

**NEW ISSUE**

**\$92,100,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**CORNELL UNIVERSITY**  
**REVENUE BONDS, SERIES 2004**

Consisting of:

**\$45,000,000**  
**Cornell University**  
**Revenue Bonds, Series 2004A**  
**(Auction Rate)**

**\$47,100,000**  
**Cornell University**  
**Revenue Bonds, Series 2004B**  
**(Auction Rate)**

**Dated: Date of Delivery**

**Due: July 1, 2033**

**Payment and Security:** The Cornell University Revenue Bonds, Series 2004A (the "Series 2004A Bonds") and the Cornell University Revenue Bonds, Series 2004B (the "Series 2004B Bonds" and together with the Series 2004A Bonds, the "Series 2004 Bonds") are special obligations of the Dormitory Authority of the State of New York (the "Authority"), payable solely from, and secured by a pledge of (i) certain payments to be made under the Loan Agreement dated as of January 26, 2000 between Cornell University (the "University") and the Authority, as amended and supplemented (the "Loan Agreement"), and (ii) all funds and accounts (except the Arbitrage Rebate Fund and any Bond Purchase Fund) established under the Authority's Cornell University Revenue Bond Resolution, adopted January 26, 2000, as amended and supplemented (the "Resolution"), and with respect to the Series 2004A Bonds, the Series 2004A Resolution authorizing the Series 2004A Bonds adopted March 24, 2004 (the "Series 2004A Resolution"), and with respect to the Series 2004B Bonds, the Series 2004B Resolution authorizing the Series 2004B Bonds adopted March 24, 2004 (the "Series 2004B Resolution" and together with the Series 2004A Resolution, the "Series 2004 Resolutions").

The Loan Agreement is a general obligation of the University and requires the University to pay, in addition to the fees and expenses of the Authority and the Trustee, amounts sufficient to pay the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on all Bonds issued under the Resolution, including the principal of and interest on the Series 2004 Bonds, as such payments become due.

**The Series 2004 Bonds will not be a debt of the State of New York (the "State") nor will the State be liable thereon. The Authority has no taxing power.**

**Description:** The Series 2004 Bonds will be initially issued as fully registered Auction Rate Bonds in denominations of \$25,000 or any integral multiple thereof. The interest rate on the Series 2004A Bonds for the period from their date of issuance to and including June 7, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004A Bonds and thereafter the interest rate on the Series 2004A Bonds will be determined pursuant to the Auction Procedures described herein. The interest rate on the Series 2004B Bonds for the period from their date of issuance to and including June 9, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004B Bonds and thereafter the interest rate on the Series 2004B Bonds will be determined pursuant to the Auction Procedures described herein. The first Auction for the Series 2004A Bonds is to be held on June 7, 2004 and thereafter an Auction is to be held every Monday, subject to certain exceptions. Each subsequent Auction Period for the Series 2004A Bonds is to begin on the following Tuesday, unless such a day is not a Business Day in which case the Auction Period is to begin on the next Business Day. The first Auction for the Series 2004B Bonds is to be held on June 9, 2004 and thereafter an Auction is to be held every Wednesday, subject to certain exceptions. Each subsequent Auction Period for the Series 2004B Bonds is to begin on the following Thursday, unless such a day is not a Business Day in which case the Auction Period is to begin on the next Business Day. Interest on the Series 2004 Bonds will be payable approximately every 7 days, commencing June 8, 2004 for the Series 2004A Bonds and June 10, 2004 for the Series 2004B Bonds. Prospective purchasers of the Series 2004 Bonds should carefully review the Auction Procedures set forth in Appendix E hereto and should note that such procedures provide that beneficial interests in Series 2004 Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction to or through a Broker-Dealer.

The Series 2004 Bonds may be converted from time to time to bear interest at a Weekly Rate, a Flexible Rate, a Long-Term Rate, the Fixed Rate or a subsequent Auction Rate. Upon the conversion to another Rate Period other than another Auction Rate Period, the Series 2004 Bonds would be subject to mandatory tender for purchase. The principal and Redemption Price of the Series 2004 Bonds will be payable at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. This Official Statement describes the terms of the Series 2004 Bonds while they bear interest at an Auction Rate. It is not intended to provide information relating to the Series 2004 Bonds while they bear interest in any other interest rate mode.

The Series 2004 Bonds will be issued initially under a Book-Entry Only System, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Individual purchases of beneficial interests in the Series 2004 Bonds will be made in Book-Entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2004 Bonds, payments of the principal of and interest on such Series 2004 Bonds will be made directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See "PART 3 - THE SERIES 2004 BONDS - Book-Entry Only System" herein.

**Redemption:** *The Series 2004 Bonds are subject to redemption prior to maturity as more fully described herein.*

**Tax Exemption:** In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2004 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 interest on the Series 2004 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York). 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 2004 Bonds. See "PART 10 - TAX EXEMPTION" herein.

