC.

Governance

Member

The University is the sole member of WCCC. Accordingly, the University as the sole member of WCCC elects the members of the WCCC Board of Trustees.

Board of Trustees

WCCC is governed by a Board of Trustees consisting of nine members, each elected February 2004 for a one-year term. Board members shall hold office until their successors are chosen and qualified. Listed below are the current members of WCCC's Board of Trustees.

Member and Position

Thomas J. Chmura
University of Massachusetts
Vice President for Economic Development

Grace K. Fey*
Frontier Capital Management Co.
Executive Vice President and Director

James R. Julian
University of Massachusetts
Executive Vice President

Stephen W. Lenhardt
University of Massachusetts
Vice President for Management and Fiscal Affairs and Treasurer

David MacKenzie
University of Massachusetts Building Authority
Executive Director

Thomas D. Manning
University of Massachusetts, Worcester Campus
Deputy Chancellor for Commonwealth Medicine and Facilities Planning

Robert K. Sheridan*
Savings Bank Life Insurance
Chief Executive Officer

Richard J. Stanton
University of Massachusetts, Worcester Campus
Deputy Chancellor

Karl E. White*
MBTA Retirement Fund
Executive Director

* WCCC Trustee is also a Trustee of the University.

Officers

The officers of WCCC consist of its President, Treasurer and Clerk and are as follows:

Richard J. Stanton President	Stephen W. Lenhardt, Sr. Treasurer	Thomas D. Manning Clerk

For brief biographies of certain WCCC officers and Trustees, see Appendix A under the heading "Administrative Officers".

Properties

WCCC currently owns the following seven properties located in Central Massachusetts:

Auburn

The Auburn facility was donated to WCCC in fiscal year 1999 and consists of an approximately 21,000-square foot office building in the Mid-State Office Park in Auburn, Massachusetts. There is direct access to the Massachusetts Turnpike as well as Interstate 290 from the facility, thereby connecting the site to the UMMS and major population centers. The office space is used for the support of UMMS programs involved in disability claims analysis and program development.

Biotech I

The Biotech I building is located in the Worcester Biotechnology Research Park in Worcester, Massachusetts and contains approximately 76,000 gross square feet of wet laboratory and office space. The space houses the clinical laboratory program as well as ancillary administrative support space for clinical activities. WCCC purchased Biotech I with cash in fiscal year 1998.

Biotech II

In June 2001, The University of Massachusetts Foundation, Inc. (the "Foundation") transferred ownership of Biotech II to WCCC. Biotech II consists of approximately 88,000 gross square feet housing mainly a research laboratory, faculty offices, conference rooms, a research library, and a computer area. In exchange for Biotech II, WCCC assumed from the Foundation the remaining bonds payable on Biotech II of approximately $17.8 million, net (the "Foundation Bonds"), and acquired the related debt service funds. See "Indebtedness – WCCC Series B" below.

Aaron Lazare Medical Research Building

The Aaron Lazare Medical Research Building (the "Research Building") officially opened on October 19, 2001. The Research Building is located on a 3.5-acre site on the University's Worcester campus and consists of 10 floors and approximately 362,000 gross square feet. See "Indebtedness – WCCC Series A" below.

Shrewsbury

The 75-acre site located in Shrewsbury, Massachusetts has a variety of structures (totaling approximately 135,000 square feet) that are used for wet and dry laboratory research and ambulatory office space. The location is anchored by the Hoagland/Pincus Building which is the home of the Continuing Medical Education Program for the University's Worcester campus. The Shrewsbury property was acquired as a result of the merger with WFBR in fiscal year 1998.

100 Century Drive

The 100 Century Drive office building is located in Worcester and consists of three-stories and approximately 81,500 square-feet, and is situated on a 7.5-acre site with on-site parking for more than 425 cars.

WCCC purchased 100 Century Drive with cash in January 2002, at a cost of approximately $6,800,000. The building is used for office space for the University's Worcester campus.

JP-Biolabs

The construction of a pharmaceutical research and production facility is substantially complete. The facility is located on the site of the former Boston State Hospital in the Jamaica Plain section of Boston. In January 2002, WCCC entered into a ground lease with Franklin Place Associates ("FPA"), the current owner of the land on which JP-Biolabs is being built. Pursuant to the ground lease, WCCC is required to pay FPA a development fee of $2,900,000 as certain milestones related to the construction of the facility are achieved. In March 2004, WCCC exercised their option to purchase the land from FPA for $10. Additionally, WCCC paid $900,000 to FPA which satisfied in full its commitment for the $2,900,000 development fee. See "Indebtedness – WCCC Series C" below.

The University will use the JP-Biolabs Facility as part of its Massachusetts Biologics Laboratory (the "MBL"). The MBL is a facility licensed by the United States Food and Drug Administration (the "FDA") for the development and manufacture of human vaccines, plasma products and monoclonal antibodies. Currently, the MBL operates in three buildings at the Jamaica Plain location of the University's Worcester campus and is the only publicly owned and operated, FDA licensed biologics manufacturing facility in the country. The MBL specializes in the development and manufacture of life saving products for use in limited or special populations. Recent examples include the immune globulins effective against Cytomegalovirus in organ transplant recipients, Respiratory Syncytial Virus in high-risk infants and Varicella-Zoster Virus in children with leukemia. In 1997, the Massachusetts Legislature transferred oversight of the MBL from the Department of Public Health to the University of Massachusetts.

The JP-Biolabs Facility will include a state-of-the-art aseptic filling suite and a manufacturing suite for at least one monoclonal antibody product. The major reasons to build a new manufacturing facility for the MBL are to provide space for new product development, comply with FDA regulations and improve operating efficiency of MBL's manufacturing capabilities.

Leases

The University has operating lease agreements with WCCC for use of space at six of the properties (Auburn, Biotech I, Lazare Research Building, 100 Century Drive, JP-Biolabs and Shrewsbury). These leases provide for the recovery of operating costs as well as certain capital improvement expenditures. The total amount of rental income earned, excluding reimbursement for capital improvements, from the University for the year ended June 30, 2004 was approximately $19,200,000 which represents approximately 95 percent of the total rental income of WCCC in fiscal year 2004 of $20,300,000.

The future minimum lease payments as of June 30, 2004 for the six properties with operating lease agreements are as follows:

Property	2005	2006	2007	2008	2009	Thereafter
Shrewsbury	$1,900,000	$1,900,000	$1,900,000	$1,900,000	$ -	$ -
100 Century Drive	764,000	786,000	811,000	835,000	860,000	7,788,000
JP-Biolabs	4,698,000	4,698,000	4,696,000	4,692,000	4,691,000	106,976,000
Lazare Research Building	9,387,000	9,387,000	9,387,000	9,387,000	9,387,000	190,860,000
Total	$16,749,000	$16,771,000	$16,794,000	$16,814,000	$14,938,000	$305,624,000

WCCC also owns and receives monthly rental payments on the Biotech II building which was transferred in June 2001. The University is currently a tenant-at-will, and the future rental payments have not been included in the above schedule.

Indebtedness

WCCC Series C

In April 2002, the Authority issued its $70,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series C (the "WCCC 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. In April 2002, WCCC entered into a sublease with the University (the "JP-Biolabs Sublease") that requires the University to make semi-annual rental payments sufficient to pay, among other things, debt service on the WCCC C Bonds. The University's rental payments to WCCC are payable from any funds legally available for application thereto other than moneys appropriated by the Massachusetts Legislature.

WCCC Series B

In June 2001, the Authority issued its $52,020,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series B (the "WCCC B Bonds"). WCCC's obligation under the applicable loan agreement is a general obligation of WCCC. Approximately $17,000,000 of the proceeds of the WCCC B Bonds were advanced to an irrevocable trust fund to provide for the payment of interest and principal on the Foundation Bonds associated with Biotech II. The University currently occupies Biotech II subject to terms that require the University to make rental payments sufficient to pay debt service on the applicable WCCC B Bonds and the annual operating costs of Biotech II. Approximately $17,200,000 of the proceeds of the WCCC B Bonds were used to acquire and install certain research and telecommunications equipment for the Worcester campus. The equipment is being leased to the University subject to terms that require the University to make rental payments in amounts sufficient to pay debt service on the applicable WCCC B Bonds. Approximately $17,800,000 of the proceeds of the WCCC B Bonds were used to construct a new, approximately 1,600-space parking garage for the Worcester campus. The parking garage will be leased to the University subject to terms that will require the University to make rental payments in amounts sufficient to pay debt service on the applicable WCCC B Bonds and the annual operating costs of the project including maintenance and insurance. For additional information on the University's obligations related to the WCCC B Bonds, see Appendix A under the heading "Indebtedness of the University – WCCC Series B".

WCCC Series A

In March 2000, the Authority issued its $100,000,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A (the "WCCC A Bonds"). WCCC's obligation under the applicable loan agreement is a general obligation of WCCC. The proceeds of the WCCC A Bonds were used to fund the site development, construction and the acquisition and installation of furnishings and equipment of the approximately 362,000 gross square foot Research Building. WCCC is leasing the site for a term of thirty years for the sum of one dollar per year subject to the terms of a lease agreement between the Commonwealth acting by and through its Division of Capital Asset Management as landlord, in consultation with and on behalf of the University, and WCCC (the "Land Lease"). The Land Lease also provides that WCCC is responsible for any taxes, utility, insurance and all other costs associated with the leased land. In fiscal year 2002, WCCC entered into an agreement to lease the Research Building to the University (the "Project Lease"). The Project Lease requires the University to make rental payments sufficient to meet WCCC's obligations under the applicable loan agreement and to provide for WCCC's operating costs for the Research Facility, including insurance and utilities. For additional information on the University's obligations related to the WCCC A Bonds, see Appendix A under the heading "Indebtedness of the University – WCCC Series A".

In addition to the proceeds of the WCCC A Bonds, WCCC will utilize certain other funds for the Research Building and its supporting activities, including a $32,500,000 contribution from UMass Memorial Health Care, Inc. ("UMass Memorial") a not-for-profit corporation formed in 1998 when the University divested its clinical services, including its hospital. As of June 30, 2001, WCCC had received the entire contribution from UMass Memorial.

The Refunding

The proceeds from the sale of the Series D Bonds will be used, together with other available funds, to refund the outstanding amount of the above-described WCCC A Bonds and to pay the cost of issuing the Series D Bonds. A more detailed description of the use of proceeds of the Series D Bonds and other moneys and receipts, including approximate amounts and purposes, is included in the forepart of this Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PLAN OF REFUNDING."

Insurance

WCCC maintains general liability, umbrella coverage and property insurance for its Auburn, Biotech I, Biotech II, Research Building, Shrewsbury and 100 Century Drive properties. WCCC expects to have errors and omissions, general liability and builders risk coverage for the JP-Biolabs Facility. WCCC also expects to purchase property insurance for the JP-Biolabs once the project is completed. WCCC is required under the JP-Biolabs Sublease to maintain commercial general liability insurance, with the University named as an additional insured, insuring WCCC against claims and demands for personal injury or damage to property which may be claimed to have occurred upon or about the project. WCCC is also required under the above referenced Sublease to maintain casualty insurance upon the project, including all fixtures and equipment of WCCC and the University.

Commitments

WCCC is the designated agent for the University of Massachusetts Medical School ("UMMS") and UMass Memorial Health Care ("UMMHC") for managing a facility renovation project providing for the replacement of the granite façade at the University Campus of UMMS and UMMHC located in Worcester. Anticipated project costs of $55,000,000 will be reimbursed to WCCC through a combination of support from UMMS and UMMHC. Pursuant to the agreement, WCCC, as the designated agent for UMMS made a payment on behalf of UMMS of $27,500,000 during 2003 to the Commonwealth of Massachusetts. Additionally, in 2003 WCCC, as designated agent for UMMS, received from UMMHC $47,500,000 in required support of the shared missions of UMMS and UMMHC. At June 30, 2003, WCCC had recorded a $7,500,000 receivable from UMMS for the balance of the unreimbursed costs incurred, which was paid by UMMS in 2004.

At June 30, 2004, total project costs of $20,900,000 have been incurred by WCCC, $19,900,000 of which has been billed to UMMHC. Of this amount, $12,100,000 has been reimbursed prior to June 30, 2004, and WCCC has recorded a $7,800,000 receivable from UMMHC for the remaining reimbursable expenses.

Respectfully submitted,

Worcester City Campus Corporation

By: /s/ Richard Stanton
President

APPENDIX C

University of Massachusetts
Annual Financial Report
June 30, 2004

UMASS®

Board of Trustees:

Officers of the University:

Jack M. Wilson, President
John V. Lombardi, Chancellor, UMass Amherst
J. Keith Motley, Interim Chancellor, UMass Boston
Jean F. MacCormack, Chancellor, UMass Dartmouth
William T. Hogan, Chancellor, UMass Lowell
Aaron Lazare, M.D., Chancellor, UMass Worcester
James R. Julian, Executive Vice President
Vice President for Academic Affairs, vacant
Thomas Chmura, Vice President for Economic Development
David Gray, Vice President for Information Services and Chief Information Officer and Interim CEO of UMass Online
Stephen W. Lenhardt, Vice President for Management & Fiscal Affairs and University Treasurer
Terrence O'Malley, General Counsel
Barbara F. DeVico, Secretary to the Board of Trustees

UNIVERSITY OF MASSACHUSETTS
AMHERST • BOSTON • DARTMOUTH • LOWELL • WORCESTER

OFFICE OF THE UNIVERSITY CONTROLLER
100 VENTURE WAY, 2ND FLOOR
HADLEY, MA 01035
(413) 587-2049

OFFICE OF THE PRESIDENT
ONE BEACON STREET, 26TH FLOOR
BOSTON, MA 02108
(617) 287-7000

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, 2004. The enclosed financial statements incorporate all financial activity of the University and its five campuses. This statement has been audited by an independent accounting firm and is fully represented in the financial report of the Commonwealth of Massachusetts.

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, 2004 including comparative information as of June 30, 2003.

The University's net assets increased $113.9 million from $1.05 billion in fiscal year 2003 to $1.17 billion in fiscal year 2004. The major components of the increase are:

- Increases in student fee rates across all campuses
- Continued cost cutting in response to ongoing uncertainty with the state budget and
- Increases in public service activities at the Worcester campus.

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 operating margin, financial cushion, current ratio, debt service to operations, and endowment per student. During 2004, the University met or exceeded its targets for all five indicators. Overall, the University made important progress in fiscal 2004 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

PRICEWATERHOUSECOOPERS

Report of Independent Auditors

To the Board of Trustees of the
University of Massachusetts:

In our opinion, based on our audits and the reports of other auditors, the accompanying statements of net assets and the related statements of revenues, expenditures 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, 2004 and 2003, and its revenues, expenditures and changes in net assets and its 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 opinions 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 statements reflect total net assets of $103.4 million of the University and $16.4 million of the University Related Organizations, and $88.1 million of the University and $14.2 million of the University Related Organizations as of June 30, 2004 and 2003, respectively, and total revenue of $70.9 million of the University and $5.0 million of the University Related Organizations and $73.2 million of the University and $3.0 million of the University Related Organizations for the years ended June 30, 2004 and 2003, 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 22, 2004

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, 2004 with comparative information as of June 30, 2003 and 2002. 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 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 2003, the University enrolled approximately 47,603 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, and 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 purposes of the Building 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 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

Operating cash and cash equivalents increased by $35.6 million from $3.6 million in fiscal year 2003 to $39.2 million in fiscal year 2004. The University's combined net assets also increased $113.5 million from $1.05 billion in fiscal year 2003 to $1.17 billion in fiscal year 2004. The major components of these increases are:

- Increases in student fee rates across all campuses
- Continued cost cutting in response to ongoing uncertainty with the state budget and
- Increases in public service activities at the Worcester campus.