*The Series 2004 Bonds are offered when, as, and if issued and received by the Underwriter. The offer of the Series 2004 Bonds may be subject to prior sale, or may be withdrawn or modified at any time without notice. The offer is subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the University by its University Counsel and Secretary of the Corporation, James Mingle, Esq., Ithaca, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York. The Authority expects to deliver the Series 2004 Bonds in definitive form in New York, New York on or about May 27, 2004.*

**Morgan Stanley**

**\$45,000,000**  
**CORNELL UNIVERSITY REVENUE BONDS, SERIES 2004A**  
**(Auction Rate)**  
**Price: 100%**

<b>Last Day of Initial Period and Initial Auction Date</b>	<b>Auction Date Generally</b>	<b>Initial Interest Payment Date</b>	<b>Interest Payment Date Generally</b>	<b>Final Maturity Date</b>
June 7, 2004	Each Monday	June 8, 2004	Each Tuesday	July 1, 2033

**\$47,100,000**  
**CORNELL UNIVERSITY REVENUE BONDS, SERIES 2004B**  
**(Auction Rate)**  
**Price: 100%**

<b>Last Day of Initial Period and Initial Auction Date</b>	<b>Auction Date Generally</b>	<b>Initial Interest Payment Date</b>	<b>Interest Payment Date Generally</b>	<b>Final Maturity Date</b>
June 9, 2004	Each Wednesday	June 10, 2004	Each Thursday	July 1, 2033

Each series of the Series 2004 Bonds will bear interest from the date of original delivery to but excluding the initial Interest Payment Date for such Series set forth above at the applicable rate for that series established by the Underwriter prior to the date of delivery. Thereafter, each series of the Series 2004 Bonds will bear interest at the applicable Auction Rate for its respective Auction Period, until a conversion to another Rate Period as described herein. Interest on each series of the Series 2004 Bonds will be payable on the initial Interest Payment Date set forth above and thereafter on the day following the end of each Auction Period for such series. See "Appendix E – Auction Procedures."

No dealer, broker, salesperson or other person has been authorized by the Authority, the University or the Underwriter to give any information or to make any representations with respect to the Series 2004 Bonds, other than the information and representations contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by the Authority, the University or the Underwriter.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the Series 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information in this Official Statement has been supplied by the University and other sources that the Authority believes are reliable. The Authority does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation of the Authority.

The University has reviewed the parts of this Official Statement describing the University, the 2004 Project, the Estimated Sources and Uses of Funds and Appendix B. The University shall certify as of the dates of sale and delivery of the Series 2004 Bonds that such parts do not contain any untrue statements of a material fact and do not omit any material facts necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading. The University makes no representation as to the accuracy or completeness of any other information included in this Official Statement.

References in this Official Statement to the Act, the Resolution, the Series 2004 Resolutions and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2004 Resolutions and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2004 Resolutions and the Loan Agreement are on file with the Authority and the Trustee.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance and all material in this Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Official Statement, or any sale made after its delivery, create any implication that the affairs of the Authority or the University have remained unchanged after the date of this Official Statement.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2004 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2004 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

## TABLE OF CONTENTS

<u>Part</u>	<u>Page</u>	<u>Part</u>	<u>Page</u>
1. INTRODUCTION .....	1	Organized Research .....	27
Purpose of the Official Statement .....	1	State Support for Contract Colleges .....	27
Purpose of the Issues .....	1	Endowment and Similar Funds .....	27
Authorization of Issuance .....	1	Investment Policy .....	28
The Authority .....	2	Gifts and Bequests .....	28
The University .....	2	Facilities .....	29
The Series 2004 Bonds .....	2	Outstanding Indebtedness .....	29
Payment of the Series 2004 Bonds .....	2	Pension Plans .....	29
Security for the Series 2004 Bonds .....	2	LITIGATION .....	30
Covenants .....	3	5. THE 2004 PROJECT .....	30
The 2004 Project .....	3	6. ESTIMATED SOURCES AND USES OF FUNDS ....	30
2. SOURCE OF PAYMENT AND SECURITY		7. THE AUTHORITY .....	31
FOR THE SERIES 2004 BONDS .....	3	Background, Purposes and Powers .....	31
Payment of the Series 2004 Bonds .....	3	Outstanding Indebtedness of the Authority (Other	
Security for the Series 2004 Bonds .....	4	than Indebtedness Assumed by the Authority) .....	31
Covenants .....	4	Outstanding Indebtedness of the Agency Assumed	
Events of Default and Acceleration .....	5	by the Authority .....	32
Issuance of Additional Bonds .....	6	Governance .....	33
General .....	6	Claims and Litigation .....	36
3. THE SERIES 2004 BONDS .....	6	Other Matters .....	36
Description of the Series 2004 Bonds .....	7	8. LEGALITY OF THE SERIES 2004 BONDS	
Auction Rate Bonds .....	8	FOR INVESTMENT AND DEPOSIT .....	36
Redemption Provisions .....	10	9. NEGOTIABLE INSTRUMENTS .....	37
Book-Entry Only System .....	12	10. TAX EXEMPTION .....	37
Principal and Interest Requirements .....	14	11. STATE NOT LIABLE ON THE SERIES 2004	
4. THE UNIVERSITY .....	15	BONDS .....	38
GENERAL INFORMATION .....	15	12. COVENANT BY THE STATE .....	38
Introduction .....	15	13. LEGAL MATTERS .....	38
Contract Colleges .....	16	14. UNDERWRITING .....	39
Governance .....	16	15. CONTINUING DISCLOSURE .....	39
Administration .....	18	16. MISCELLANEOUS .....	40
Financial Management .....	19	Appendix A - Definitions .....	A-1
Investment Management .....	20	Appendix B - Financial Statements of Cornell University	
OPERATING INFORMATION .....	20	(With Independent Auditors' Report Thereon) .....	B-1
Application, Admissions and Enrollment .....	20	Appendix C - Summary of Certain Provisions of the	
Tuition and Other Student Charges .....	22	Loan Agreement .....	C-1
Financial Aid .....	23	Appendix D - Summary of Certain Provisions of the	
Faculty .....	23	Resolution .....	D-1
Employee Relations .....	24	Appendix E - Auction Procedures .....	E-1
ANNUAL FINANCIAL STATEMENT INFORMATION	24	Appendix F - Form of Approving Opinion of	
Independent Auditors .....	24	Bond Counsel .....	F-1
Financial Position .....	24		
Annual Operations .....	25		