Using the Annual Financial Report

This annual financial report consists of a series of financial statements, prepared in accordance with the principles established by the Governmental Accounting Standards Board (GASB). These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented previous to fiscal year 2002. The financial statements presented in years prior to 2002 focused on the accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

One of the most important questions asked about University finances is whether the University as a whole is better off or worse off as result of the year's activities. The key to understanding this question is 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. 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 provided, 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 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, 2004 and 2003 and 2002
(in thousands of dollars)

	University June 30, 2004	University June 30, 2003	Change	University June 30, 2002	Change
ASSETS					
Current Assets	$464,582	$359,428	$105,154	$366,765	($7,337)
Noncurrent Assets					
Investment In Plant Net of Accumulated Depreciation	1,163,700	1,109,079	54,621	1,032,092	76,987
All other noncurrent assest	929,967	602,133	327,834	579,628	22,505
Total Assets	2,558,249	2,070,640	487,609	1,978,485	92,155
LIABILITIES					
Current Liabilities	348,643	320,040	28,603	315,848	4,192
Noncurrent Liabilities	1,040,976	695,902	345,074	706,419	(10,517)
Total Liabilities	1,389,619	1,015,942	373,677	1,022,267	(6,325)
NET ASSETS					
Invested in Capital Assets Net of Related Debt	713,903	685,453	28,450	653,755	31,698
Restricted					
Nonexpendable	14,433	14,390	43	14,306	84
Expendable	124,272	101,738	22,534	73,872	27,866
Unrestricted	316,022	253,117	62,905	214,285	38,832
Total Net Assets	$1,168,630	$1,054,698	$113,932	$956,218	$98,480

University of Massachusetts Condensed Statement of Net Assets for Related Organizations As of June 30, 2004 and 2003 and 2002 (in thousands of dollars)	University Related Organizations June 30, 2004	University Related Organizations June 30, 2003	Change	University Related Organizations June 30, 2002	Change
ASSETS					
Current Assets	$6,595	$5,268	$1,327	$7,465	($2,197)
Noncurrent Assets					
Investment In Plant Net of Accumulated Depreciation	1,019	1,187	(168)	1,224	(37)
All other noncurrent assest	189,284	171,892	17,392	159,625	12,267
Total Assets	196,898	178,347	18,551	168,314	10,033
LIABILITIES					
Current Liabilities	2,017	2,702	(685)	2,300	402
Noncurrent Liabilities	3,282	3,747	(465)	3,902	(155)
Total Liabilities	5,299	6,449	(1,150)	6,202	247
NET ASSETS					
Invested in Capital Assets Net of Related Debt	230	45	185	(247)	292
Restricted					
Nonexpendable	144,790	132,180	12,610	122,038	10,142
Expendable	44,388	41,875	2,513	40,408	1,467
Unrestricted	2,191	(2,202)	4,393	(87)	(2,115)
Total Net Assets	$191,599	$171,898	$19,701	$162,112	$9,786

At June 30, 2004, total University assets were $2.56 billion, an increase of $489.0 over the $2.07 billion in assets recorded for fiscal year 2003. Much of the increase can be attributed to increases in accounts receivable and cash and securities held by the trustees from new bonds. The University's largest asset is its net investment in its physical plant of $1.16 billion at June 30, 2004 ($1.11 billion in fiscal year 2003). Other significant University assets include current and noncurrent investments and cash and cash equivalent held by the Trustees.

At June 30, 2003, total University assets were $2.07 billion, an increase of $92.2 over the $1.98 billion in assets recorded for fiscal year 2002. Most of the increase could be attributed to the increase in both investment in plant and grant and contract receivables. The University's largest asset was its net investment in its physical plant of $1.11 billion at June 30, 2003 ($1.03 billion in fiscal year 2002). Other significant University assets included current and noncurrent investments and cash and securities held by the Trustees.

University liabilities totaled $1.39 billion at June 30, 2004, an increase of $373.7 million over fiscal year 2003 ($1.02 billion). Long-term debt largely consists of bonds payable and capitalized lease obligations amounting to $1.01 billion at June 30, 2004. This represents an increase of $362.5 million over long-term debt obligations of $646.6 million in fiscal year 2003. This increase reflects new borrowing by the University of Massachusetts Building Authority during fiscal year 2004.

University liabilities totaled $1.02 billion at June 30, 2003, a decrease of $6.3 million over fiscal year 2002 ($1.02 billion). Long-term debt largely consisted of bonds payable and capitalized lease obligations amounting to $646.6 million at June 30, 2003. This represented a decrease of $14.3 million over long-term debt obligations of $660.9 million in fiscal year 2002. The decrease was principally due to scheduled debt repayments while incurring no new debt during that fiscal year.

The University's current assets of $464.6.million were sufficient to cover current liabilities of $348.6 million, as the current ratio was 1.33 dollars in assets to every one-dollar in liabilities. In fiscal year 2003, the current ratio was 1.12 ($359.4 million in assets for $320.0 million in liabilities). In fiscal year 2002, the current ratio was 1.16 ($366.8 million in assets for $315.8 million in liabilities).

The unrestricted and restricted expendable net assets totaled $440.3 million, which represents 28.2% percent of total operating expenditures of $1.56 billion during 2004. In fiscal year 2003, expendable net assets of $354.9 million to operating expenditures of $1.50 billion made the expendable net assets to spending ratio 23.7%. The increase in this ratio is a result of an increase in net assets driven by increases in student fee rates across all campuses, continued cost cutting in response to an uncertain state budget and increased public service activity at the Medical School.

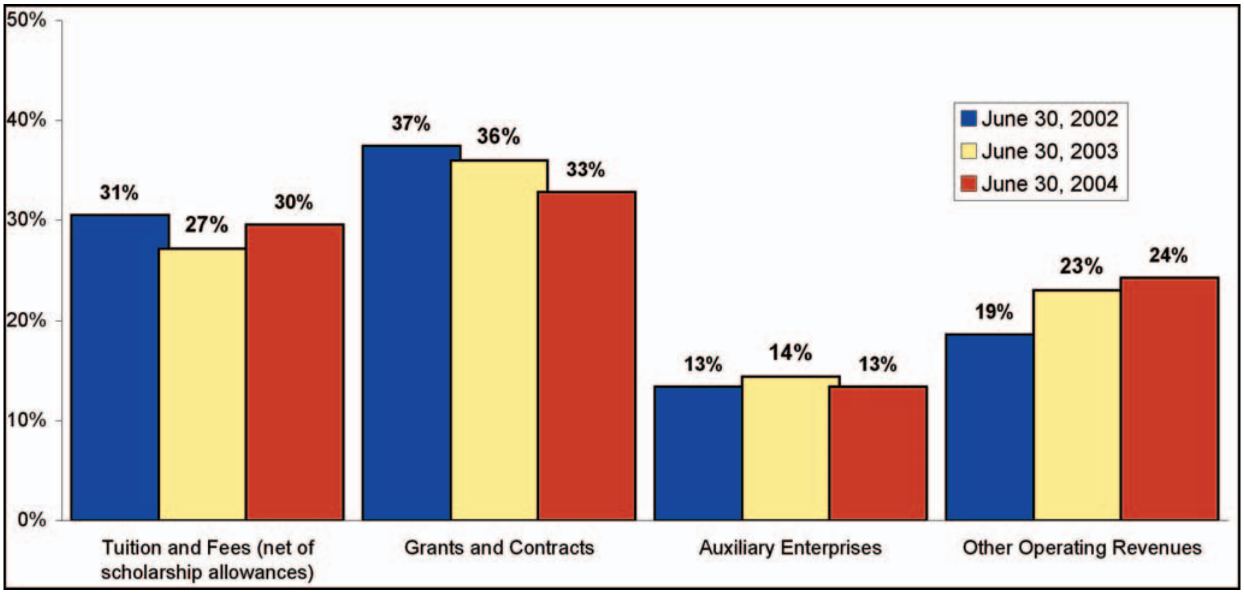
In fiscal year 2002, expendable net assets of $288.2 million to operating expenditures of $1.42 billion made the expendable net assets to spending ratio 20.3%. The increase in this ratio from fiscal year 2002 to fiscal year 2003 was a result of an increase in net assets driven by increases in tuition and fee rates across all campuses, aggressive cost cutting in response to state budget cuts, increases in building construction with funds from capital gifts, grants and contracts, including $30.8 million of special payments received from UMass Memorial Health Center in support of the granite façade replacement project on the Worcester Campus, and increases in manufacturing and royalty net operating income derived from the operations of the Massachusetts Biologics Laboratories.

University of Massachusetts Condensed Statement of Revenues, Expenses, and Changes in Net Assets For The Year Ended June 30, 2004, 2003 and 2002 (in thousands of dollars)	University June 30, 2004	University June 30, 2003	Change	University June 30, 2002	Change
Operating Revenues					
Tuition & Fees (net of scholarship allowances of $63,185 at 6/30/04, $52,271 at 6/30/03 and $39,094 at 6/30/02)	$361,762	$288,690	$73,072	$282,142	$6,548
Grants and Contracts	401,750	377,008	24,742	346,295	30,713
Auxiliary Enterprises	163,894	153,263	10,631	124,149	29,114
Other Operating Revenues	297,012	244,202	52,810	172,085	72,117
Total Operating Revenues	**1,224,418**	**1,063,163**	**161,255**	**924,671**	**138,492**
Operating Expenses	**1,556,059**	**1,497,925**	**58,134**	**1,421,656**	**76,269**
Operating Loss	**(331,641)**	**(434,762)**	**103,121**	**(496,985)**	**62,223**
Nonoperating Revenues					
Federal Appropriations	6,849	5,139	1,710	5,900	(761)
State Appropriations	398,154	447,437	(49,283)	465,040	(17,603)
Other Nonoperating Income	-	-	-	20,057	(20,057)
Net Nonoperating Revenues	**432,730**	**465,967**	**(33,237)**	**490,997**	**(25,030)**
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	**101,089**	**31,205**	**69,884**	**(5,988)**	**37,193**
Capital Appropriations	19,135	30,491	(11,356)	63,633	(33,142)
Capital Grants and Contracts	-	30,800	(30,800)	93	30,707
University Related Organization Transactions	676	10,391	(9,715)	10,385	6
Gain from Disposal of Previously Discontinued Operations	(14,099)	(10,733)	(3,366)	(17,009)	6,276
Other	7,131	6,326	805	10,018	(3,692)
Total Other Revenues, Expenses, Gains, and Losses	**12,843**	**67,275**	**(54,432)**	**67,120**	**155**
Total Increase in Net Assets	**113,932**	**98,480**	**15,452**	**61,132**	**37,348**
Net Assets					
Net Assets at Beginning of Year, as reported	1,054,698	956,218	98,480	895,086	61,132
Net Assets at End of Year	**$1,168,630**	**$1,054,698**	**$113,932**	**$956,218**	**$98,480**

University of Massachusetts Condensed Statement of Revenues, Expenses, and Changes in Net Assets for University Related Organizations For The Year Ended June 30, 2004, 2003 and 2002 (in thousands of dollars)	University Related Organizations June 30, 2004	University Related Organizations June 30, 2003	Change	University Related Organizations June 30, 2002	Change
Operating Expenses	**$11,321**	**$7,936**	**$3,385**	**$13,530**	**-$5,594**
Operating Loss	**(11,321)**	**(7,936)**	**(3,385)**	**(13,530)**	**5,594**
Nonoperating Revenues					
Other Nonoperating Income	18,588	13,486	5,102	20,000	(6,514)
Net Nonoperating Revenues	**18,588**	**13,486**	**5,102**	**20,000**	**(6,514)**
Income/(Loss) Before Other Revenues, Expenses, Gains or Losses	**7,267**	**5,550**	**1,717**	**6,470**	**(920)**
Additions to Permanent Endowments	13,312	14,554	(1,242)	11,204	3,350
University Related Organization Transactions	(676)	(10,391)	9,715	(10,385)	(6)
Gain from Disposal of Previously Discontinued Operations	(206)	-	(206)	-	-
Other	4	73	(69)	131	(58)
Total Other Revenues, Expenses, Gains, and Losses	**12,434**	**4,236**	**8,198**	**950**	**3,286**
Total Increase in Net Assets	**19,701**	**9,786**	**9,915**	**7,420**	**2,366**
Net Assets					
Net Assets at Beginning of Year, as reported	171,898	162,112	9,786	154,692	7,420
Net Assets at End of Year	**$191,599**	**$171,898**	**$19,701**	**$162,112**	**9,786**

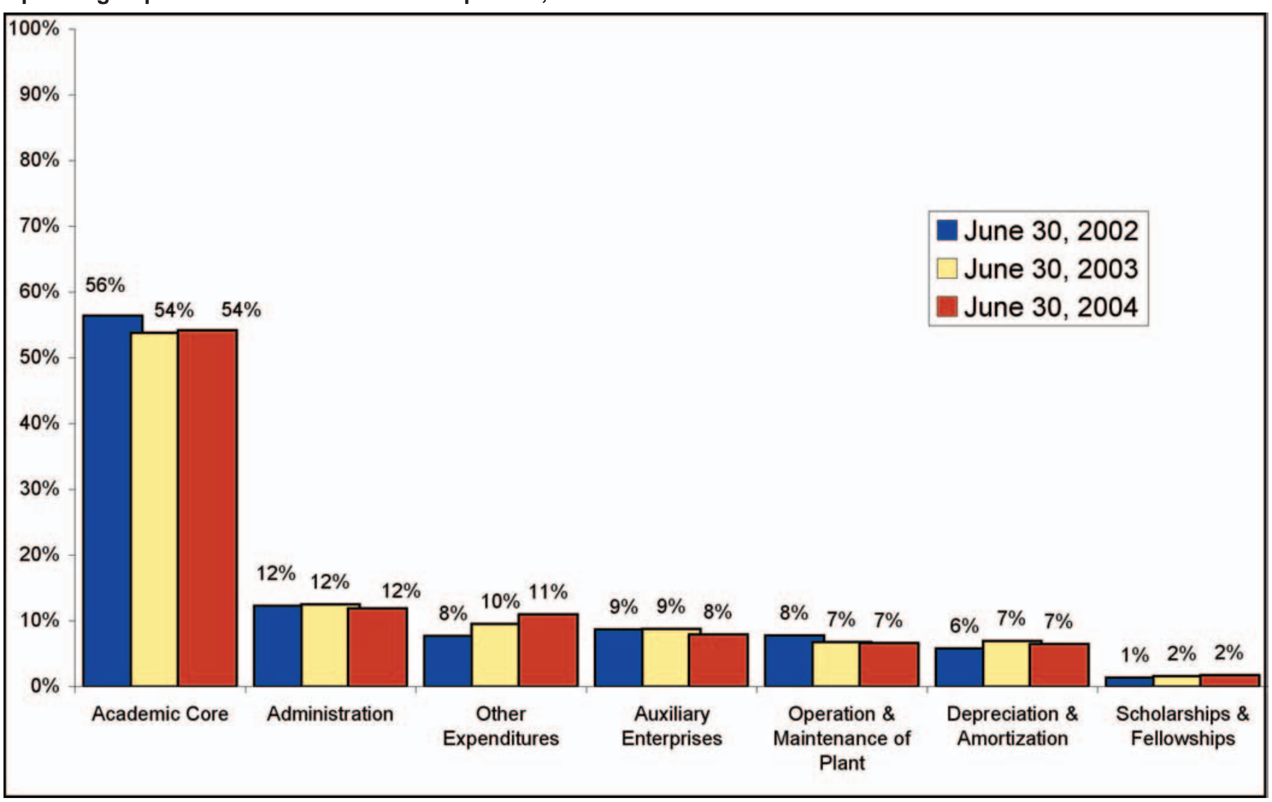
Total operating revenues for fiscal year 2004 were $1.22 billion. This is an increase of $161.3 million over fiscal year 2003 operating revenues of $1.06 billion. The most significant sources of revenue for the University are tuition and fees, grants and contracts, auxiliary services and public service activities at Worcester. The following chart displays operating revenues by source for the University in fiscal years 2004 and 2003. Total operating revenues for fiscal year 2003 ($1.06 billion) were $131.1 million over fiscal year 2002 operating revenues of $924.7 million.

Sources of Operating Revenues in Relation to Total Revenues, Fiscal Year 2002 to Fiscal Year 2004



In fiscal year 2004, operating expenditures, including depreciation and amortization of $101.5 million, totaled $1.56 billion. Of this total, $843.2 million or 54% was, used to support the academic core activities of the University, including $284.4 million in research. The chart below displays fiscal year 2004, 2003 and 2002 operating spending.

Operating Expenses in Relation to Total Expenses, Fiscal Year 2002 to Fiscal Year 2004



State Appropriations

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

Continued deterioration in the state's economic condition resulted in an additional reduction in the state appropriation to the University of $80.5 million from fiscal year 2003 to the beginning of fiscal year 2004. The total reduction in the state maintenance appropriation from fiscal year 2001 therefore was over $127.8 million or -26%. In response, the President and Board of Trustees continued to implement fiscal stabilization plans to allow the University to continue to provide service to students. This plan includes targeted cost-cutting measures – including layoffs, judicial backfilling of positions vacated through the state's Early Retirement Program, private fundraising efforts, and student charge adjustments. Later in fiscal year 2004, the Commowealth passed a supplemental appropriations bill which included $10 million in state funds for general operations of the University as well as $26.0 million to fund one-half of the fiscal year costs of the previously unfunded collective bargaining agreements. This action reduced the year-to-year change in state appropriation.

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 has been extended until the end of fiscal year 2005.

The following details the Commonwealth operating appropriations received by the University for fiscal years ending June 30, 2004, 2003 and 2002 (in thousands):

	June 30, 2004	June 30, 2003	June 30, 2002
Gross Commonwealth Appropriations	$365,086	$443,375	$469,477
Plus: Fringe Benefits*	85,348	88,365	90,904
	450,434	531,740	560,381
Less: Tuition Remitted	(52,280)	(84,303)	(95,341)
Net Commonwealth Support	$398,154	$447,437	$465,040

*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. The following table details the University's grant and contract revenues (in millions) for the fiscal years ended June 30, 2002, 2003 and 2004:

	June 30, 2004	June 30, 2003	June 30, 2002
Federal Grants and Contracts	$277,166	$256,579	$223,767
State Grants and Contracts	$53,788	55,294	58,189
Local Grants and Contracts	$3,123	3,240	2,918
Private Grants and Contracts	$67,673	61,895	61,421
Total Grant & Contracts	$401,750	$377,008	$346,295

Discretely Presented Component Units

University of Massachusetts Foundation, Inc.

The combined University and Foundation endowment has increased to approximately $193.7 million at June 30, 2004 up from $182.8 million at June 30, 2003 and $167.9 million at June 30, 2002.

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. The Foundation's total investment return for fiscal year 2004, including realized and unrealized activity was a net gain of approximately $16.4 million. 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 4.0% for fiscal year 2004.

University of Massachusetts Dartmouth Foundation, Inc.