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



**DORMITORY AUTHORITY - STATE OF NEW YORK - 515 BROADWAY ALBANY, N.Y. 12207**  
**MARYANNE GRIDLEY - EXECUTIVE DIRECTOR GAIL H. GORDON, ESQ. - CHAIR**

---

**OFFICIAL STATEMENT RELATING TO**  
**\$92,100,000**  
**DORMITORY AUTHORITY OF THE STATE OF NEW YORK**  
**CORNELL UNIVERSITY**  
**REVENUE BONDS, SERIES 2004**

Consisting of:

**\$45,000,000**  
**Cornell University**  
**Revenue Bonds, Series 2004A**  
**(Auction Rate)**

**\$47,100,000**  
**Cornell University**  
**Revenue Bonds, Series 2004B**  
**(Auction Rate)**

**PART 1 - INTRODUCTION**

**Purpose of the Official Statement**

The purpose of this Official Statement, including the cover page and appendices, is to provide information about the Authority and the University in connection with the offering by the Authority of \$45,000,000 principal amount of its Cornell University Revenue Bonds, Series 2004A (the "Series 2004A Bonds") and \$47,100,000 principal amount of its Cornell University Revenue Bonds, Series 2004B (the "Series 2004B Bonds" and together with the Series 2004A Bonds, the "Series 2004 Bonds").

The following is a brief description of certain information concerning the Series 2004 Bonds, the Authority and the University. A more complete description of such information and additional information that may affect decisions to invest in the Series 2004 Bonds is contained throughout this Official Statement, which should be read in its entirety. Certain terms used in this Official Statement are defined in Appendix A hereto.

**Purpose of the Issues**

The Series 2004 Bonds are being issued (i) to refinance a portion of the Authority's outstanding Commercial Paper Notes (Cornell University 1998 Issue), (ii) to pay other Costs of the 2004 Project, and (iii) to pay certain Costs of Issuance of the Series 2004 Bonds. See "PART 5 - THE 2004 PROJECT" and "PART 6 - ESTIMATED SOURCES AND USES OF FUNDS."

**Authorization of Issuance**

The Series 2004 Bonds will be issued pursuant to the Act, the Resolution, and the applicable Series Resolution relating to the applicable Series of Bonds. In addition to the Series 2004 Bonds, the Resolution authorizes the issuance of other Series of Bonds to pay costs of one or more projects, to pay the Costs of Issuance of such Series of Bonds and to refund all or a portion of Outstanding Bonds or other notes or bonds issued for the benefit of the University. The Bonds permitted to be issued under the Resolution include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds. All Bonds issued under the Resolution will rank on a parity with each other and will be secured equally and ratably with each other. The Series 2004A Bonds and the Series 2004B Bonds constitute the third and fourth Series of Bonds, respectively, to be issued under the Resolution.

## **The Authority**

The Authority is a public benefit corporation of the State, created for the purpose of financing and constructing a variety of public-purpose facilities for certain educational and not-for-profit institutions. See “PART 7 - THE AUTHORITY.”

## **The University**

The University is a private, non-sectarian, nonprofit institution of higher education chartered by the State legislature, with a unique relationship to the State. The University has two campuses in the State; its main campus in Ithaca and its Medical College campus in New York City. See “PART 4 - THE UNIVERSITY” and “Appendix B - Financial Statements of Cornell University (With Independent Auditor's Report Thereon).”