Total marketable securities for the Dartmouth Foundation were $13.7 million in fiscal year 2004 up from $11.9 million at June 30, 2003 and $11.3 million at June 30, 2002. The increase was primarily due to new gifts. The Dartmouth Foundation total investment return for fiscal year 2004, including realized and unrealized investment activity, was a net gain of approximately $1.57 million.

Tuition and Fees

The University strives to provide students with the opportunity to obtain a quality education. Once the second most expensive of the six New England public university systems, the University recently ranked fifth (based upon in-state undergraduate charges at the University's Amherst campus). 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.

As previously noted, state appropriation reductions anticipated for fiscal year 2004 required that the University take a series of actions to stabilize operations including student fee increases for the 2002-2003 and 2003-2004 academic years.

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 2003 semester, Massachusetts residents accounted for approximately 87% and 60% of the University's total undergraduate and graduate fall enrollment, respectively. Total enrollment in the fall of 2003 was 47,148 FTE (57,799 headcount students). In the fall of 2002 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 1999 (46,219 FTE). Fall 2002 enrollments were up approximately 2% from fall 1999 levels. The enrollment increase is consistent with the University's efforts to manage housing and class enrollment. Freshman applications were down at the Amherst campus 20% and up at the Boston , Dartmouth and Lowell campuses between .1% and 19% and transfer applications were up at the Dartmouth and Lowell campuses (3% and 13%) and down at Amherst and Boston (8% and 4%).

The average Scholastic Aptitude Test ("SAT") scores for entering University freshmen ranged from 1042 to 1137 at the University's campuses in the fall of 2003. The United States Average in 2003-2004 was 1026.

Degrees Awarded

The University awards four levels of degrees, including associate, bachelors, masters and doctoral/professional degrees. A total of 10,701 degrees were awarded in 2002-2003: 184 associate degrees, 7,651 bachelor degrees, 2,424 master degrees, and 346 doctoral degrees and 96 MD's.

Bonds Payable

As of June 30, 2004, the University had outstanding bonds of approximately $964.4 million representing approximately $655.9 million of University of Massachusetts Building Authority bonds (the "Building Authority Bonds"), and approximately $86.6 million of University of Massachusetts bonds financed through the Massachusetts Health and Educational Facilities Authority (the "UMass HEFA Bonds*")*. Bonds payable is the University's largest liability at June 30, 2004 and 2003. Projects initially financed by the Building Authority Bonds consist primarily of dormitories, apartments, dining commons, athletic and multi purpose facilities and parking garages at the University campuses. 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).

At June 30, 2004, WCCC had outstanding bonds of approximately $214.7 million representing University of Massachusetts Worcester City Campus Corporation bonds (the "WCCC Bonds"). Proceeds from borrowing prior to fiscal year 2002 were used to fund the construction and equipping of a research facility; the proceeds will also be used to construct a parking garage on the Worcester campus. In fiscal year 2002, $70 million in WCCC Bonds was issued through the Massachusetts Health and Educational Facilities Authority (the WCCC Series C Bonds). Proceeds from the WCCC Series C Bonds are being used to fund the construction of a biologics laboratory for the UMass Worcester Medical School campus.

On May 13, 2004, the University of Massachusetts Building Authority issued $183,965,000 in Project and Refunding Revenue Bonds Senior Series 2004-1, $96,025,000 in Facilities Revenue Bonds Senior Series 2004-A and $25,595,000 Refunding Revenue Bonds Senior Series 2005-1 (the 2005-1 Bonds had delayed delivery date of February 3, 2005). The projects to be financed by the Senior Series 2004-1 bonds 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 Senior Series 2004-A bonds will be used to finance the construction of new residence halls at the Dartmouth campus.

Capitalized Lease Obligations

At June 30, 2004, the University had capital lease obligations with remaining principal payments of approximately $44.7 million. The capital leases primarily consist of telecommunications, software and co-generation system, and campus energy conversions. On July 8, 2004, the University entered into a Master Lease Financing Agreement in the amount of $42.8 million. The lease will be used to acquire and install equipment to accomplish the energy and water conservation measures under the Energy Service Agreement in various facilities throughout the Amherst campus.

University Rating

The University of Massachusetts has been rated "A+" by both Fitch and Standard & Poor's rating agencies. 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 August of 2004, the University Trustees approved a five-year (fiscal years 2005-2009), approximately $1.7 billion capital plan to be financed from all available funding sources, 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 moneys 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 2005-2009 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 2004-2008 capital plan and their estimated total project cost include (a) at the Amherst campus, deferred maintenance on the central heating plant for approximately $97,600,000, the construction of a recreation center for approximately $50,400,000, the construction of an integrated science building (phase 1A) to provide modern teaching laboratory facilities for chemistry and life sciences for approximately $66,790,000, phase II of the construction of the integrated science building for approximately $72,000,000, the construction of an engineering building for approximately $25,000,000, OIT/Telecom projects for approximately $13,700,000, the construction of an art building to provide essential replacement space for a number of art programs currently housed in obsolete space for approximately $16,100,000, repairs to the University Campus Center for approximately $9,000,000, housing repairs and renovations for approximately $27,500,000, renovations to the nursing building for approximately $16,300,000, an energy conservation project for approximately $42,734,000, the construction of graduate student housing (phase 1) for approximately $30,000,000, the construction of student housing for approximately $100,000,000, science facilities improvements for approximately $26,400,000, the construction of a new parking structure for approximately $18,000,000, renovations to the Goodell building for approximately $16,000,000, renovations to the student union for approximately $60,000,000, steamline repairs for approximately $10,000,000, renovations to science facilities for purposes of modernization and lab safety for approximately $25,000,000, classroom and instructional technological improvements for approximately $15,000,000, the construction of a lab building and new greenhouses for the College of Natural Resources and the Environment, and deferred maintenance and modernization for approximately $21,000,000; (b) at the Boston campus, campus center retrofitting for approximately $21,500,000, calf pasture pump station preservation for approximately $22,200,000, deferred maintenance on the parking garage to repair upper and lower level garages and plaza for approximately $42,200,000, the construction of an environmental science and technology park for approximately $25,100,000, construction of a new parking garage with approximately 1500 spaces for approximately $39,600,000, telecom update to fiberoptics for approximately $10,700,000, sprinklers and fire protection improvements for approximately $15,000,000, deferred maintenance repairs, renovations and improvements for approximately $11,000,000 and scientific and information technology equipment for approximately $12,000,000; (c) at the Dartmouth campus, technology upgrades for approximately $23,300,000, annual repairs to residence halls for approximately $10,000,000, the construction of student housing for approximately $78,300,000, the construction of an addition to the campus center for approximately $15,000,000, the construction of a visitor/admissions/security building for approximately $12,200,000 and the construction of a multipurpose field house for approximately $18,750,000; (d) at the Lowell campus, academic, library and administrative technology equipment for approximately $30,000,000, the construction of two new parking garages, the first (UML East) for approximately $12,750,000 and the second (UML North) for approximately $23,000,000, the construction of a nanomanufacturing center for approximately $32,000,000, a campus-wide energy conservation project for approximately $12,100,000, renovations to the School of Health and Environment for approximately $15,000,000 and renovations to modernize the north quadrangle for approximately $10,250,000; and (e) at the Worcester campus, construction of a biolabs manufacturing plant for approximately $80,000,000, granite façade replacement for approximately $55,000,000, renovations to the basic and student lab wing for approximately $12,200,000, network infrastructure for approximately $10,000,000, the construction of a medical office building for approximately $30,000,000, the power plant expansion (phase II) for approximately $30,500,000 and a new parking garage for approximately $20,000,000.

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 2005-2009 capital plan includes approximately $429.9 million of deferred maintenance projects. During fiscal year 2004, the University expended approximately $103.7 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, 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 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.

Reallocation and assessment programs, both academic and administrative, continue across the University. These efforts are geared to assessing the University's performance related to goals, rethinking the way we do business, and freeing up resources to support change. The University's ongoing efforts to identify reallocation opportunities have expanded to new planning activities to enhance revenues and control expenditures over the short and long term. These efforts have included a focus on enhancing the University's corporate, continuing and distance education offerings through campus and UMASS ONLINE activities; fundraising efforts to increase the endowment and to fund the creation of endowed professorships; expanding and strengthening partnerships with Commonwealth agencies; and continuing to seek opportunities to coordinate administrative and academic activities and programs.

On July 8, 2004, the University entered into a Master Lease Financing Agreement in the amount of $42.8 million. The lease will be used to acquire and install equipment to accomplish the energy and water conservation measures under the Energy Service Agreement in various facilities throughout the Amherst campus.

On September 15, 2004 the Governor of the Commonwealth approved Chapter 344, An Act Relative to the Disposition of Certain Land in the City of Lowell, which authorizes the Commonwealth of Massachusetts to acquire Saint Joseph's Hospital in Lowell by means of land swap and to transfer the property to the Authority for nominal consideration and upon such terms and conditions as may be agreed to by the Commissioner of the Division of Capital Asset Management and Maintenance, the Chancellor of the University of Massachusetts Lowell, the President of the University of Massachusetts and the Authority. Chapter 344 provides that the Authority shall contract with the Board of Trustees of the University to allow the Lowell campus to use the hospital facility for the following purposes: the promotion of a sound and stable economy and a highly trained workforce, the support and improvement of the health of individuals and communities, and the spurring of the job creation necessary for the maintenance and growth of the technology and manufacturing sectors of the Massachusetts economy. Chapter 344 further provides that all expenditures for the operation and maintenance of the hospital property shall be the responsibility of the Lowell campus.

In conjunction with the issuance of the Authority's Series 2004-1, Series 2004-2 and Series 2004-A bonds, the Authority committed to issuing Refunding Revenue Bonds, Senior Series 2005-1 (Delayed Delivery Bonds). The Delayed Delivery Bonds are expected to be issued on February 3, 2005 in the amount of $25.6 million. The proceeds of the issue will be used to refund the Series 2004-2 bonds. The Series 2005-1 bonds are payable annually on May1 from 2005 through 2016. The bonds carry an interest rate of 5.0% and are callable beginning May 1, 2015 at par. The Authority is to be paid a premium of $0.5 million for the Delayed Delivery bonds.

Financial Statements

as of June 30, 2004 and 2003 (in thousands of dollars)

ASSETS	University June 30, 2004	University Related Organizations June 30, 2004	University June 30, 2003	University Related Organizations June 30, 2003
Current Assets				
Cash and Cash Equivalents	$37,883		$3,627	
Cash Held By State Treasurer	20,718		22,447	
Cash and Securities Held By Trustees			33	
Accounts, Grants and Loans Receivable	172,858	$482	135,440	$447
Pledges Receivable	1,458	2,155	1,222	2,148
Short Term Investments	181,999		151,078	
Inventories	11,770		9,529	
Accounts Receivable UMass Memorial	26,247		25,032	
Due From Related Organizations	855	3,936	856	2,620
Other Assets	10,794	22	10,164	53
Total Current Assets	**464,582**	**6,595**	**359,428**	**5,268**
Noncurrent Assets				
Cash and Cash Equivalents		1,640		1,301
Cash Held By State Treasurer	4,136		3,634	
Cash and Securities Held By Trustees	655,328		311,933	
Accounts, Grants and Loans Receivable	31,659	48	30,751	617
Pledges Receivable	1,315	16,708	1,316	18,709
Investments	230,282	170,888	251,725	151,265
Due From Related Organizations	409		789	
Other Assets	6,838		1,985	
Investment In Plant Net of Accumulated Depreciation	1,163,700	1,019	1,109,079	1,187
Total Noncurrent Assets	**2,093,667**	**190,303**	**1,711,212**	**173,079**
Total Assets	**$2,558,249**	**$196,898**	**$2,070,640**	**$178,347**
LIABILITIES				
Current Liabilities				
Accounts Payable	$68,158	$586	$59,972	$602
Accrued Salaries and Wages	76,075		64,627	
Accrued Liability for Compensated Absences	56,453		52,732	
Accrued Liability for Workers' Compensation	2,471		2,644	
Arbitrage Rebate Payable	1,250			
Accrued Interest Payable	7,976	30	6,287	43
Bonds Payable	40,685		22,620	
Capital Lease Obligations	8,315		10,920	
Accounts Payable UMass Memorial	4,710		7,063	
Due To Related Organizations	3,936	855	2,620	856
Deferred Revenues and Credits	34,610	546	36,988	1,201
Advances and Deposits	3,884		3,937	
Other Liabilities	40,120		49,630	
Total Current Liabilities	**348,643**	**2,017**	**320,040**	**2,702**
Noncurrent Liabilities				
Accrued Liability for Compensated Absences	24,721		24,572	
Accrued Liability for Workers' Compensation	11,069		11,497	
Arbitrage Rebate Payable	3,233		3,490	
Bonds Payable	923,669		566,294	
Capital Lease Obligations	36,426		46,764	
Due To Related Organizations		409		789
Deferred Revenues and Credits	10,607		10,654	
Advances and Deposits	31,251		31,718	
Other Liabilities		2,873	913	2,958
Total Noncurrent Liabilities	**1,040,976**	**3,282**	**695,902**	**3,747**
Total Liabilities	**$1,389,619**	**$5,299**	**$1,015,942**	**$6,449**
Net Assets:				
Invested in Capital Assets Net of Related Debt	$713,903	$230	$685,453	$45
Restricted				
Nonexpendable	14,433	144,790	14,390	132,180
Expendable	124,272	44,388	101,738	41,875
Unrestricted	316,022	2,191	253,117	(2,202)
Total Net Assets	**$1,168,630**	**$191,599**	**$1,054,698**	**$171,898**

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

for the years ended June 30, 2004 and 2003 (in thousands of dollars)

REVENUES	University June 30, 2004	University Related Organizations June 30, 2004	University June 30, 2003	University Related Organizations June 30, 2003
Operating Revenues				
Tuition and Fees (net of scholarship allowances of $63,185 at June 30, 2004 and $52,271 at June 30, 2003)	$361,762		$288,690	
Federal Grants and Contracts	277,166		256,579	
State Grants and Contracts	53,788		55,294	
Local Grants and Contracts	3,123		3,240	
Private Grants and Contracts	67,673		61,895	
Sales & Service, Educational	15,978		14,454	
Auxiliary Enterprises	163,894		153,263	
Other Operating Revenues:				
Sales & Service, Independent Operations	61,245		51,595	
Sales & Service, Public Service Activities	184,427		143,115	
Other	35,362		35,038	
Total Operating Revenues	**1,224,418**		**1,063,163**	
EXPENSES				
Operating Expenses				
Educational and General				
Instruction	401,416		376,264	
Research	284,433		268,700	
Public Service	59,794	$8,666	66,284	$4,731
Academic Support	97,559		95,263	
Student Services	70,962		70,285	
Institutional Support	114,423		116,785	
Operation and Maintenance of Plant	103,736		101,908	
Depreciation and Amortization	101,465	23	103,981	36
Scholarships and Fellowships	26,792	2,632	24,198	3,169
Auxiliary Enterprises	124,127		131,499	
Other Expenditures				
Independent Operations	27,189		26,777	
Public Service Activities	144,163		115,981	
Total Operating Expenses	**1,556,059**	**11,321**	**1,497,925**	**7,936**
Operating Loss	**(331,641)**	**(11,321)**	**(434,762)**	**(7,936)**
NONOPERATING REVENUES/(EXPENSES)				
Federal Appropriations	6,849		5,139	
State Appropriations	398,154		447,437	
Gifts	16,731	6,374	13,359	12,829
Investment Income	26,806	9,331	20,660	(3,425)
Endowment Income	1,047	3,148	1,202	4,168
Interest on Indebtedness	(30,230)	(66)	(27,145)	(86)
Other Nonoperating Income	13,373		5,315	
Net Nonoperating Revenues	**432,730**	**18,787**	**465,967**	**13,486**
Income Before Other Revenues, Expenses, Gains, and Losses	**101,089**	**7,466**	**31,205**	**5,550**
Capital Appropriations	19,135		30,491	
Capital Grants and Contracts			30,800	
Additions to Permanent Endowments		13,113		14,554
University Related Organization Transactions	676	(676)	10,391	(10,391)
Disposal of Plant Facilities	(14,099)	(206)	(10,733)	
Other Additions/Deductions	7,131	4	6,326	73
Total Other Revenues, Expenses, Gains, and Losses	**12,843**	**12,235**	**67,275**	**4,236**
Total Increase in Net Assets	**113,932**	**19,701**	**98,480**	**9,786**
NET ASSETS				
Net Assets at Beginning of Year	1,054,698	171,898	956,218	162,112
Net Assets at End of Year	**$1,168,630**	**$191,599**	**$1,054,698**	**$171,898**

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

Combined Statements of Cash Flows

for the years ended June 30, 2004 and 2003 (in thousands of dollars)

	University June 30, 2004	University June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$369,457	$298,563
Grants and Contracts	391,986	343,732
Payments to Suppliers	(417,243)	(351,908)
Payments to Employees	(878,457)	(825,492)
Payments for Benefits	(174,540)	(125,831)
Payments for Scholarships and Fellowships	(26,205)	(14,946)
Loans Issued to Students and Employees	(8,599)	(14,602)
Collections of Loans to Students and Employees	7,648	8,017
Auxiliary Enterprises Receipts	193,354	175,792
Sales and Service, Educational	16,066	14,181
Sales & Service, Independent Operations	56,360	55,442
Sales & Service, Public Service Activities	201,376	112,639
Net Cash Used by Operating Activities	**(268,797)**	**(324,413)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations	454,718	537,442
Tuition Remitted to the State	(52,279)	(84,303)
Federal Appropriations	6,849	5,139
Gifts and Grants for Other Than Capital Purposes	15,985	13,842
Private Gifts for Endowment Purposes	2	192
Student Organization Agency Transactions	1,338	1,467
Net Cash Provided by Noncapital Financing Activities	**426,613**	**473,779**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from Capital Debt	454,307	19,635
Bond Issuance Costs Paid	(5,113)	
Capital Appropriations	19,135	30,491
Capital Grants and Contracts	2,590	47,500
Purchases of Capital Assets and Construction	(119,776)	(151,153)
Principal Paid on Capital Debt and Leases	(88,593)	(34,619)
Interest Paid on Capital Debt and Leases	(28,541)	(25,767)
Use of Debt Proceeds on Deposit with Trustees	(27,633)	(11,381)
Net Cash Provided by/(Used in) Capital Financing Activities	**206,376**	**(125,294)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments	815,291	852,214
Interest on Investments	7,967	14,117
Purchase of Investments	(811,059)	(938,725)
Net Cash Provided by/(Used in) Investing Activities	**12,199**	**(72,394)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**376,391**	**(48,322)**
Cash and Cash Equivalents - Beginning of the Year	**341,674**	**389,996**
Cash and Cash Equivalents - End of Year	**$718,065**	**$341,674**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	($331,641)	($434,762)
Adjustments to reconcile loss to net cash used by Operating Activities:		
Depreciation Expense	101,465	103,981
Changes in Assets and Liabilities:		
Receivables, net	(38,561)	(16,635)
Inventories	(2,241)	467
Due to/from Related Organizations	1,697	701
Accounts Receivable/Payable UMass Memorial	(3,568)	13,069
Other Assets	(5,483)	2,394
Accounts Payable	8,186	(20,158)
Accrued Liabilities	14,717	2,325
Deferred Revenue	(2,425)	10,296
Advances and Deposits	(520)	935
Other Liabilties	(10,423)	12,974
Net Cash Used by Operating Actvities	**($268,797)**	**($324,413)**
NONCASH CAPITAL FINANCING ACTIVITY		
Assets acquired through capital leases	$2,588	$4,726

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

Notes to Combined Financial Statements

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 and an agency of the Commonwealth of Massachusetts (Commonwealth) and its component units. The University blends the tradition of providing access to quality education with that of delivering pioneering research applied to everyday problems. At the University, teaching and learning are integrated with research and public service. 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, dinning 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 foster and promote the growth, progress and general welfare of 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 data of the University's discretely presented component units. The University of Massachusetts Foundation, Inc. (Foundation) and the University of Massachusetts Dartmouth Foundation, Inc. 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, federal appropriations, 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 nonoperating revenues and expenses including state general appropriations, noncapital 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. 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. Major estimates include the accrual for employee compensated absences, the accrual for workers' compensation liability, the allowance for doubtful accounts 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*. 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 financial aid expense on the statement of revenues, expenses, and other changes to net assets, and included in supplies and services on the statement of cash flows.

NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14*. This statement requires that all entities associated with a primary government be evaluated against specific criteria for inclusion in the financial reporting entity. This statement had no effect on the financial reporting entity.

The GASB has issued Statement No. 40*, Deposit and Investment Risk Disclosure*, effective for the University's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risk investments. This statement will have no effect on the University's net assets or change in net assets.

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. The University is currently evaluating the effect that Statement No. 42 will have on its financial statements.

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 University is currently evaluating the effect that Statement No. 45 will have on its financial statements.

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. Cash and cash equivalents and 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, notes and 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, 2004 and 2003 was $80.5 million and $67.3 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 2004 and 2003. Future utilization of gains is dependent on market performance. Deficiencies of $2.6 million for fiscal year 2004 and $7.3 million for fiscal year 2003 for donor-restricted endowment funds resulting from declines in market value, have been offset by an allocation from unrestricted net assets to restricted expendable net assets within the Foundation. The Foundation believes that these adjustments are temporary and will not require permanent funding.

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. Following is the range of useful lives for the University's depreciable assets:

Buildings	20-40 years
Building Improvements	5-20 years
Equipment and Furniture	3-12 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, 2004 and 2003 record as tuition revenue approximately $52.3 million and $84.3 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 has been extended until the end of fiscal year 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 millions):

	2004	2003
Gross Commonwealth Appropriations	$365,086	$443,375
Plus: Fringe Benefits	85,348	88,365
	450,434	531,740
Less: Tuition Remitted	(52,280)	(84,303)
State Appropriations, Net	$398,154	$447,437

AUXILIARY ENTERPRISES

Auxiliary Enterprise revenue of $163.9 million and $153.3 million for the years ended June 30, 2004 and 2003 respectively are stated net of room and board charge allowances of $3.2 million and $5.1 million, respectively.

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 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 financial statements include prior year comparative information. Certain prior year amounts have been reclassified to conform with the current year presentation.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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.

At June 30, 2004 and 2003, the carrying amount of the University's bank deposits were $39.2 million and $3.6 million, respectively as compared to bank balances of $33.3 million and $7.7 million, respectively. The differences between the carrying amount and bank balances were primarily caused by outstanding checks and deposits in-transit. Of such bank balances, $0.5 million at June 30, 2004 and $0.6 million at June 30, 2003 are covered by federal deposit insurance. The remaining $32.8 million at June 30, 2004 and $7.1 million at June 30, 2003 is uninsured and uncollateralized and therefore subject to custodial risk.

Statement No. 3 of the Governmental Accounting Standards Board requires state and local government entities to categorize cash and investments to give an indication of the level of credit risk assumed by the University at year end. Category 1 includes cash and cash equivalents and investments that are insured or registered or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the University's name.

The cost and fair value of cash, cash equivalents and investments (exclusive of cash held by the State Treasurer) at June 30, 2004 are as follows (in thousands):

University:	Category 1	Category 2	Category 3	Total Fair Value	Total Cost
Cash and Cash Equivalents	$37,883			$37,883	$37,883
Money Market Instruments	216,761	$14,015	$448,149	678,925	678,925
U.S. Government Obligations	122,775	140,318		263,093	264,292
Corporate and Municipal Bonds	42,034		12,657	54,691	55,696
Common and Preferred Stock	3,259		10,512	13,771	13,654
Mutual Funds	54,907			54,907	57,117
Other			2,222	2,222	2,048
	$477,619	$154,333	$473,540	$1,105,492	$1,109,615

University Related Organizations:	Category 1	Category 2	Category 3	Total Fair Value	Total Cost
Cash and Cash Equivalents	$1,640			$1,640	$1,640
Money Market Instruments	50,133			50,133	49,224
Corporate and Municipal Bonds	57,568			57,568	55,353
Common and Preferred Stock	48,970			48,970	41,584
Mutual Funds		$4,396		4,396	3,262
Other	9,821			9,821	9,052
	$168,132	$4,396		$172,528	$160,115

The cost and fair value of cash, cash equivalents and investments (exclusive of cash held by the State Treasurer) at June 30, 2003 are as follows (in thousands):

University:	Category 1	Category 2	Category 3	Total Fair Value	Total Cost
Cash and Cash Equivalents	$3,627			$3,627	$3,627
Money Market Instruments	185,841	$17,657	$181,301	384,799	384,799
U.S. Government Obligations	103,270	35,308		138,578	138,038
Corporate and Municipal Bonds	116,093		12,691	128,784	129,535
Common and Preferred Stock	4,323		9,336	13,659	14,168
Mutual Funds	47,925			47,925	58,200
Other			1,024	1,024	949
	$461,079	$52,965	$204,352	$718,396	$729,316

University Related Organizations:	Category 1	Category 2	Category 3	Total Fair Value	Total Cost
Cash and Cash Equivalents	$1,301			$1,301	$1,301
Money Market Instruments	45,450			45,450	46,653
Corporate and Municipal Bonds	55,517			55,517	51,927
Common and Preferred Stock	42,120			42,120	42,687
Mutual Funds		$3,825		3,825	3,857
Other	4,353			4,353	4,035
	$148,741	$3,825		$152,566	$150,460

Pursuant to Trust Agreements between the Building Authority and its bond trustees, all funds deposited with those trustees (approximately $583.6 million at June 30, 2004 and $196.9 million at June 30, 2003) 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. Funds deposited with trustees include $411.8 million and $151.3 million of investments in repurchase agreements at June 30, 2004 and 2003, respectively. 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 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.

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 $24.9 million at June 30, 2004 and $26.1 million at June 30, 2003. 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, 2004 there are investments of $9.9 million available from Master Lease agreements entered into by the University for capital asset purchases at the Boston campus. Additionally, there is $14.0 million 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), $47.8 million to be used by WCCC for capital construction purposes, and $583.6 million held by trustees related to the Building Authority.

At June 30, 2003 there were investments of $16.5 million available from Master Lease agreements entered into by the University for capital asset purchases at the Boston campus. Additionally, there were $9.8 million available from the Revolving Loan Fund established from 2000 Series A bond proceeds issued to acquire and implement enterprise resource planning technology along with other projects (see Note 8), $0.2 million to be used by the Lowell campus to complete the construction of a new student center in cooperation with the Massachusetts Division of Capital Asset Management and Maintenance (DCAMM), $7.7 million to be used by the Boston campus to complete construction of a new campus center in cooperation with DCAMM, $80.9 million to be used by WCCC for capital construction purposes, and $196.9 million held by trustees related to the Building Authority.

5. ACCOUNTS, GRANTS AND LOANS RECEIVABLE

Accounts, grants and loans receivable at June 30 consist of the following (in thousands):

University:

	2004	2003
Students Accounts Receivable	$19,597	$20,738
Less allowance for uncollectible accounts	(8,002)	(9,100)
	11,595	11,638
Grants and Contracts Receivable	78,524	82,329
Less allowance for uncollectible accounts	(2,588)	(2,060)
	75,936	80,269
Students Loans Receivable	42,378	40,771
Less allowance for uncollectible accounts	(4,942)	(5,537)
	37,436	35,234
Commonwealth Medicine	51,540	26,436
Less allowance for uncollectible accounts	(2,754)	(1,859)
	48,786	24,577
Other	33,882	16,504
Less allowance for uncollectible accounts	(3,118)	(2,031)
	30,764	14,473
Total	$204,517	$166,191
Less current portion	(172,858)	(135,440)
Long-term	$31,659	$30,751

Related Organizations:

	2004	2003
Hadley Farm Receivable	$530	$1,064
Less allowance for uncollectible accounts	-	-
	530	1,064
Less current portion	(482)	(447)
Long-term	$48	$617

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; 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, 2004 and 2003, the revenues for services provided to UMass Memorial were $95.2 million and $103.4 million, respectively. Included in this revenue is payroll paid by the University on behalf of UMass Memorial in an agency capacity in the amount of $61.4 million for fiscal year 2004 and $64.0 million for fiscal year 2003. At June 30, 2004 and 2003, the University has recorded a net receivable in the amount of $26.2 million and $25.0 million, respectively from UMass Memorial consisting of $13.8 million and $12.8 million, respectively related to capital projects at the Medical School, and $12.4 million and $12.2 million, respectively in payroll and related fringe charges. The University has recorded a payable at June 30, 2004 and 2003 of $4.7 million and $7.1 million, respectively for amounts due to UMass Memorial.

6. RELATED ORGANIZATIONS

Related party activity with The University of Massachusetts Foundation Inc., includes advances under a line of credit, and loan and lease agreements, and investment of the University's endowment assets with the Foundation. As of June 30, 2004, the net assets of the Foundation included as related organizations in the combined financial statements of the University, are $196.1 million, of which $193.7 million are restricted funds and $2.4 million are unrestricted funds. During the fiscal year ended June 30, 2004, the University received approximately $3.8 million from the Foundation, and disbursed approximately $1.6 million to the Foundation. At June 30, 2004, the University's investments include approximately $108,000 of current restricted funds and $28.7 million of endowment funds held in a custodial relationship at the Foundation.

As of June 30, 2003, the net assets of the Foundation included as related organizations in the combined financial statements of the University, are $175.2 million, of which $176.4 million are restricted funds and ($1.1) million are unrestricted funds. During the fiscal year ended June 30, 2003, the University received approximately $11.0 million from the Foundation, and disbursed approximately $1.3 million to the Foundation. At June 30, 2003, the University's investments include approximately $26,000 of current restricted funds and $27.1 million of endowment funds held in a custodial relationship at the Foundation.

The University has entered into a loan agreement with the Foundation in order to refinance a portion of its line of credit and renovate the Hadley Farm. At June 30, 2004 and 2003, $0.5 million and $0.9 million respectively is outstanding. The loan bears interest at a fixed rate of 7.5% and is collateralized by the Hadley Farm property and lease. The University leases office space from the Foundation for an annual rent of approximately $0.3 million. In addition, the University leases the Hadley Farm from the Foundation for an annual rent of approximately $0.4 million.

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.

During 2001, the Worcester Medical School and UMass Memorial 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 of representatives from the Worcester Medical School, UMass Memorial and persons independent of both institutions. Accordingly PSP's results of operations and statement of position are not included herein. During 2004 and 2003, the University recognized revenues of approximately $10.6 million and $6.7 million, respectively, and expenses of approximately $27.3 million and $12.1 million, respectively, related to PSP.

7. INVESTMENT IN PLANT

Investment in plant activity for the year ended June 30, 2004 is comprised of the following (in thousands):

University:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	$21,476	$290	($486)	$21,280
Buildings and Improvements	1,405,440	104,558	(807)	1,509,191
Equipment and Furniture	464,227	44,912	(43,823)	465,316
Software	80,629	8,350		88,979
Library Books	101,475	8,235	(7,637)	102,073
	2,073,247	166,345	(52,753)	2,186,839
Accumulated Depreciation	(1,079,142)	(101,539)	37,729	(1,142,952)
Sub-Total	994,105	64,806	(15,024)	1,043,887
Construction in Progress	114,974	77,489	(72,650)	119,813
Total	$1,109,079	$142,295	($87,674)	$1,163,700

University Related Organizations:	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	$616		($40)	$576
Buildings and Improvements	745		(154)	591
Equipment and Furniture	102			102
	1,463		(194)	1,269
Accumulated Depreciation	(276)	($23)	49	(250)
Total	$1,187	($23)	($145)	$1,019

Investment in plant activity for the year ended June 30, 2003 is comprised of the following (in thousands):

University:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	$20,530	$946		$21,476
Buildings and Improvements	1,296,621	111,624	($2,805)	1,405,440
Equipment and Furniture	442,897	44,337	(23,007)	464,227
Software	68,297	12,332		80,629
Library Books	104,618	7,827	(10,970)	101,475
	1,932,963	177,066	(36,782)	2,073,247
Accumulated Depreciation	(1,002,285)	(103,821)	26,964	(1,079,142)
Sub-Total	930,678	73,245	(9,818)	994,105
Construction in Progress	101,414	34,643	(21,083)	114,974
Total	$1,032,092	$107,888	($30,901)	$1,109,079

University Related Organizations:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	$616			$616
Buildings and Improvements	757		($12)	745
Equipment and Furniture	102			102
	1,475		(12)	1,463
Accumulated Depreciation	(251)	($37)	12	(276)
Total	$1,224	($37)		$1,187

At June 30, 2004 and 2003, investment in plant included capital lease assets of approximately $47.0 million and $54.9 million, respectively, net of accumulated depreciation on capital lease assets of approximately $42.2 million and $46.0 million, respectively

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, 2004 and 2003, the University capitalized net interest costs of $7.3 million and $1.6 million respectively.