## **The Series 2004 Bonds**

The Series 2004 Bonds will be initially issued as Auction Rate Bonds. The interest rate on the Series 2004A Bonds for the period from their date of issuance to and including June 7, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004A Bonds and thereafter the interest rate on the Series 2004A Bonds will be determined pursuant to the Auction Procedures described herein. The interest rate on the Series 2004B Bonds for the period from their date of issuance to and including June 9, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004B Bonds and thereafter the interest rate on the Series 2004B Bonds will be determined pursuant to the Auction Procedures described herein. The first Auction for the Series 2004A Bonds is to be held on June 7, 2004 and thereafter an Auction is to be held every Monday, subject to certain conditions and exceptions. Each subsequent Auction Period is to begin on the following Tuesday, unless such a day is not a Business Day in which case the Auction Period is to begin on the next Business Day, resulting in Auction Periods of approximately 7 days. The first Auction for the Series 2004B Bonds is to be held on June 9, 2004 and thereafter an Auction is to be held every Wednesday, subject to certain conditions and exceptions. Each subsequent Auction Period is to begin on the following Thursday, unless such a day is not a Business Day in which case the Auction Period is to begin on the next Business Day, resulting in Auction Periods of approximately 7 days. So long as the Series 2004 Bonds remain in their respective 7-day Auction Periods, interest on the Series 2004A Bonds will be payable on June 8, 2004 and on each Tuesday thereafter, subject to certain exceptions, while interest on the Series 2004B Bonds will be payable on June 10, 2004 and on each Thursday thereafter, subject to certain exceptions. Prospective purchasers of the Series 2004 Bonds should carefully review the Auction Procedures set forth in Appendix E hereto and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Series 2004 Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in Series 2004 Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction to or through a Broker-Dealer. See “PART 3 - THE SERIES 2004 BONDS - Auction Rate Bonds” and “Appendix E - Auction Procedures.”

The Series 2004 Bonds may be converted from time to time to bear interest at a Weekly Rate, a Flexible Rate, a Long-Term Rate, the Fixed Rate or a subsequent Auction Rate. This Official Statement describes the terms of the Series 2004 Bonds while they bear interest at an Auction Rate. It is not intended to provide any information relating to the Series 2004 Bonds while they bear interest in any other interest rate mode.

## **Payment of the Series 2004 Bonds**

The Series 2004 Bonds and all other Bonds which have been or may be issued under the Resolution are special obligations of the Authority payable solely from the Revenues which consist of certain payments to be made by the University under the Loan Agreement, which payments are pledged and assigned to the Trustee. The Loan Agreement is a general obligation of the University. See “PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004 BONDS - Payment of the Series 2004 Bonds.”

## **Security for the Series 2004 Bonds**

The Series 2004 Bonds are secured equally and ratably with all other Bonds which have been or may be issued under the Resolution by the pledge of the Revenues, the proceeds of the Bonds and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution and any Series Resolution other than the Arbitrage Rebate Fund and any Bond Purchase Fund.

The Loan Agreement is a general obligation of the University. No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement. However, the University has granted security interests in certain revenues and assets of the University to secure certain of the University's outstanding indebtedness other than the Bonds. In addition, pursuant to the Loan Agreement, the University may incur Debt secured by a lien and pledge of revenues of the University without granting to the Authority any security interest in any revenues to secure the University's obligations under the Loan Agreement. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004 BONDS - Security for the Series 2004 Bonds," "- Issuance of Additional Bonds" and "- Covenants" and "PART 4 - THE UNIVERSITY - Outstanding Indebtedness."

The Series 2004 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2004 Bonds except for the Authority's responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

### **Covenants**

The University covenants in the Loan Agreement that it will maintain on semiannual report dates (i) Available Assets of the University which will be not less than 200% of the General Liabilities of the University, and (ii) so long as the University has Short-Term Debt outstanding, unencumbered, unrestricted securities, the market value of which is at least equal to 25% of the University's annual operating expenses. The University is required to demonstrate compliance with such covenants by filing semiannual certificates with the Authority. Failure by the University to comply with either of the foregoing covenants will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004 BONDS - Covenants - *Ratio of Available Assets to General Liabilities.*"

The Loan Agreement limits the ability of the University to encumber its assets to secure indebtedness. For a summary of the circumstances in which the University may encumber its assets, see "PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004 BONDS - Covenants - *Limitation on Liens.*" Failure by the University to comply with such covenant will constitute an event of default under the Loan Agreement and the Resolution.

### **The 2004 Project**

The 2004 Project consists of the refinancing of a portion of the Authority's outstanding Commercial Paper Notes (Cornell University 1998 Issue) and the acquisition, construction, reconstruction, renovation, equipping, repair or purchase of or otherwise providing for various projects throughout the University. See "PART 5 - THE 2004 PROJECT."

## **PART 2 - SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2004 BONDS**

*Set forth below is a narrative description of certain contractual provisions relating to the source of payment of and security for the Series 2004 Bonds. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Act, the Loan Agreement, the Resolution and the Series 2004 Resolutions. Copies of the Loan Agreement, the Resolution and the Series 2004 Resolutions are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement" and "Appendix D - Summary of Certain Provisions of the Resolution" for a more complete statement of the rights, duties and obligations of the parties thereto.*

### **Payment of the Series 2004 Bonds**

The Series 2004 Bonds and all other Bonds which have been or may be issued under the Resolution are special obligations of the Authority. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Series 2004 Bonds and all other Bonds which have been or may be issued under the Resolution are payable solely from the Revenues, which consist of payments to be made by the University pursuant to the Loan Agreement on account of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds. The Revenues and the right to receive them have been pledged to the Trustee for the benefit of the Bondholders.

The Loan Agreement is a general obligation of the University. For as long as the Series 2004 Bonds bear interest at the Auction Rate, the Loan Agreement obligates the University to make payments on account of principal of and interest on the Series 2004 Bonds on or before the Business Day preceding the date on which such principal of and interest on the Series 2004 Bonds becomes due. See "PART 3 - THE SERIES 2004 BONDS."

The Authority has directed, and the University has agreed, to make such payments directly to the Trustee. Such payments are to be applied by the Trustee to the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds.