8. BONDS PAYABLE

Amounts outstanding at June 30, 2004 are as follows (in thousands):

Issue Borrowing	Original Borrowing	Maturity Date	Interest Rates	Amount Outstanding
University of Massachusetts Building Authority:				
1995 Fifth Series-A	$23,895	2014	5.375-6.75%	$15,170
Series 1995-B	28,765	2014	5.15-6.875%	23,370
Series 2000-A	46,980	2025	4.4-5.5%	45,830
Series 2000-1	24,145	2020	4.4-5.25%	14,065
Series 2000-2	132,155	2025	4.4-5.5%	113,620
Series 2003-1	137,970	2028	2.2-5.25%	137,970
Series 2004-A	96,025	2034	2.75-5.375%	96,025
Series 2004-1	183,965	2034	2.0-5.375%	183,965
Series 2004-2	25,875	2005	variable	25,875
				655,890
		Unamortized Bond Premium		10,044
		Less Deferred Loss on Refunding		(2,840)
		SUBTOTAL		663,094
University of Massachusetts HEFA:				
2000 Series A	$40,000	2030	variable	40,000
2001 Series B	11,970	2031	3.75-5.25%	11,570
2002 Series C	35,000	2034	2.35-5.17%	35,000
		SUBTOTAL		86,570
WCCC HEFA:				
Series 2000-A	$100,000	2029	4.65-6.0%	96,705
Series 2001-B	52,020	2031	3.75-5.25%	50,505
Series 2002-C	70,000	2031	4.0-5.5%	68,830
				216,040
		Less Unamortized Discounts		(1,350)
		SUBTOTAL		214,690
		TOTAL		$964,354

Bonds payable activity for the year ended June 30, 2004 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 1986-B	$261		$261	$-
1989 Fourth Series-B	754		754	-
Series 1991-A	6,975		6,975	-
1995 Fifth Series-A	19,280		4,110	15,170
Series 1995-A	43,635		43,635	-
Series 1995-B	24,910		1,540	23,370
Series 2000-A	46,980		1,150	45,830
Series 2000-1	23,090		9,025	14,065
Series 2000-2	117,990		4,370	113,620
Series 2003-1		$137,970		137,970
Series 2004-A		96,025		96,025
Series 2004-1		183,965		183,965
Series 2004-2		25,875		25,875
Plus: unamortized bond premium				10,044
Less: deferred loss on refunding				(2,840)
Subtotal	283,875	443,835	71,820	663,094
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,775		205	11,570
2002 Series C	35,000			35,000
Subtotal	86,775		205	86,570
WCCC HEFA:				
WCCC 2000 Series A	98,390		1,685	96,705
WCCC 2001 Series B	51,275		770	50,505
WCCC 2002 Series C	70,000		1,170	68,830
Less: unamortized discounts	(1,401)		51	(1,350)
Subtotal	218,264		3,676	214,690
Total	$588,914	$443,835	$75,701	$964,354

Bonds payable activity for the year ended June 30, 2003 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
University of Massachusetts Building Authority:				
Series 1986-B	$290		$29	$261
1989 Fourth Series-B	799		45	754
Series 1991-A	13,488		6,513	6,975
1995 Fifth Series-A	20,710		1,430	19,280
Series 1995-A	45,820		2,185	43,635
Series 1995-B	25,610		700	24,910
Series 2000-A	46,980			46,980
Series 2000-1	23,900		810	23,090
Series 2000-2	132,155		14,165	117,990
Subtotal	309,752		25,877	283,875
UMass HEFA:				
2000 Series A	40,000			40,000
2001 Series B	11,970		195	11,775
2002 Series C	35,000			35,000
Subtotal	86,970		195	86,775
WCCC HEFA:				
WCCC 2000 Series A	100,000		1,610	98,390
WCCC 2001 Series B	52,020		745	51,275
WCCC 2002 Series C	70,000			70,000
Less: unamortized discounts	(1,452)		51	(1,401)
Subtotal	220,568		2,406	218,264
Total	$617,290		$28,478	$588,914

Maturities and interest, which is estimated using rates in effect at June 30, 2004, on bonds payable for the next five fiscal years and in subsequent five-year periods are as follows (in thousands):

	Principal	Interest
2005	$42,155	$46,296
2006	21,470	46,000
2007	22,490	45,112
2008	28,320	44,106
2009	29,460	42,931
2010-2014	164,095	192,315
2015-2019	175,275	148,448
2020-2024	187,630	98,683
2025-2029	158,020	53,833
2030-2034	120,430	10,913
2035-2039	9,155	234
Total	$958,500	$728,871

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 $200.0 million. The Building Authority issued bonds are all Commonwealth guaranteed with the exception of Series 2000-2, Series 2003-1, Series 2004-1 and Series 2004-2 (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.

Aggregate future principal payments of the total University of Massachusetts Building Authority debt for the years ended June 30 are: 2005 - $37.5 million, 2006 - $16.6 million, 2007 - $17.4 million, 2008 - $23.0 million, 2009 - $23.9 million, and thereafter, $537.4 million.

During fiscal year 2004, the Building Authority refunded the following bond issues: Series 1986-B, 1989 Fourth Series-B, Series 1991-A, 1995 Fifth Series-A (partial refunding), Series 1995-A, Series 2000-1 (partial refunding). Accordingly, the Building Authority deposited into trust accounts sufficient funds to provide for all future debt service payment s on the refunded bonds. Assets held in the trust accounts had an aggregate market value of approximately $56.1 million at June 30, 2004. The outstanding amount of the refunded bonds totaled approximately $53.0 million at June 30, 2004. The refunding of the bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $2.8 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, the Authority will reduce its aggregate debt service payments by approximately $2.0 million and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of $0.8 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 $9.2 million and $10.4 million at June 30, 2004 and 2003, respectively. The outstanding amount of the refunded bonds at June 30, 2004 and 2003 total approximately $10.1 million and $11.1 million, respectively.

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 are being used to fund a portion of the costs associated with the construction of a new student center at the Boston campus. The facility 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 bear interest at fixed interest rates ranging from 2.35% to 5.125%. 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. At June 30, 2004 and 2003, the outstanding principal balance on the Series C Bonds is $35.0 million.

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. The facility 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 bear interest at fixed interest rates ranging from 3.75% to 5.25%. 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, 2004 and 2003, the outstanding principal balance on the Series B Bonds is $11.6 million and $11.8 million, respectively.

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 2004 and 2003 were approximately 0.94% and 1.2%, 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, 2004 and 2003, 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, 2006, and carries a variable interest rate equal to the bank rate plus 2% on any unreimbursed amounts. The bank rate was 6.25% and 6.0% at June 30, 2004 and 2003, respectively. At June 30, 2004, there are no amounts outstanding under the letter of credit.

Aggregate principal payments on the Series A Bonds, Series B Bonds and Series C Bonds for the years ended June 30 are; 2005 - $0.8 million, 2006 - $0.8 million, 2007 - $0.8 million, 2008 - $0.9 million, 2009 - $0.9 million, thereafter - $82.4 million. At June 30, 2004 and 2003, the estimated fair value of the Series A Bonds, Series B Bonds and Series C Bonds is approximately $87.2 million and $89.2 million, respectively.

Worcester City Campus Corporation Series C

In April 2002, WCCC issued $70.0 million MHEFA Revenue Bonds (the "WCCC C Bonds"). The proceeds from this issuance are being used to fund the construction of a new pharmaceutical research and production facility. These bonds bear interest at various fixed rates ranging from 4.0% to 5.5% per year and mature October 1, 2031. 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 $251,000. The WCCC C Bonds are redeemable prior to maturity beginning on October 1, 2012, at the option of MHEFA and WCCC, at par plus accrued interest. At June 30, 2004 and 2003, the aggregate principal amount outstanding on the WCCC C Bonds was $68.8 million and $70.0 million, respectively.

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"), with maturities from 2002 to 2031 and various fixed interest rates ranging from 3.75% to 5.25%. The WCCC B 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. 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 through their redemption date of July 1, 2002. The Foundation Bonds and the funds held in the irrevocable trust fund have been derecognized by WCCC in fiscal year 2002 and the Foundation Bonds were redeemed on July 1, 2002. The remaining approximately $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 outstanding balance at June 30, 2004 and 2003 is $50.5 million and $51.3 million, respectively.

Worcester City Campus Corporation Series A

In March 2000, WCCC issued $100.0 million of MHEFA Revenue Bonds, WCCC Issue (University of Massachusetts Project), Series A (the "WCCC A Bonds"). The WCCC A 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. The proceeds from the issuance are being used to fund the construction and equipping of a research facility on the Worcester Medical School campus of the University, which the University has agreed to lease from WCCC. The WCCC A Bonds have maturities from 2002 to 2029 and various fixed interest rates ranging from 4.65% to 6.00%. The outstanding balance at June 30, 2004 and 2003 is $96.7 million and $98.4 million, respectively.

Aggregate principal payments on the WCCC A Bonds, WCCC B Bonds and WCCC C Bonds for the years ended June 30 are; 2005 - $3.9 million, 2006 - $4.1 million, 2007 - $4.2 million, 2008 - $4.4 million, 2009 - $4.6 million, thereafter $193.5 million. At June 30, 2004 and 2003, the fair value of the WCCC A Bonds, WCCC B Bonds and WCCC C Bonds is approximately $240.0 million and $252.0 million, respectively.

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 $15.9 million for 2004 and $15.0 million for 2003.

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 $41.6 million for 2004 and $38.2 million for 2003.

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 $8.5 million and $9.5 million for the years ended June 30, 2004 and 2003, respectively. The master leases primarily consist of telecommunications, software, and co-generation systems.

The following is a schedule of future minimum payments under capital and non-cancelable operating leases, with unrelated and related organizations, for the University as of June 30, 2004 (in thousands):

	University Capital Leases			
Year	Master Leases	Other Leases	TOTAL	Operating Leases
2005	$8,266	$1,915	$10,181	$10,120
2006	8,266	1,512	9,778	8,275
2007	8,266	949	9,215	8,275
2008	8,273	376	8,649	8,275
2009	3,858	229	4,087	8,275
2010-2013	8,782	13	8,795	12,611
Total Payments	45,711	4,994	50,705	$55,831
Less: Amount representing interest	(5,425)	(539)	(5,964)	
Present Value of Minimum Lease Payments	$40,286	$4,455	$44,741	

Principal and interest payments on capital lease obligations for the next five years and in subsequent five-year periods are as follows (in thousands):

June 30, 2004	University Capital Leases	
Year	Principal	Interest
2005	$8,315	$1,866
2006	8,379	1,399
2007	8,177	1,038
2008	7,953	696
2009	3,660	427
2010-2013	8,257	538
Total Payments	$44,741	$5,964

10. CAPITAL LEASES AND OTHER LONG-TERM LIABILITIES

During the year ended June 30, 2004 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	Beginning Balance	Additions/ Adjustments	Reductions/ Adjustments	Ending Balance
University:				
Capital lease obligations	$46,764	$115	($10,453)	$36,426
Compensated absences	24,572	5,854	(5,705)	24,721
Workers' compensation	11,497		(428)	11,069
Deferred revenues and credits	10,654	1,770	(1,817)	10,607
Advances and deposits	31,718	509	(976)	31,251
Other Liabilities	913		(913)	-
University Related Organization:				
Due To Related Organizations	$789		($380)	$409
Other Liabilities	2,958	$106	(191)	2,873

During the year ended June 30, 2003 the following changes occurred in long-term liabilities as recorded in the statement of net assets (in thousands):

	Beginning Balance	Additions/ Adjustments	Reductions/ Adjustments	Ending Balance
University:				
Capital lease obligations	$34,109	$20,270	($7,615)	$46,764
Compensated absences	26,959	2,072	(4,459)	24,572
Workers' compensation	11,884		(387)	11,497
Deferred revenues and credits	8,865	7,009	(5,220)	10,654
Advances and deposits	30,814	976	(72)	31,718
Other Liabilities	3,827	19	(2,933)	913
University Related Organization:				
Due To Related Organizations	$1,145		($356)	$789
Other Liabilities	2,757	$201	0	2,958

11. FRINGE BENEFITS

Expenditures for the years ended June 30, 2004 and 2003 include $133.5 million and $138.0 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, $47.5 million for 2004 and $48.9 million for 2003 was reimbursed to the Commonwealth and $86.0 million and $89.1 million respectively is included in revenue as state appropriations.

At June 30, 2004 and 2003, the University has accrued as a component of other liabilities, approximately $7.5 million and $21.1 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 $13.5 million as of June 30, 2004 and $14.1 million as of June 30, 2003. 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 $46.0 million and $43.7 million at June 30, 2004 and 2003, respectively. Cumulative repayments totaled approximately $24.8 million and $22.2 million as of June 30, 2004 and 2003, 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 $18.7 million and $20.3 million for the years ended June 30, 2004 and 2003, respectively. The annuity portion of the SERS is funded by employees, who contribute a percentage of their regular compensation. Annual covered payroll approximated 76.1% and 75.1% for the years ended June 30, 2004 and 2003, 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, 2004 and 2003, there were approximately 1,311 and 1,208 University employees, respectively participating in ORP. The Commonwealth matches 5% of ORP contributions. SERS issues a stand-alone financial statement 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 $21,000 and $32,000 for the years ended June 30, 2003 and 2002, 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 11% and 13% of total accounts receivable for the University at June 30, 2004 and 2003, respectively.

15. COMMITMENTS AND CONTINGENCIES

The Building Authority has outstanding purchase commitments under construction contracts in amounts aggregating approximately $75.7 million and $2.8 million at June 30, 2004 and 2003, 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.

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 50 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:

	2004	2003
Assets		
Current Assets	$34,078	$29,606
Noncurrent Assets	271,381	261,524
Total Assets	$305,459	$291,130
Liabilities		
Current Liabilities	$32,650	$17,587
Noncurrent Liabilities	210,795	214,639
Total Liabilities	$243,445	$232,226
Net Assets	$62,014	$58,904

Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:

	2004	2003
Operating Revenues	$20,918	$22,469
Operating Expenses	10,521	11,330
Operating Income	$10,397	$11,139
Increase in Net Assets	$3,110	$4,019
Beginning Net Assets	58,904	54,885
Ending Net Assets	$62,014	$58,904

Statement of Cash Flows for the year ended June 30:

	2004	2003
Net Cash Provided by Operating Activities	$10,226	$11,139
Net Cash Provided by/(Used in) Noncapital Financing Activities	(57)	113
Net Cash Used in Investing Activities	(43,245)	(24,847)
Net (Decrease)/Increase in Cash and Cash Equivalents	(33,076)	(13,595)
Beginning Cash and Cash Equivalents	80,898	94,493
Ending Cash and Cash Equivalents	$47,822	$80,898

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:

	2004	2003
Assets		
Current Assets	$12,163	$11,470
Noncurrent Assets	766,883	370,638
Total Assets	$779,046	$382,108
Liabilities		
Current Liabilities	$45,052	$30,490
Noncurrent Liabilities	630,315	267,475
Total Liabilities	$675,367	$297,965
Net Assets	$103,679	$84,143

Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30:

	2004	2003
Operating Revenues	$59,411	$63,883
Operating Expenses	33,295	28,161
Operating Income	$26,116	$35,722
Increase in Net Assets	$19,536	$28,986
Beginning Net Assets	84,143	55,157
Ending Net Assets	$103,679	$84,143

Statement of Cash Flows for the year ended June 30:

	2004	2003
Net Cash Provided by Operating Activities	$31,308	$50,549
Net Cash Provided by Investing Activities	(355,559)	17,454
Net Cash Used in Capital and Related Financing Activities	345,836	(64,481)
Net Increase/(Decrease) in Cash and Cash Equivalents	21,585	3,522
Beginning Cash and Cash Equivalents	13,456	9,934
Ending Cash and Cash Equivalents	$35,041	$13,456

18. SUBSEQUENT EVENT

On July 8, 2004, the University entered into a Master Lease Financing Agreement in the amount of $42.8 million. The lease will be used to acquire and install equipment to accomplish the energy and water conservation measures under the Energy Service Agreement in various facilities throughout the Amherst campus.

On September 15, 2004 the Governor of the Commonwealth approved Chapter 344, An Act Relative to the Disposition of Certain Land in the City of Lowell, which authorizes the Commonwealth to acquire Saint Joseph's Hospital in Lowell by means of land swap and to transfer the property to the Authority for nominal consideration and upon such terms and conditions as may be agreed to by the Commissioner of the Division of Capital Asset Management and Maintenance, the Chancellor of the University of Massachusetts Lowell, the President of the University of Massachusetts and the Authority. Chapter 344 provides that the Authority shall contract with the Trustees of the University to allow the Lowell campus to use the hospital facility for the following purposes: the promotion of a sound and stable economy and a highly trained workforce, the support and improvement of the health of individuals and communities, and the spurring of the job creation necessary for the maintenance and growth of the technology and manufacturing sectors of the Massachusetts economy. Chapter 344 further provides that all expenditures for the operation and maintenance of the hospital property shall be the responsibility of the Lowell campus.

In conjunction with the issuance of the Authority's Series 2004-1, Series 2004-2 and Series 2004-A bonds, the Authority committed to issuing Refunding Revenue Bonds, Senior Series 2005-1 (Delayed Delivery Bonds). The Delayed Delivery Bonds are expected to be issued on February 3, 2005 in the amount of $25.6 million. The proceeds of the issue will be used to refund the Series 2004-2 bonds. The Series 2005-1 bonds are payable annually on May1 from 2005 through 2016. The bonds carry an interest rate of 5.0% and are callable beginning May 1, 2015 at par. The Authority is to be paid a premium of $0.5 million for the Delayed Delivery bonds.