### **Security for the Series 2004 Bonds**

The Series 2004 Bonds are secured equally and ratably with all other Bonds which have been or may be issued under the Resolution by the pledge of the Revenues, the proceeds of the Bonds and, except as otherwise provided in the Resolution, all funds and accounts established by the Resolution and any Series Resolution other than the Arbitrage Rebate Fund and any Bond Purchase Fund.

The Series 2004 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. Neither the State nor the Authority has any responsibility to make payments with respect to the Series 2004 Bonds except for the Authority's responsibility to make payments from moneys received from the University pursuant to the Loan Agreement and from amounts held in the funds and accounts under the Resolution and pledged therefor.

The Loan Agreement and the obligation of the University to make payments under the Loan Agreement are general obligations of the University. The obligations of the University to make payments or cause the same to be made under the Loan Agreement are complete and unconditional and the amount, manner and time of making such payments are not to be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the University may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever.

No security interest in any revenues or assets of the University has been granted by the University to the Authority under the Loan Agreement. However, the University has granted security interests in certain revenues and assets of the University to secure certain of the University's outstanding indebtedness other than the Bonds. See "PART 4 - THE UNIVERSITY - Outstanding Indebtedness," for a description of such indebtedness of the University secured by certain pledged revenues. In addition, pursuant to the Loan Agreement, the University may incur certain Debt secured by a lien and pledge of revenues or assets of the University without granting to the Authority any security interest in any revenues to secure the University's obligations under the Loan Agreement. See "Covenants - *Limitations on Liens*" below. In the event of a default under any debt instrument secured by such pledged revenues, the holder or trustee under such debt instrument (including the Authority) will have the right to collect a portion or all of such pledged revenues, and apply the revenues so collected to the payment of amounts due under such debt instrument. Any revenues so collected and applied will not be available for satisfying any of the University's obligations under the Loan Agreement.

### **Covenants**

The University has made in the Loan Agreement certain covenants regarding maintenance of the ratio of its Available Assets to its General Liabilities and maintenance of its assets, as more fully described below. Failure by the University to comply with any of these covenants will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. The University has also covenanted in the Loan Agreement that, except to the extent permitted under the Loan Agreement, it will not encumber its assets to secure indebtedness, as more fully described below. Failure by the University to comply with this covenant will constitute an event of default under the Loan Agreement and the Resolution.

#### *Ratio of Available Assets to General Liabilities*

The University has covenanted that it will maintain on semiannual report dates (June 30 and December 31) the ratio of its Available Assets to its General Liabilities of at least 2.00 to 1.00. As of December 31, 2003, the ratio of the University's Available Assets to its General Liabilities was approximately 5.53 to 1.00 (unaudited). The University is required to demonstrate compliance with this covenant by filing semiannual certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See "Appendix B - Financial Statements of Cornell University (With Independent Auditors' Report



Thereon)” and “Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant.”

#### *Maintenance of Assets*

The University has covenanted that it will maintain on semiannual report dates (June 30 and December 31), at any time that it has Short-Term Debt outstanding, securities which are free and clear of any pledge, lien, charge, security interest or other encumbrance, which are not subject to any statutory, contractual or other restriction, and which have a market value of at least 25% of its annual operating expenses as shown on its latest audited financial statements. The University is currently in compliance with this requirement. The University is required to demonstrate compliance with this covenant by filing semiannual certificates with the Authority. Failure by the University to comply with this covenant will not constitute an event of default under the Loan Agreement or the Resolution if the University complies with the provisions relating to a Management Consultant as provided in the Loan Agreement. See “Appendix B - Financial Statements of Cornell University (With Independent Auditors’ Report Thereon)” and “Appendix C - Summary of Certain Provisions of the Loan Agreement - Financial Covenants and Management Consultant.”

#### *Limitation on Liens*

The University has covenanted that it will not issue, assume or guarantee any Debt secured by Liens upon any Restricted Property or create, incur or assume any Liens upon any Restricted Property to secure Debt, unless the obligations of the University under the Loan Agreement are secured equally and ratably with or prior to all other obligations secured by such Lien, with certain exceptions (the “Excepted Debt”), including: (i) Liens to secure all or any part of the purchase price or cost of construction of Restricted Property acquired or constructed by the University, provided that, among other things, the Debt secured by any such Lien is non-recourse to the University and the amount of Debt does not exceed 95% of the purchase price or cost of construction; (ii) Liens existing on Restricted Property at the time of acquisition of such Restricted Property by the University, provided that, among other things the Debt secured by any such Lien is non-recourse to the University and that the amount of Debt does not exceed 95% of the fair market value of such Restricted Property; (iii) Liens to secure Debt incurred to the Authority or to secure bonds, notes or other obligations of the Authority; (iv) with the consent of the Authority, Liens upon Restricted Property to secure obligations incurred by the University to the issuer of a Credit Facility or a Liquidity Facility pursuant or to an agreement relating thereto; and (v) extensions, renewals or replacements of any Liens of the types referred to in the preceding four clauses. See “Appendix C - Summary of Certain Provisions of the Loan Agreement - Limitation on Liens.”