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PRICEWATERHOUSECOOPERS

Report of Independent Auditors on Supplemental Information

To the Board of Trustees of the
University of Massachusetts:

The report on our audits of the financial statements of the University of Massachusetts as of June 30, 2004 and 2003 and for the years then ended, which references the work of other auditors, appears on page 2 of this document. Those audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information listed on the accompanying index on page 30 is presented for purposes of additional analysis only and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

October 22, 2004

Combining Statements of Net Assets for University Related Organizations as of June 30, 2004 and 2003 (in thousands of dollars)

Supplemental Schedule I

ASSETS	Total June 30, 2004	Eliminations and Adjustments June 30, 2004	The University of Massachusetts Foundation, Inc. June 30, 2004	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2004	Total June 30, 2003	Eliminations and Adjustments June 30, 2003	The University of Massachusetts Foundation, Inc. June 30, 2003	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2003
Current Assets								
Accounts, Grants and Loans Receivable	$482		$482		$447		$447	
Pledges Receivable	2,155	($2,675)	3,720	$1,110	2,148	($3,353)	4,768	$733
Due From Related Organizations	3,936	1,565	2,068	303	2,620	2,620		
Other Assets	22			22	53		20	33
Total Current Assets	**6,595**	**(1,110)**	**6,270**	**1,435**	**5,268**	**(733)**	**5,235**	**766**
Noncurrent Assets								
Cash and Cash Equivalents	1,640			1,640	1,301			1,301
Accounts, Grants and Loans Receivable	48		48		617		422	195
Pledges Receivable	16,708	(10,166)	26,874		18,709	(9,742)	27,809	642
Investments	170,888	(38,448)	195,273	14,063	151,265	(35,499)	174,556	12,208
Investment In Plant Net of Accumulated Depreciation	1,019		1,019		1,187		1,187	
Total Noncurrent Assets	**190,303**	**(48,614)**	**223,214**	**15,703**	**173,079**	**(45,241)**	**203,974**	**14,346**
Total Assets	**$196,898**	**($49,724)**	**$229,484**	**$17,138**	**$178,347**	**($45,974)**	**$209,209**	**$15,112**
LIABILITIES								
Current Liabilities								
Accounts Payable	$586	($93)	$592	$87	$602		$407	$195
Accrued Interest Payable	30		30		43		43	
Notes Payable		($380)	380			($353)	353	
Due To Related Organizations	855	367		488	856	262		594
Assets Held on Behalf of the University		(28,781)	28,781			(27,116)	27,116	
Deferred Revenues and Credits	546		546		1,201		1,201	
Total Current Liabilities	**2,017**	**(28,887)**	**30,329**	**575**	**2,702**	**(27,207)**	**29,120**	**789**
Noncurrent Liabilities								
Notes Payable		(409)	409			(789)	789	
Due To Related Organizations	409	409			789	789		
Other Liabilities	2,873	106	2,647	120	2,958	91	2,747	120
Total Noncurrent Liabilities	**3,282**	**106**	**3,056**	**120**	**3,747**	**91**	**3,536**	**120**
Total Liabilities	**$5,299**	**($28,781)**	**$33,385**	**$695**	**$6,449**	**($27,116)**	**$32,656**	**$909**
Net Assets:								
Invested in Capital Assets Net of Related Debt	$230	$230			$45	$45		
Restricted								
Nonexpendable	144,790	(20,943)	$150,981	$14,752	132,180	(18,858)	$138,261	$12,777
Expendable	44,388		42,702	1,686	41,875		40,492	1,383
Unrestricted	2,191	(230)	2,416	5	(2,202)	(45)	(2,200)	43
Total Net Assets	**$191,599**	**($20,943)**	**$196,099**	**$16,443**	**$171,898**	**($18,858)**	**$176,553**	**$14,203**

for University Related Organizations For the Years Ended June 30, 2004 and 2003 (in thousands of dollars)

Supplemental Schedule II

	Total June 30, 2004	Eliminations and Adjustments June 30, 2004	The University of Massachusetts Foundation, Inc. June 30, 2004	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2004	Total June 30, 2003	Eliminations and Adjustments June 30, 2003	The University of Massachusetts Foundation, Inc. June 30, 2003	University of Massachusetts Dartmouth Foundation, Inc. June 30, 2003
EXPENSES								
Operating Expenses								
Educational and General								
Public Service	$8,666	($1,714)	$7,815	$2,565	$4,731	($12,784)	$15,299	$2,216
Depreciation	23		23		36		36	
Scholarships and Fellowships	2,632	(193)	2,600	225	3,169	(136)	2,881	424
Total Operating Expenses	**11,321**	**(1,907)**	**10,438**	**2,790**	**7,936**	**(12,920)**	**18,216**	**2,640**
Operating Income/(Loss)	**(11,321)**	**1,907**	**(10,438)**	**(2,790)**	**(7,936)**	**12,920**	**(18,216)**	**(2,640)**
NONOPERATING REVENUES/(EXPENSES)								
Gifts	6,374	(540)	5,238	1,676	12,829	(3,225)	13,281	2,773
Investment Income	9,331	(2,141)	10,093	1,379	(3,425)	(185)	(3,463)	223
Endowment Income	3,148	(1,293)	4,441		4,168	(36)	4,204	
Interest on Indebtedness	(66)		(66)		(86)		(86)	
Net Nonoperating Revenues	**18,787**	**(3,974)**	**19,706**	**3,055**	**13,486**	**(3,446)**	**13,936**	**2,996**
Income/(Loss) Before Other Revenues, Expenses, Gains, and Losses	**7,466**	**(2,067)**	**9,268**	**265**	**5,550**	**9,474**	**(4,280)**	**356**
Additions to Permanent Endowments	13,113	(800)	11,938	1,975	14,554	4,497	10,057	
University Related Organization Transactions	(676)	(676)			(10,391)	(10,391)		
Less: Amounts Earned/Received on Behalf of the University		1,352	(1,352)			115	(115)	
Less: Amounts Paid on Behalf of the University		312	(312)			(948)	948	
Disposal of Plant Facilities	(206)	(206)						
Other Additions/Deductions	4		4		73	10	63	
Total Other Revenues, Expenses, Gains, and Losses	**12,235**	**(18)**	**10,278**	**1,975**	**4,236**	**(6,717)**	**10,953**	
Total Increase in Net Assets	**19,701**	**(2,085)**	**19,546**	**2,240**	**9,786**	**2,757**	**6,673**	**356**
NET ASSETS								
Net Assets at Beginning of Year	171,898	(18,858)	176,553	14,203	162,112	(21,615)	169,880	13,847
Net Assets at End of Year	**$191,599**	**($20,943)**	**$196,099**	**$16,443**	**$171,898**	**($18,858)**	**$176,553**	**$14,203**

DEFINITIONS OF CERTAIN TERMS

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

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

"Affiliate" means any entity in which the University or the Institution has a direct or indirect interest, financial or otherwise, or any entity established for the benefit of the University.

"Authorized Officer" means: (i) in the case of the Authority, the Chairman, Vice Chairman, Executive Director, Director of Financing Programs or Director of Finance, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the Chairman or other presiding officer of the Board of Trustees, the President, Director or other chief executive or administrative officer, any Vice President or Vice Chairman, the Treasurer or other chief financial officer or any Associate Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document.

"Bond Counsel" means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, but shall not include counsel for the Institution.

"Bond Insurance Policy" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

"Bond Insurer" or "Financial Guaranty" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Bond Year" means each one year period (or shorter period from the date of issue of the Bonds) ending on June 30.

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

"Bonds" or "Series D Bonds" means the $99,325,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Worcester City Campus Issue (University of Massachusetts Project), Series D (2005), dated April 14, 2005 and any Bond or Bonds duly issued in exchange or replacement therefor.

"Business Day" means a day on which banks in the city in which the principal office of the Trustee is located is not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement dated as of the date of issuance of the Bonds between the Institution and J.P. Morgan Trust Company, National Association, as originally executed and as it may be amended from time to time in accordance with its terms.

"Financing Agreement" means the Financing Agreement between the Authority and the University dated as of March 8, 2005.

APPENDIX D

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; and (iii) shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to obligations described in clause (i) and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority.

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

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

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

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

"Project" means the projects financed by the Series A Bonds.

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

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

"Series A Bonds" means $100,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series A, dated March 15, 2000.

"Series A Refunding Trust Agreement" means the Refunding Trust Agreement among the Authority, the Institution and J.P. Morgan Trust Company, National Association, as trustee for the Series A Bonds.

"Tax Certificate" means the Tax Certificate and Agreement between the Authority and the Institution dated the date of original issuance of the Bonds.

"University" means the University of Massachusetts.

"UCC" means the Massachusetts Uniform Commercial Code.

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

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APPENDIX E

SUMMARY OF THE LOAN AND TRUST AGREEMENT

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

Establishment of Funds.

The following funds have been established and shall be maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement: Debt Service Fund; Redemption Fund; and Rebate Fund.

An Expense Fund has been established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Agreement. (Sections 303, 305, 306 and 307)

Debt Service Fund.

The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments), redemption premium, if any, and interest on the Bonds. (Section 303)

Redemption Fund.

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

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

If any moneys in the Redemption Fund are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Bonds called for redemption in accordance with the Agreement, then the Institution shall immediately supply the deficiency. (Section 306)

Rebate Fund.

Pursuant to the Agreement, a Rebate Fund shall be established by the Trustee for the purpose of complying with IRC Section 148(f) and the regulations thereunder (the “Rebate Provision”). Amounts in the Rebate Fund shall not be available to pay principal, interest, or redemption premium on the Bonds. Within forty-five (45) days after the close of each Rebate Year (or any earlier date that may be necessary to make a required payment to the United States), the Institution shall compute and certify to the Authority and the Trustee in reasonable detail the amount of the rebate due, as described in the Agreement, and notwithstanding any provision of the Agreement to the contrary, the Institution shall pay to the Trustee for deposit into the Rebate Fund such amount.

The Institution, the Trustee and the Authority shall keep such records as will enable them to fulfill their responsibilities under this section of the Agreement and the Rebate Provision.

The Trustee shall be deemed conclusively to have complied with the provisions of the rebate section in the Agreement if it makes payments in accordance with the certifications and directions of the Institution provided in accordance with such sections. The Trustee shall not be required to take any actions required under the rebate sections in the absence of certain certifications of the Institution.

To the extent amounts in the Rebate Fund are insufficient to make any payment of rebatable arbitrage due to the United States under the Rebate Provision, the Institution shall be liable for that deficiency. To the extent any payment of rebatable arbitrage is not timely made to the United States, the Institution shall pay to the United States on behalf of the Authority any interest, penalty, or other amount necessary to prevent the Bonds from becoming arbitrage bonds within the meaning of IRC Section 148. The Institution covenants that to the extent necessary it shall obtain the advice and assistance of experts to aid it in complying with the Rebate Provision. (Section 306)

Expense Fund.

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

Application of Moneys.

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

Payments by the Institution.

The Institution shall pay to the Trustee for deposit in the Debt Service Fund on or before the 25th day of each March and September, an amount equal to the interest coming due on the Bonds on the next April 1 or October

1, as the case may be, and on or before the 25th day of each September, the principal (including any sinking fund installment) coming due on the Bonds on the next October 1.

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

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

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

Unconditional Obligation.

To the extent permitted by law, the obligation of the Institution to make payments to the Authority and the Trustee under the Agreement shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to setoff, recoupment or counterclaim and shall be a general obligation of the Institution to which the full faith and credit of the Institution are pledged. (Section 310)

Investments.

Pending their use under the Agreement, moneys in the Funds and Accounts established pursuant to the Agreement may be invested by the Trustee or the Authority, as the case may be, in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee or the Authority, as appropriate, provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as "arbitrage bonds" as defined in IRC §148. Any investments pursuant to this subsection shall be held by the Trustee or the Authority, as applicable, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

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

(a) The term "Permitted Investments" means:

1. Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

2. Direct obligations[*] of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America:

   (a) Export-Import Bank of the United States – Direct obligations and fully guaranteed certificates of beneficial interest

   (b) Federal Housing Administration – debentures

   (c) General Services Administration – participation certificates

   (d) Government National Mortgage Association ("GNMAs") – guaranteed mortgage-backed securities and guaranteed participation certificates

   (e) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates

   (f) U.S. Department of Housing & Urban Development – local authority bonds

   (g) U.S. Maritime Administration – guaranteed Title XI financings

   (h) Washington Metropolitan Area Transit Authority – guaranteed transit bonds

3. Direct obligations* of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America:

   (a) Federal National Mortgage Association ("FNMAs") – senior debt obligations rated Aaa by Moody's and AAA by S&P

   (b) Federal Home Loan Mortgage Corporation ("FHLMCs") – participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P

   (c) Federal Home Loan Banks – consolidated debt obligations

   (d) Student Loan Marketing Association – debt obligations

   (e) Resolution Funding Corporation – debt obligations

4. Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any

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[*] The following are explicitly excluded from the securities enumerated in 2 and 3:

(i) All derivative obligations, including without limitation inverse floaters, residuals, interest-only, principal-only and range notes;

(ii) Obligations that have a possibility of returning a zero or negative yield if held to maturity;

(iii) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date; and

(iv) Collateralized Mortgage-Backed Obligations ("CMOs").

obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

5. Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund and the Savings Association Insurance Fund.

7. Certificates of deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

8. Investments in money-market funds rated AAAm or AAAm-G by S&P.

9. State-sponsored investment pools rated AA- or better by S&P.

10. Repurchase agreements that meet the following criteria:

    (a) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

    (b) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

    (c) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten (10) days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

    (d) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to the obligations of GNMA, FNMA or FHLMC described in 2(d), 3(a) and 3(b) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (i) the Trustee or the Agent (defined below) to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(e) The repurchase securities shall be delivered free and clear of any lien to the "Trustee" or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(f) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(g) The repurchase agreement shall have a term of one year or less, or shall be due on demand.

(h) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless Financial Guaranty directs otherwise:

(i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement;

(ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item 10(d) above; or

(iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

11. Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(a) A master agreement or specific written investment agreement governs the transaction.

(b) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P; (ii) domestic insurance companies rated Aaa by Moody's and AAA by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

(c) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P; (ii) domestic FDIC-insured commercial banks, or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P; (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P; and (iv) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P. Required collateral levels shall be as set forth in 11(f) below.

(d) The investment agreement shall provide that if the provider's ratings fall below Aa3 by Moody's or AA- by S&P, the provider shall within ten (10) days either (i) repay the principal amount plus any accrued and interest on the investment; or (ii) deliver Permitted Collateral as provided below.

(e) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty to the Authority or the Institution.

(f) The investment agreement shall provide for the delivery of collateral described in (i) or (ii) below ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date:

(i) U.S. Government Securities at 104% of principal plus accrued interest; or

(ii) Obligations of GNMA, FNMA or FHLMC (described in 2(d), 3(a) and 3(b) above) at 105% of principal and accrued interest.

(g) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent that there are excess amounts over the required levels. Market value, with respect to collateral, may be determined by any of the following methods:

(i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., *The Wall Street Journal* or Reuters;

(ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices; or

(iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being valued.

(h) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(i) The provider shall grant the Trustee or the Agent a perfected first security interest in any collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under 11(f) above, the Trustee and Financial Guaranty shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(j) The investment agreement shall provide that moneys invested under the agreement must be payable and put-able at par to the Trustee without condition, breakage fee or other penalty, upon not more than two (2) business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following:

(i) In the event of a deficiency in the debt service account;

(ii) Upon acceleration after an event of default;

(iii) Upon refunding of the bonds in whole or in part;

(iv) Reduction of the debt service reserve requirement, if any, for the bonds; or

(v) If a determination is later made by a nationally recognized bond counsel that investments must be yield-restricted.

Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the Institution's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the bonds and to make deposits to the debt service reserve fund, if any.

(k) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities:

(i) Failure of the provider or the guarantor (if any) to make a payment when due or to deliver Permitted Collateral of the character, at the times or in the amounts described above;

(ii) Insolvency of the provider or the guarantor (if any) under the investment agreement;

(iii) Failure by the provider to remedy any deficiency with respect to required Permitted Collateral;

(iv) Failure by the provider to make a payment or observe any covenant under the agreement;

(v) The guaranty (if any) is terminated, repudiated or challenged; or

(vi) Any representation of warranty furnished to the Trustee or the issuer in connection with the agreement is false or misleading.

(l) The investment agreement must incorporate the following general criteria:

(i) "Cure periods" for payment default shall not exceed two (2) business days;

(ii) The agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or Financial Guaranty;

(iii) Neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior consent of Financial Guaranty;

(iv) If the investment agreement is for a debt service reserve fund, if any, reinvestments of funds shall be required to bear interest at a rate at least equal to the original contract rate.

(v) The provider shall be required to immediately notify Financial Guaranty and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings;

(vi) The agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim;

(vii) The agreement shall require the provider to submit information reasonably requested by Financial Guaranty, including balance invested with the provider, type and market value of collateral and other pertinent information.

12. Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service fund or debt service reserve fund, if any) or draw down date (construction funds) that meet the following criteria:

(a) A specific written investment agreement governs the transaction.

(b) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P; and (iii) domestic structured investment companies approved by Financial Guaranty and rated Aaa by Moody's and AAA by S&P.

(c) The forward delivery agreement shall provide for termination or assignment (to a qualified provider under the Agreement) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten (10) days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(d) Permitted securities shall include the investments listed in 1, 2 and 3 above.

(e) The forward delivery agreement shall include the following provisions:

(i) The permitted securities must mature at least one (1) business day before a debt service payment date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date.

(ii) The agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event.

(iii) Any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service fund and debt service reserve fund, if any, replenishments.

(iv) The provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and otherwise acceptable to Financial Guaranty.

(v) The agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of Financial Guaranty.

13. Forward delivery agreements in which the securities delivered mature after the funds may be required but provide for the right of the issuer or the Trustee to put the securities back to the provider under a put, guaranty or other hedging arrangement, only with the prior written consent of Financial Guaranty.