Notwithstanding the limitations set forth in the preceding paragraph, the University may issue, assume or guarantee Debt secured by Liens or create, incur or assume Liens to secure Debt if (i) the value of all Restricted Property securing Debt (other than Restricted Property securing Excepted Debt ) does not exceed 20% of the University’s total assets or such higher percentage as the Authority may consent to, and (ii) the aggregate principal amount of all Debt secured by Liens (other than Excepted Debt) does not exceed 20% of the University’s total assets or such higher percentage as the Authority may consent to. In no event may the University issue, assume or guarantee any Debt secured by Liens upon the University’s portfolio of stocks, bonds, notes or similar securities or create, incur or assume Liens upon the University’s portfolio of stocks, bonds, notes or other similar securities to secure Debt (other than Debt incurred to the Authority), if at the time such Debt is issued, assumed or guaranteed or such Lien is created, incurred or assumed the market value of the University’s portfolio subject to Liens plus the proposed Liens to secure such Debt would exceed five percent (5%) of the market value of the University’s stocks, bonds, notes or similar securities at the end of the calendar month preceding the date on which such Debt is issued, assumed or guaranteed by the Authority. See “Appendix C - Summary of Certain Provisions of the Loan Agreement - Exempted Transactions.”

In addition to the aforementioned secured indebtedness permitted under the Loan Agreement, the Loan Agreement permits the University to secure Debt issued by the Authority under any resolution of the Authority other than the Resolution. Such Debt may be secured with the University’s stocks, bonds, real estate or other assets. Any assets securing Debt issued under a resolution of the Authority other than the Resolution would not be for the benefit of the Bondholders under the Resolution, including the Holders of the Series 2004 Bonds.

#### **Events of Default and Acceleration**

The following are events of default under the Resolution: (i) a default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price of or interest on any Bond; (ii) the Authority defaults in the due and punctual performance of the tax covenants contained in the Resolution, and, as a result thereof, the interest on Bonds of a Series shall no longer be excludable from gross income under the Code; (iii) a default by the Authority in the due and punctual

performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Resolution or any Series Resolution on the part of the Authority to be performed and the continuance of such default for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds; or (iv) an event of default under the Loan Agreement shall have been declared and is continuing and all sums payable by the University under the Loan Agreement have been declared immediately due and payable (unless such declaration has been annulled). Unless otherwise specified above, an event of default under the Loan Agreement is not an event of default under the Resolution.

The Resolution provides that if an event of default (other than as described in clause (ii) of the preceding paragraph) occurs and continues, the Trustee may, and upon the written request of Holders of not less than 25% in principal amount of the Bonds Outstanding, by notice in writing to the Authority, is to declare the principal of and interest on all of the Bonds Outstanding to be due and payable at the expiration of 30 days after such notice is given. At the expiration of 30 days from the giving of such notice, such principal and interest will become immediately due and payable. The Trustee, with the written consent of the Holders of not less than 25% in principal amount of Bonds not yet due by their terms and then Outstanding, will annul such declaration and its consequences under the terms and conditions specified in the Resolution with respect to such annulment.

Notwithstanding any other provision of the Resolution to the contrary, upon the Authority's failure to comply with the covenant described in clause (ii) of the first paragraph under this heading, upon the direction of the Holders of not less than 25% in principal amount of the Outstanding Bonds of the Series affected thereby, the Trustee is to exercise the rights and remedies provided to the Bondholders under the Resolution. However, the Resolution provides that in no event may the Trustee, whether or not it is acting at the direction of the Holders of 25% or more in principal amount of the Outstanding Bonds of the Series affected thereby, declare the principal of such Series of Bonds, and the interest accrued thereon, to be due and payable immediately as a result of the Authority's failure to comply with such covenant.

The Resolution provides that the Trustee is to give notice in accordance with the Resolution of each event of default known to the Trustee to the Holders of the Bonds within 30 days after knowledge of the occurrence thereof unless such default has been remedied or cured before the giving of such notice. However, except in the case of default in the payment of the principal, Sinking Fund Installment, if any, or Redemption Price of, or interest on, any of the Bonds, the Trustee is protected in withholding such notice thereof from the Holders if the Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

### **Issuance of Additional Bonds**

In addition to the Series 2004 Bonds, the Resolution authorizes the issuance of other Series of Bonds to finance one or more projects and for other specified purposes including to refund Outstanding Bonds or other notes or bonds of the Authority issued on behalf of the University. The Bonds which may be issued include Capital Appreciation Bonds, Deferred Income Bonds, Option Bonds and Variable Interest Rate Bonds.

### **General**

The Series 2004 Bonds will not be a debt of the State nor will the State be liable thereon. The Authority has no taxing power. The Authority has never defaulted in the timely payment of principal or sinking fund installments of or interest on its bonds or notes. See "PART 7 - THE AUTHORITY."