14. Maturity of investments shall be governed by the following:

(a) Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

(b) Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

(c) Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

(b) Notwithstanding the immediately preceding paragraph (a), Permitted Investments shall not include the following:

A. Government or Equivalent Obligations, certificates of deposit and bankers' acceptances, in each case with yields lower than either (1) the yield available on comparable obligations then offered by the United States Treasury, or (2) the highest yield published or posted by the provider of the Permitted Investments to be currently available from the provider on reasonably comparable investments;

B. any demand deposit or similar account with a bank, trust company or broker, unless (1) the account is used for holding funds for a short period of time until such funds are reinvested or spent, and (2) substantially all the funds in the account are withdrawn for reinvestment or expenditure within fifteen (15) days of their deposit therein; or

C. Repurchase Agreements or investment agreements, unless (1) at least three (3) bids are obtained on the proposed Repurchase Agreement or investment agreement from persons other than those with an interest in the Bonds, (2) the highest yielding Repurchase Agreement or investment agreement for which a qualifying bid is received is purchased, (3) the provider of the Repurchase Agreement or investment agreement certifies that the yield on the Repurchase Agreement or investment agreement is not less than the yield then available from the provider on reasonably comparable Repurchase Agreements or investment agreements, as applicable, if any, offered to persons who are purchasing the agreement from a source other than proceeds of tax-exempt bonds, (4) the terms of the Repurchase Agreement or investment agreement, including collateral requirements, are reasonable, and (5) a written record of the yield offered by each bidder is maintained.

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

Payments Pursuant to the Financing Agreement.

If the Institution has failed to make a required debt service payments when pursuant to the Agreement, the Trustee shall promptly and, in no event later than the close of business on the next succeeding Business Day, notify the Authority and the University of the amount due and unpaid. (Section 314)

Payment Pursuant to the Bond Insurance Policy.

If, on the third day preceding any interest payment date for the Bonds there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Bonds due on such date, the Trustee shall immediately notify Financial Guaranty and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the Institution has not provided the amount of such deficiency, the Trustee shall simultaneously make available to Financial Guaranty and to the Fiscal Agent the registration books for the Bonds maintained by the Trustee. In addition:

(i) The Trustee shall provide Financial Guaranty with a list of the Bondowners entitled to receive principal or interest payments from Financial Guaranty under the terms of the Bond Insurance Policy and shall make arrangements for Financial Guaranty and its Fiscal Agent (1) to mail checks or drafts to Bondowners entitled to receive full or partial interest payments from Financial Guaranty and (2) to pay principal of the Bonds surrendered to the Fiscal Agent by the Bondowners entitled to receive full or partial principal payments from Financial Guaranty; and

(ii) The Trustee shall, at the time it makes the registration books available to Financial Guaranty pursuant to (i) above, notify Bondowners entitled to receive the payment of principal of or interest on the Bonds from Financial Guaranty (1) as to the fact of such entitlement, (2) that Financial Guaranty will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (b) below, in the event that any Bondowner is entitled to receive full payment of principal from Financial Guaranty, such Bondowner must tender his Bond with the instrument of transfer in the form provided on the Bond executed in the name of Financial Guaranty, and (4) that, except as provided in paragraph (b) below, in the event that such Bondowner is entitled to receive partial payment of principal from Financial Guaranty, such Bondowner must tender his Bond for payment first to the Trustee, which shall note on such Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of Financial Guaranty, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Bondowner subject to the terms of the Bond Insurance Policy.

In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Bondowner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to Financial Guaranty, notify all Bondowners that in the event that any Bondowner's payment is so recovered, such Bondowner will be entitled to payment from Financial Guaranty to the extent of such recovery, and the Trustee shall furnish to Financial Guaranty its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from Bondowners, and the dates on which such payments were made.

Financial Guaranty shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books maintained by the Trustee upon receipt from Financial Guaranty of proof of the payment of interest thereon to the Bondowners of such Bonds and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Financial Guaranty's rights as subrogee on the registration books for the Bonds maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Bondowners of such Bonds. Notwithstanding anything in the Agreement or the Bonds to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to Financial Guaranty to the extent that Financial Guaranty is a subrogee with respect thereto. (Section 315)

Rights of the Bond Insurer.

Default-Related Provisions.

(i) In determining whether a payment default has occurred or whether a payment on the Bonds has been made under the Agreement, no effect shall be given to payments made under the Bond Insurance Policy.

(ii) Any acceleration of the Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).

(iii) The Bond Insurer shall receive immediate notice of any payment default and notice of any other default known to the Trustee or the Authority within 30 days of the Trustee's or the Authority's knowledge thereof.

(iv) For all purposes of the provisions of the Agreements governing events of default and remedies, except the giving of notice of default to Bondowners, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

(v) The Bond Insurer shall be a party in interest and shall be entitled to (i) notify the Authority, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Bond Insurer.

Amendments and Supplements. Any amendment or supplement to the Agreement or the Financing Agreement shall be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Successor Trustees, Etc. No resignation or removal of the Trustee shall become effective until a successor has been appointed and has accepted the duties of Trustee, paying agent or bond registrar, as applicable. The Bond Insurer shall be furnished with written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

Reporting Requirements. The Trustee shall provide the Bond Insurer with the following information:

(i) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(ii) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934; and

(iii) Such additional information as the Bond Insurer may reasonably request from time to time.

Reimbursement of Expenses. The Institution shall pay or reimburse the Bond Insurer for any and all charges, fees, costs, and expenses that the Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security under the Agreement or under any other transaction document; (ii) the pursuit of any remedies under the Agreement, under any other transaction document, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to any transaction document whether or not executed or completed; (iv) the violation by the Institution of any law, rule, or regulation or any judgement, order or decree applicable to it; (v) any advances or payments made by the Bond Insurer to cure defaults of the Institution under the transaction documents; or (vi) any litigation or other dispute in connection with any transaction document, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the Bond Insurer to honor its payment obligation under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of any transaction document. The obligations of the Institution to the Bond Insurer shall survive discharge and termination of any transaction document. (Section 316)

Use of Project.

Compliance with Law. In the acquisition, construction, maintenance, improvement and operation of the Project, the Institution covenants that it has complied and will comply with all applicable building, zoning, land use, environmental protection, sanitary, safety and health care and educational laws, rules and regulations, and all applicable grant, reimbursement and insurance requirements, and will not permit a nuisance thereon; but it shall not be a breach of this paragraph if the Institution fails to comply with such laws, rules, regulations and requirements (other than Chapter 21E of the Massachusetts General Laws, as amended) during any period in which the Institution is diligently and in good faith contesting the validity thereof, provided that the security created or intended to be created hereby is not, in the opinion of the Trustee, unreasonably jeopardized thereby.

Payment of Lawful Charges. The Institution shall make timely payment of all taxes and assessments and other municipal or governmental charges and all claims and demands for work, labor, services, materials or other objects which, if unpaid, might by law become a lien on the Project or any part thereof; but it shall not be a breach of this subsection if the Institution fails to pay any such item during any period in which the Institution is diligently and in good faith contesting the validity thereof, provided that the laws applicable to contesting its validity do not require payment thereof and proceedings for a refund and that the security created or intended to be created hereby is not, in the opinion of the Trustee, unreasonably jeopardized thereby.

Permitted Purposes. The Institution agrees that the Project shall be used only for the purposes described in Section 3(b) of the Act and no part of the Project shall be used for any purpose which would cause the Authority's financing of the Project to constitute a violation of the First Amendment of the United States Constitution. In particular, the Institution agrees that no part of the Project, so long as it is owned or controlled by the Institution, shall be used for any sectarian instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; and any proceeds of any sale, lease, taking by eminent domain of the Project or other disposition thereof shall not be used for, or to provide a place for, such instruction, worship or program. The provisions of the foregoing sentence shall, to the extent permitted and required by law, survive termination of the Agreement. (Section 401)

Damage to or Destruction of Taking of the Project.

In the event of damage to or destruction of; or taking of; all or a portion of the Project that exceeds 25% of the then full insurable value of the Project, the Institution may elect to use any insurance or eminent domain proceeds received as a result thereof to defease the Agreement or redeem Bonds pursuant to the special redemption provisions of the Agreement. In order to redeem Bonds, the Institution shall pay such proceeds to the Trustee for deposit to the Redemption Fund, and shall instruct the Trustee to redeem Bonds pursuant to the Agreement from such proceeds deposited in the Redemption Fund. (Section 403)

Indemnification as to the Project.

The Institution shall indemnify the Authority and the Trustee against (a) the claims of any person arising out of any condition of the Project, the construction, use, occupancy or management thereof, or any accident, injury or damage to any person occurring in or about the Project; and (b) any and all costs, counsel fees, expenses or liabilities reasonably incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding is brought against the Authority or the Trustee by reason of any such claim, the Institution upon notice from the affected party shall defend the same and the Authority and the Trustee shall cooperate with the Institution at the expense of the Institution in connection therewith. (Section 404)

Default by the Institution.

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

Debt Service. Any principal (including sinking fund installments) or interest or redemption premium on the Bonds shall not be paid when due.

Other Obligations. The Institution shall fail to (A) make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Trustee or the Authority to the Institution; or (B) observe or perform any of its other agreements, covenants or obligations under the Agreement or the Tax Certificate and such failure is not remedied within thirty (30) days after written notice thereof is given by the Trustee or the Authority to the Institution; provided, however, with respect to a default under the Agreement, if the failure stated in the notice cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Institution within such thirty (30) day period and is being diligently pursued until the default is corrected.

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

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

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

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

Default under the Financing Agreement. An event of default occurs under the Financing Agreement.

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

Remedies for Events of Default.

If an Event of Default occurs and is continuing, the Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice. (Section 602)

Court Proceedings.

The Trustee may enforce the obligations under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations under the Agreement. (Section 603)

Revenues after Default.

Any funds pledged as security under the Agreement and any other moneys received by the Trustee for the benefit of the Bondowners, shall be applied, first to the remaining obligations of the Institution under the Agreement (other than obligations to make payments to the Authority for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Authority for its own use. Any surplus thereof shall be paid to the Institution. (Section 604)

Remedies Cumulative.

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Institution or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance by the Institution or of the right to exercise any remedy for the violation. (Section 605)

Bond Insurer to Exercise Rights of Bondowners.

For all purposes of the provisions of the Agreement governing Events of Default and remedies, except the giving of notice of default to Bondowners, the Bond Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy. So long as the Policy remains in effect, and provided that the Bond Insurer shall not have defaulted on its obligations under the Policy, the Bond Insurer shall be deemed to be the owner of all of the Series D Bonds for the purposes of giving consents (including consents to amendments to the Loan and Trust Agreement other than those requiring unanimous consent of the affected Bondowners), notices, directions and waivers under the Loan and Trust Agreement, and no legal action with respect to the Series D Bonds may be pursued by the Trustee or any Bondowner without the consent of the Bond Insurer. (Section 606)

Action by Bondowners.

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

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

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

Proceedings by Bondowners.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in Subsection 802(b) and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

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

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

Tax Matters.

The Institution shall not take or omit to take any action if such action or omission (i) would cause the Bonds to be "arbitrage bonds" under Section 148 of the IRC, (ii) would cause the Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. Without limiting the foregoing, the Institution shall not permit the $150,000,000 nonhospital bond limitation of IRC §145(b) to be exceeded. To the extent consistent with its status as a nonprofit institution, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution. (Section 1002)

Maintenance of Corporate Existence.

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve, dispose of or spin off all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Agreement, (b) the transaction does not result in a conflict, breach or default referred to in Section 1001 and (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Institution. (Section 1005)

Disposition of Assets.

So long as the Bonds are Outstanding, the Institution shall not sell, transfer or otherwise dispose of the Project except that the Institution shall have the right to transfer the Institution's interest in the Project to the University or any Affiliate upon (a) the assumption by the University or such Affiliate of all of the obligations of the institution under the Agreement (provided, however, that to the extent the University shall acquire the property, the University need not comply with covenants not applicable to a governmental entity (as opposed to a 501(c)(3) entity)); (b) the receipt of an Opinion of Bond Counsel that such sale, transfer or other disposition will not adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code; and (c) the written approval of the University. Upon any such transfer, the Institution shall have no further liability under the Agreement. (Section 1007)

Amendment.

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

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

Defeasance

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

For so long as the Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy, the following provisions shall apply to the defeasance of the Bonds: only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of the principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination the foregoing) shall be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves. In the event of an advance refunding, the Institution shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the authorizing document, if no separate escrow agreement is utilized), the terms of the escrow agreement or authorizing document, if applicable, shall be controlling. (Sections 202 and 316)

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The following is a brief summary, prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Financing Agreement (the "Financing Agreement"), pertaining to the University's Transfer Obligation. The summary does not purport to be complete, and reference is made to the Financing Agreement for full and complete statements of such and all provisions.

SUMMARY OF THE FINANCING AGREEMENT

Background

Pursuant to the Financing Agreement, as security for the Bonds, the Authority is assigning to the Trustee all of its right, title and interest in Financing Agreement (except for the rights of the Authority to receive payment of the Authority's annual administrative fee and other Authority expenditures reasonably incurred by the Authority by reason of the Loan and Trust Agreement and Financing Agreement, reports and indemnity against claims, and to enforce remedies pursuant to the Financing Agreement).

The Financing Agreement sets out the agreements made by the University to provide for the transfer of funds (the University's "Transfer Obligation") for the payment of the Bonds issued, to the extent the same are not paid by the Institution under the Loan and Trust Agreement. (Section 1.2)

Definitions Applicable to Financing Agreement.

"Available Revenues" means, with respect to periods of time prior to the University's adoption of Statement No. 35 of the Governmental Accounting Standards Board (GASB), the University's unrestricted current funds revenues as reported in its Combined Statement of Current Funds Revenues Expenditures and Other Changes and with respect to periods of time after such adoption, means the sum of the University's unrestricted operating, non-operating and other revenues excluding revenues derived from federal, state, local and nongovernmental grants and contracts but including, in any event, state appropriations, all as included in the operating, activities or other equivalent statement of operations included in the University's financial statements in accordance with generally accepted accounting principles as promulgated by GASB.

"Debt Service and Related Costs" means, with respect to a particular period, the principal, redemption premium, if any, purchase price, if any, and interest due on such General Obligation Indebtedness during such period, all fees and expenses payable in or with respect to such period to the issuer of, or to any trustee for, such General Obligation indebtedness and any other costs that are due during such period pursuant to the indenture, resolution or other documents entered into in connection with the issuance of such Indebtedness; provided that such term shall not include any amount that is otherwise provided for. Where the actual amount is unknown, the University shall use its best efforts to estimate the amount that will be due for such period.

"Expendable Fund Balance" 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. The Expendable Fund Balance is referred to in the financial statements of the University for fiscal years 2002, 2003 and 2004 as "Unrestricted Net Assets" and is expected to be so referred to in the financial statements of the University for future fiscal years.

"General Obligation Indebtedness" means the Bonds, the Authority's Variable Rate Demand Revenue Bonds, University of Massachusetts Issue, Series A (the "Variable Rate Bonds"), the Authority's Revenue Bonds, University of Massachusetts Issue, Series B, the Authority's Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series B, the Authority's Revenue Bonds, University of Massachusetts Issue, Series C, all obligations of the University owing the credit facility provider pursuant to the reimbursement agreement related to the Variable Rate Bonds, UMBA's Project Revenue Bonds, Series 1995-A, UMBA's Project Revenue Bonds, Senior Series 2000-1, UMBA's Project Revenue Bonds, Senior Series 2000-2, UMBA's Project Revenue Bonds, Senior Series 2003-1, UMBA's Project and Refunding Revenue Bonds, Senior Series 2004-1, UMBA's Refunding Revenue Bonds, Senior Series 2005-1 (Delayed Delivery) and any additional Indebtedness issued by the University, UMBA or the Authority pursuant to the section hereof captioned "Limitations on Additional Debt."

"Indebtedness" means all obligations for borrowed money, or installment sale and capitalized lease obligations, incurred or assumed, including guaranties or any other obligation for payments of principal and interest with respect to money borrowed.

"Revenue Indebtedness" means the Lowell Technological Institute Building Authority's Facilities Bonds, First Series, the University of Lowell Building Authority's Facilities Bonds, Second Series A, the University of Lowell Building Authority's Facilities Bonds, Second Series B, the University of Lowell Building Authority's Facilities Bonds, Fourth Series B, the University of Lowell Building Authority's Commonwealth Guaranteed Facilities Bonds, Fifth Series A, the Southeastern Massachusetts University Building Authority's Project Revenue Bonds, 1986 Series B, the Southeastern Massachusetts University Building Authority's Refunding Revenue Bonds, 1995 Series A, UMBA's Refunding Revenue Bonds, Series 1991-A, UMBA's Refunding Revenue Bonds, Series 1995-B, UMBA's Facilities Revenue Bonds, Senior Series 2000-A, UMBA's Facilities Revenue Bonds, Senior Series 2004-A and any additional Indebtedness issued by UMBA pursuant to the third paragraph in the section captioned "Limitations on Additional Debt."

"UMBA" means the University of Massachusetts Building Authority. (Section 1.3)

Payment Sources.

Transfers in respect of the University's Transfer Obligation and any other obligation of the University under the Financing Agreement are required to be made solely from any source legally available for expenditure by the Board of Trustees of the University for such purpose, provided, that in the case of any funds expected to be available for expenditure by the Board of Trustees of the University pursuant to subsequent appropriation or other spending authorization by the legislature, the Board of Trustees of the University's obligation to transfer such funds is subject to such subsequent appropriation or other spending authorization. Such sources are referred to in the Financing Agreement as "Payment Sources." (Exhibit A)

Representations of the University.