## **PART 3 - THE SERIES 2004 BONDS**

*Set forth below is a narrative description of certain provisions relating to the Series 2004 Bonds. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Resolution, the Series 2004 Resolutions and the Loan Agreement, copies of which are on file with the Authority and the Trustee. See also "Appendix C - Summary of Certain Provisions of the Loan Agreement," "Appendix D - Summary of Certain Provisions of the Resolution" and "Appendix E - Auction Procedures" for a more complete description of certain provisions of the Series 2004 Bonds.*

## **Description of the Series 2004 Bonds**

The Series 2004 Bonds will be issued pursuant to the Resolution. The Series 2004 Bonds are dated their date of delivery and will initially be issued as Auction Rate Bonds. The interest rate on the Series 2004A Bonds for the period from their date of issuance to and including June 7, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004A Bonds. The interest rate on the Series 2004B Bonds for the period from their date of issuance to and including June 9, 2004 will be the rate set forth in a certificate of the Authority delivered on the date of issuance of the Series 2004B Bonds. The interest rate on each Series of the Series 2004 Bonds for each succeeding Auction Period thereafter shall, subject to certain exceptions described below, be equal to the Auction Rate (as defined below) that the Auction Agent advises has resulted on the Auction Date from the implementation of the Auction Procedures in which persons determine to hold or offer to sell or, based on the rates bid by them, offer to purchase or sell such Series 2004 Bonds. The first Auction Date for the Series 2004A Bonds shall occur on June 7, 2004 and each Auction Date thereafter will be the last Monday of the immediately preceding Auction Period, or if such day is not a Business Day, the next succeeding Business Day. The first Auction Date for the Series 2004B Bonds shall occur on June 9, 2004 and each Auction Date thereafter will be the last Wednesday of the immediately preceding Auction Period, or if such day is not a Business Day, the next succeeding Business Day. After the initial Auction Period, each succeeding Auction Period will be a 7-day period, subject to certain exceptions, until the length of the Auction Period is changed as described below. Each Auction Period will begin on and include the last Interest Payment Date for the immediately preceding Auction Period to and including the day next preceding the last Interest Payment Date in respect of each Auction Period. Interest on the Series 2004A Bonds will be payable on June 8, 2004 and each Interest Payment Date thereafter. Interest on the Series 2004B Bonds will be payable on June 10, 2004 and each Interest Payment Date thereafter. The Interest Payment Dates for the Series 2004 Bonds will be the Business Day immediately succeeding the last day of each applicable Auction Period. See “Appendix E - Auction Procedures.” The Series 2004 Bonds will be issued in denominations of \$25,000 or any integral multiple thereof.

Deutsche Bank Trust Company Americas, New York, New York will be appointed Auction Agent (the “Auction Agent”) for the Series 2004 Bonds. Its principal address is at 60 Wall Street, 27th Floor, New York, New York. The Auction Agent may be removed or replaced in accordance with the terms of the Resolution, the Series 2004 Resolutions and the Auction Agent Agreement among the Auction Agent, the Authority, the University and the Trustee (the “Auction Agent Agreement”).

Morgan Stanley & Co. Incorporated will be appointed as Broker-Dealer (the “Broker-Dealer”) with respect to the Series 2004 Bonds on the date of delivery thereof. The Broker-Dealer may be removed or replaced in accordance with the terms of the Resolution, the Series 2004 Resolutions and the Broker-Dealer Agreement between the Broker-Dealer and the Auction Agent (the “Broker-Dealer Agreement”).

The Series 2004 Bonds may be converted from time to time to bear interest at a Weekly Rate, a Flexible Rate, a Long-Term Rate, the Fixed Rate or a subsequent Auction Rate.

The Series 2004 Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interests in the Series 2004 Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series 2004 Bonds, the Series 2004 Bonds will be exchangeable for other fully registered Series 2004 Bonds in any other authorized denominations of the same Series and maturity without charge except the payment of any tax, fee or other governmental charge to be paid with respect to such exchange, subject to the conditions and restrictions set forth in the Resolution. See “Book-Entry Only System” herein and “Appendix D - Summary of Certain Provisions of the Resolution.”

Interest on the Series 2004 Bonds will be payable by check mailed to the registered owners thereof. The principal or redemption price of the Series 2004 Bonds will be payable in lawful money of the United States of America at the principal corporate trust office of The Bank of New York, New York, New York, the Trustee and Paying Agent. As long as the Series 2004 Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “Book-Entry Only System” herein.

For a more complete description of the Series 2004 Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.”

## **Auction Rate Bonds**

Set forth below are certain definitions applicable to the Series 2004 Bonds bearing interest at an Auction Rate. Additional definitions are contained in “Appendix A – Definitions” and “Appendix E – Auction Procedures.”

“Auction Rate” means for each Series 2004 Bond for each Auction Period (other than the initial periods set forth on the inside cover page), (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; *provided, however*, if all of such Series 2004 Bonds are the subject of Submitted Hold Orders, the Minimum Auction Rate with respect to such Series 2004 Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Series 2004 Bonds.

“Interest Payment Date” means, for the initial periods, the applicable dates are set forth on the inside cover page and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; and (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, each thirteenth Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period.

“Auction Date” means, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Series 2004 Bonds, (i) if the Series 2004 Bonds are in a daily Auction Period, each Business Day, (ii) if the Series 2004 Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Series 2004 Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series 2004 Bonds (whether or not an Auction shall be conducted on such date); *provided, however*, that the last Auction Date with respect to the Series 2004 Bonds in an Auction Period other than the daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Series 2004 Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the Maturity Date for such Series 2004 Bonds; and *provided, further*, that if the Series 2004 Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such Series 2004 Bonds and (y) the Business Day next preceding the Maturity Date for such Series 2004 Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the Conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the Conversion.