Under the Financing Agreement, the University represents and warrants, among other things, that:

It is a state institution, with the power, acting in the name and on behalf of the Commonwealth, to enter into and perform Financing Agreement, and is a public institution of higher education as defined by the Act which by proper action of its board of trustees has duly authorized the execution and delivery of Financing Agreement. The University represents and warrants that the Financing Agreement constitutes a valid and binding obligation of the University, enforceable in accordance with its terms, subject to bankruptcy and other laws affecting the rights and remedies of creditors. The University further represents and warrants that the execution and delivery of Financing Agreement and the consummation of the transactions contemplated in the Financing Agreement will not conflict with or constitute a breach of or default under any bond, indenture, note or other evidence of indebtedness of the University, or any contract, lease or other instrument to which the University is a party or by which it is bound, including without limitation Financing Agreement, or cause the University to be in violation of any applicable statute or rule or regulation of any governmental authority.

It will only make transfers in satisfaction of its Transfer Obligation from sources described in the Financing Agreement. (Section 1.4).

Making of the Loan.

The Authority hereby agrees to refinance the Project by making a loan (the "Loan") to the Institution. The University shall meet its Transfer Obligation as provided in the Financing Agreement. (Section 2.1)

Satisfaction of Transfer Obligation.

Subject to the section in the Financing Agreement captioned "Special Obligation of the University," the University's Transfer Obligation shall be satisfied by transfers of amounts equal to installments of the principal (including sinking fund installments) of the Bonds plus interest thereon at the times and in the manner set forth in the Loan and Trust Agreement regarding the Institution's repayment of its Loan, promptly upon notification from the Authority or the Trustee that the Institution has failed to make any payments required by the Loan and Trust Agreement (Section 2.2).

Other Amounts.

Subject to the section in the Financing Agreement captioned "Special Obligation of the University," the University shall promptly transfer to the Authority or the Trustee, as applicable, any other amounts not paid by the Institution when due under the Loan and Trust Agreement upon notice from the Authority or the Trustee, provided that the University's obligation to make payments relating to damage or destruction of the Project due under the Loan and Trust Agreement shall extend only so far as existing law then permits. (Section 2.3)

Special Obligation of the University.

Neither the Transfer Obligation nor any other obligation of the University under the Financing Agreement shall constitute a debt of the Commonwealth or any department, agency or instrumentality thereof and neither the full faith and credit nor the taxing power of the Commonwealth are pledged therefor; but the University covenants and agrees that the Financing Agreement, the Transfer Obligation and all such other obligations are special obligations of the University which the University agrees to perform or cause to be performed. Notwithstanding anything in the Financing Agreement to the contrary the University's Transfer Obligations and all other obligations under the Financing Agreement are limited to, and payable from the Payment Sources.

The obligations of the University to make transfers required under the Financing Agreement from the special funds described in the Financing Agreement shall be absolute and unconditional without defense or set off by the Authority under the Financing Agreement or under any other agreement between the University and the Authority or for any other reason, including without limitation, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with Financing Agreement, or failure of any person to pay the fees, rentals or other charges owed to the University, and irrespective of whether or not any such person or the University receives either partial or total reimbursement as a credit against such payment, it being the intention of the parties that the transfers required of the University under the Financing Agreement will be made in full from such special funds when due without any delay or diminution whatsoever. (Section 2.4)

Tax Covenant.

Under the Financing Agreement, the University agrees that it will not take any action or permit any action to be taken on its behalf, or cause or permit any circumstance within its control to arise or continue, if such action or circumstance, or its expectation on the date of issue of the Bonds, would cause the interest paid by the Authority on the Bonds to be subject to Federal income tax in the hands of the registered owners. (Section 3.1)

Limitations on Additional Debt.

The University shall not issue additional Indebtedness or request or permit UMBA or the Authority to issue additional Indebtedness on behalf of the University except as set forth in the Financing Agreement.

The University may, without limit, issue additional Indebtedness or request UMBA or the Authority to issue additional indebtedness on behalf of the University so long as such Indebtedness is payable from all available funds of the University. Furthermore, except as set forth below and except for pledges or liens already in existence on the date hereof, the University shall not pledge, or permit to exist any lien on, any of its funds or revenues. Additional parity Indebtedness issued by UMBA under its Loan and Trust Agreement dated as of April 1, 1984, as amended and supplemented, shall be deemed to be General Obligation Indebtedness if upon the issuance thereof the University shall be obligated to make payments in support thereof payable from all available funds of the University, notwithstanding that such additional parity Indebtedness shall also be secured by revenues pledged under said UMBA Loan and Trust Agreement. Nothing in this section shall be construed to limit the ability of UMBA to impose student fees as necessary to make up any deficiency in the Expendable Fund Balance in connection with General Obligation Indebtedness issued by UMBA.

The University may request UMBA to issue additional Indebtedness on behalf of the University that is not payable from all available funds of the University as set forth in the second paragraph of this section, provided (i) the additional Indebtedness is secured by (w) pledged revenues derived from the project or projects being financed, (x) new or increased student fees whether imposed by the University or UMBA, (y) existing pledged revenues or (z) 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 shall not be subject to acceleration, and no obligation of the University to make payments on account of Indebtedness issued by UMBA or the Authority shall be subject to acceleration. (section 3.2)

<u>Segregation of Expendable Funds</u>.

The following provisions shall apply to all General Obligation Indebtedness issued by the University, UMBA or the Authority:

> On or before April 1 of each year, the President of the University or the Vice President for Management and Fiscal Affairs and Treasurer of the University shall provide in writing to UMBA, the Authority and the Bond Insurer a detailed list of the Debt Service and Related Costs with respect to the twelve-month period commencing the next succeeding October 1 and shall certify in writing to UMBA, the Authority and the Bond Insurer whether or not there are as of such April 1 sufficient funds in the Expendable Fund Balance to pay all such Debt Service and Related Costs and, if so, that funds sufficient to pay Debt Service and Related Costs with respect to the Bonds will be held in trust for the benefit of the Trustee, to be applied to the payment of such amounts and will not be expended for any other purpose. On and after such date of certification, such funds will be so held and not expended for any other purpose.
>
> 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 such other officer of the University knowledgeable about the financial affairs of the University. The Trustees hereby authorize and 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 under this Section.
>
> If such certification states that sufficient funds are not available in the Expendable Fund Balance to pay all Debt Service and Related Costs, such certification shall state the amount of funds in the Expendable Fund Balance that are available to pay such Debt Service and Related Costs and a ratable portion of such funds in the Expendable Fund Balance shall be held in trust for the benefit of the Trustee, to be applied to the payment of Debt Service and Related Costs with respect to the Bonds and will not be expended for any other purpose. "Ratable portion" for purposes of this paragraph shall be calculated by dividing the Debt Service and Related Costs with respect to the Bonds for such period by the Debt Service and Related Costs with respect to all Indebtedness payable from the Expendable Fund Balance for such period and multiplying the result by the available amounts in the Expendable Fund Balance. The University will continue to be obligated to pay all Debt Service and Related Costs with respect to the Bonds notwithstanding any shortfall in amounts available in the Expendable Fund Balance on or before April 1.

All moneys collected or received by the University, from whatever source, to pay Debt Service and Related Costs with respect to the Bonds, including without limitation moneys held in trust for the benefit of the Trustee, shall be collected or received for the account of the Trustee in trust to be held and applied solely to Debt Service and Related Costs with respect to the Bonds. (Section 3.3)

Events of Default.

Each of the following events is defined as, and declared to be and shall constitute, an "Event of Default", and "default" means any Event of Default without regard to any lapse of time or notice:

(a) failure by the University to make any transfer required to be made pursuant to the sections captioned "Satisfaction of Transfer Obligation" or "Other Amounts;" or

(b) with the exceptions of those covenants set forth in to the sections captioned "Satisfaction of Transfer Obligation" or "Other Amounts," failure by the University to observe and perform any other covenant, condition or agreement on its part to be observed or performed under the Financing Agreement for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the University by the Authority, the Trustee or the Bond Insurer; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, it shall not constitute an Event of Default if the corrective action is instituted by the University within the applicable period and is being diligently pursued until the default is corrected; or

(c) if any of the representations, warranties or certifications of the University under the Financing Agreement or otherwise made or delivered in connection with the Financing Agreement or pursuant to the Loan and Trust Agreement shall prove to be false or misleading in any material respect and such breach is not cured within thirty (30) days after written notice thereof is given by the Authority, the Trustee or the Bond Insurer to the University; or

(d) the failure by the University promptly to stay or lift any execution, garnishment or attachment of such consequence as will, in the judgment of the Authority or the Bond Insurer, impair its ability to carry out its obligations under the Financing Agreement. (Section 4.2)

Satisfaction of Transfer Obligation on Default; Suit Therefor.

Under the Financing Agreement, the University covenants that, in case a default shall occur in the transfer of any sum to be transferred by the University under the sections captioned "Satisfaction of Transfer Obligation" or "Other Amounts," as and when such transfer is required, whether at the time originally scheduled or otherwise, then, upon demand of the Authority or the Trustee, the University will transfer to the Trustee an amount equal to the sum of: (i) all amounts then due and payable under the Financing Agreement; and (ii) such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Authority, the Trustee, their agents, attorneys and counsel, and any expenses or liabilities incurred by the Authority or, the Trustee other than because of its or their own negligence or bad faith; provided such transfer is only required from the special funds and other assets described under "Payment Sources" above.

In case the University shall fail forthwith to transfer such amounts upon such demand, the Authority or the Trustee may, and upon the written direction of the Bond Insurer shall, (i) institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, (ii) prosecute any such action or proceeding to judgment or final decree and (iii) enforce any such judgment or final decree against the University and collect in the manner provided by law out of the special funds and other assets described under "Payment Sources" above the moneys adjudged or decreed to be payable. (Section 4.2)

Other Remedies.

Whenever any Event of Default under the Financing Agreement shall have occurred and be continuing, the Authority or the Trustee may, with the consent of or at the direction of the Bond Insurer, take whatever action at law or in equity as may appear necessary or desirable to collect the amounts to be transferred by the University under the Financing Agreement, then due, or to enforce performance and observance of any obligation, agreement or covenant of the University under the Financing Agreement.

No action taken pursuant to this section and no payments made by the Bond Insurer under the Bond Insurance Policy shall relieve the University from its obligations pursuant to Financing Agreement, all of which shall survive any such action. The Authority or the Trustee may take whatever action at law or in equity as may appear necessary and desirable to collect the amounts then due or to enforce the performance and observance of any obligation, agreement or covenant of the University under the Financing Agreement. (Section 4.3)

Limitation of Liability of the Authority.

In the event of any default by the Authority under the Financing Agreement, the liability of the Authority to the University shall be enforceable only out of its interest under the Financing Agreement and there shall be no other recourse for damages by the University against the Authority, its officers, members, agents and employees, or against any of the property now or hereafter owned by it or them. (Section 5.1)

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PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

PROPOSED FORM OF BOND COUNSEL OPINION

April 14, 2005

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

$99,325,000
Massachusetts Health and Educational Facilities Authority Revenue Bonds,
Worcester City Campus Corporation Issue
(University of Massachusetts Project), Series D (2005)
Dated April 14, 2005

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of March 8, 2005 (the "Trust Agreement"), among the Authority, Worcester City Campus Corporation (the "Institution") and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee") and the Financing Agreement dated as of March 8, 2005 (the "Financing Agreement") between the University of Massachusetts (the "University"), acting in the name and on behalf of The Commonwealth of Massachusetts (the "Commonwealth"), and the Authority.

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

The Bonds are issued pursuant to the Trust Agreement. The Bonds are payable solely from funds to be provided therefor by the Institution pursuant to the Trust Agreement and the University pursuant to the Financing Agreement. Under the Trust Agreement, the Institution has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and redemption price of and interest on the Bonds. Pursuant to the Financing Agreement, the University has agreed to make, from the payment sources specified therein, payments to the Authority to the extent the Institution's payments under the Trust Agreement are insufficient. Such payments and other moneys payable to the Authority or the Trustee under the Trust Agreement and the Financing Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Trust

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Agreement and the Financing Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

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

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

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

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

2. Each of the Trust Agreement and the Financing Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable against the Authority. As provided in Section 13 of Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Trust Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Trust Agreement (except certain rights to indemnification, reimbursements and fees).

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

4. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority and the Institution with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be,

and continue to be, excluded from gross income for federal income tax purposes. The Institution and, to the extent necessary, the Authority have covenanted in the Trust Agreement to comply with all such requirements. Failure by the Authority or the Institution to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

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

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

Palmer & Dodge LLP

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Agreement") is executed and delivered by and between the Worcester City Campus Corporation (the "Institution"), University of Massachusetts (the "University") and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee"), in connection with the issuance of the Authority's $99,325,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005) (the "Bonds"). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of March 8, 2005 among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the Institution and the Trustee (the "Trust Agreement"), and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the Trust Agreement.

The Institution, the University and the Trustee agree as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth elsewhere in this Agreement, which apply to any capitalized term used in this Agreement unless otherwise defined in this section, the following capitalized terms shall have the following meanings:

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

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

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

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

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

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

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

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

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

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

SECTION 3. Provision of Annual Reports.

(a) The Dissemination Agent, not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2005 (the "Filing Deadline"), shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Agreement. Not later than 30 days prior to the Filing Deadline, the Institution and the University shall provide its respective Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Agreement, provided that the audited financial statements of the Institution and the University may be submitted separately from, and at a later date than, the balance of their Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the Institution or the University at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Institution and the University shall submit their audited financial statements to the Dissemination Agent as soon as practicable after they become available, and the Dissemination Agent shall submit such audited financial statements to each Repository as soon as practicable thereafter. The Institution and the University shall provide copies of their Annual Report to the Authority and the Trustee.

(b) The Dissemination Agent shall:

(i) determine each year within ten days of the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination Agent, the Trustee, the Institution or the University, as applicable, may rely conclusively on the list of National Repositories maintained by the United States Securities and Exchange Commission); and

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

(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send, and the Institution and the University hereby authorizes and directs the Trustee to submit on their behalf, a notice to the Municipal Securities Rulemaking Board and the State Repository in substantially in the form of Exhibit A.

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

SECTION 4. Content of Annual Reports.

(a) The University's Annual Report shall contain or incorporate by reference the University's annual audited financial statements prepared in conformity with generally accepted accounting principles financial information as in effect from time to time and financial and operating data relating to the following information contained in Appendix A to the Official Statement dated March 31, 2005 pertaining to the Bonds, and in each case substantially in the same level of detail as is found in the referenced page or under the referenced caption of such Appendix A:

1. Number of FTE undergraduates and graduates at each campus of the University as of the fall of the prior fiscal year (pp. A-2 – A-3);

2. Degrees and programs offered at each campus of the University (pp. A-2 – A-3);

3. Number and members of the Board of Trustees or other chief governing body of the University and general governmental structure (“Governance”);

4. Academic programs (to the extent not covered by (1) above) and accreditation (“Academic Programs and Accreditation”);

5. Applicants, acceptances and matriculations each fall on a five-year comparative basis through the fall of the prior fiscal year for first-year applicants and transfer students and opening fall head count enrollment for each campus on a five-year comparative basis through the fall of the prior fiscal year (“Enrollment”);

6. Tuition and fees on a five-year comparative basis through the prior fiscal year (“Tuition and Fees”);

7. Sources of revenue of the University (“University Revenues and Budgeting”);

8. Management of funds (“University Revenues and Budgeting – *Management of Appropriated Funds* and *Management of Non-Appropriated Funds*”);

9. Summary of operations, including revenues and expenditures (accrual basis) on a five-year comparative basis through the prior fiscal year (“University Revenues and Budgeting – Summary of Operations”);

10. Endowment assets on a five-year comparative basis through the prior fiscal year (“Endowment and Fundraising”); and

11. Outstanding indebtedness (“Indebtedness of the University”).

(b) The Institution’s Annual Report shall contain or incorporate by reference the Institution’s annual audited financial statements prepared in conformity with generally accepted accounting principles financial information as in effect from time to time.

SECTION 5. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to the rights of the Bondowners.

8. Bond calls (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose under clause (b) of this Section 5.)

9. Defeasances.

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

11. Rating changes.

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

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

SECTION 6. Alternative Methods for Reporting. The Institution may satisfy its obligation to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the Securities and Exchange Commission, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

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

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

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

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

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

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

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

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

IN WITNESS WHEREOF, the parties hereto have executed this instrument this 14th day of April, 2005

WORCESTER CITY CAMPUS CORPORATION

By______________________________________
President

THE UNIVERSITY OF MASSACHUSETTS

By ______________________________________
Stephen W. Lenhardt
Vice President for Management and
Fiscal Affairs and Treasurer

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as
Trustee

By ______________________________________

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Massachusetts Health and Educational Facilities Authority

Name of Bond Issue: $99,325,000 Revenue Bonds, Worcester City Campus Corporation Issue (University of Massachusetts Project), Series D (2005)

Name of Obligated Persons: Worcester City Campus Corporation

Date of Issuance: April 14, 2005

NOTICE IS HEREBY GIVEN that _________________ has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated April 14, 2005 by and among Worcester City Campus Corporation, University of Massachusetts and J.P. Morgan Trust Company, National Association, as trustee.

Dated: ___________________

[Name of Party______________________]

[cc: Massachusetts Health and Educational Facilities Authority]

EXHIBIT B

NATIONAL REPOSITORIES AND TRANSMISSION AGENT

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

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

FT Interactive Data
Attn: NRMSIR
100 Williams Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999/(800) 689-8466
Fax: (212) 771-7390
Email: NRMSIR@interactivedata.com

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

TRANSMISSION AGENT

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

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

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Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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New York, NY 10017
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T 800·352·0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the ___________ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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