“Auction Period” means: (i) a Special Auction Period; (ii) with respect to the Series 2004 Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day; (iii) with respect to the Series 2004 Bonds in a 7-day Auction Period, a period of generally seven days beginning on a specified weekday and ending on the weekday which is seven days thereafter (unless such weekday is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day); (iv) with respect to the Series 2004 Bonds in a 28-day Auction Period, a period of generally 28 days beginning on a weekday and ending on a weekday that is 28 days thereafter (unless such weekday is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day); (v) with respect to the Series 2004 Bonds in a 35-day Auction Period, a period of generally 35 days beginning on a weekday and ending on a weekday that is 35 days thereafter (unless such weekday is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day); (vi) with respect to the Series 2004 Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a Conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day); and (vii) with respect to the Series 2004 Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a Conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding January 1 and July 1 (unless such January 1 or July 1 is not followed by a Business Day, in which case ended on the first day thereafter that is next succeeded by a Business Day); *provided, however*, that if there is a Conversion from a daily Auction Period to a 7-day Auction Period, a 28-day Auction Period or a 35-day Auction Period, the next Auction Period will begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the weekday (unless such weekday is not followed by a Business Day, in which case

ending on the first day thereafter that is next succeeded by a Business Day) next succeeding the weekday on which the 7-day, 28-day or 35-day Auction Period is to commence, which in the case of a 28-day Auction Period is more than 21 days but not more than 28 days from such Conversion, and in the case of a 35-day Auction Period is more than 28 days but not more than 35 days from such Conversion.

#### ***Auctions***

The first Auction for the Series 2004A Bonds will take place on June 7, 2004. The first Auction for the Series 2004B Bonds will take place on June 9, 2004.

#### ***Orders of Existing Owners and Potential Owners***

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix E, as are the particulars with regard to the determination of the Auction Rate and the allocation of the Series 2004 Bonds bearing interest at Auction Rates (collectively, the "Auction Procedures").

#### ***Amendment of Auction Procedures***

The provisions of the Resolution and the Series 2004 Bond Series Certificates concerning the Auction Procedures including, without limitation, the definitions of Default Rate, Maximum Auction Rate, Minimum Auction Rate, Index, Interest Payment Date, Auction Multiple, No Auction Rate and Auction Rate, may be amended by obtaining the consent of the owners of all Series 2004 Bonds bearing interest at an Auction Rate. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Trustee gives notice to such owners the Auction Rate determined for such date is the Winning Bid Rate.

#### ***Conversion of Series 2004 Bonds to Another Rate Mode***

At the option of the Authority upon the direction of the University, all or any portion of the Series 2004 Bonds may be converted on any Interest Payment Date to bear interest at a Weekly Rate, a Flexible Rate, a Long-Term Rate or the Fixed Rate. On such Conversion Date, the Series 2004 Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the Series 2004 Bonds so tendered is payable solely from the proceeds of the remarketing of such Series 2004 Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Series 2004 Bonds on a mandatory tender date, the Series 2004 Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a 7-day Auction Period and will bear interest at the Maximum Auction Rate.

#### ***Conversion from One Auction Period to Another***

At the option of the Authority upon the direction of the University, all or any portion of the Series 2004 Bonds may be converted on any Interest Payment Date from one Auction Period to another. On such conversion date, any Series 2004 Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, all the Series 2004 Bonds will automatically convert to a 7-day Auction Period and will bear interest at the Maximum Auction Rate. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the University, the Auction Agent, the Broker-Dealer and the Securities Depository that the Auction Period for the Series 2004 Bonds specified in such notice shall change if the conditions described in the applicable Series 2004 Bond Series Certificate are satisfied and the proposed effective date of the change, at least ten (10) Business Days prior to the Auction Date for such Auction Period; however, the Series 2004 Bonds will not be subject to mandatory tender on such conversion date.

#### ***Mandatory Tender Upon Ratings Downgrade***

The Series 2004 Bonds are subject to mandatory tender and purchase at the Purchase Price on the 90th day following the publication of a rating downgrade on the Series 2004 Bonds in an Auction Rate Mode to a rating of "Baa1" or lower by Moody's Investors Service, Inc. or "BBB+" or lower by Standard & Poor's Rating Services, unless a Conversion Date occurs prior to such date. The purchase price of the Series 2004 Bonds due upon such a mandatory tender is payable from money furnished by or on behalf of the University, unless that amount is available from the proceeds of a remarketing of such Series 2004 Bonds or from money obtained under a liquidity facility, if any, then in effect with respect to such tendered Series 2004 Bonds.

#### ***Special Considerations Relating to the Series 2004 Bonds Bearing Interest at Auction Rates***

The Resolution and the Auction Agent Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or, if it has not been paid, 30 days notice to the Authority, the University, each Broker-Dealer and the Trustee. The Auction Agent shall continue to perform its duties until a successor has been

appointed by the Trustee, unless such Auction Agent has not been paid, in which case such resignation will be effective even if a successor has not been appointed. The Broker-Dealer Agreement provides that the Broker-Dealer may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Series 2004 Bonds will be the No Auction Rate.

The Broker-Dealer Agreement provides that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

During an Auction Period a beneficial owner of a Series 2004 Bond may sell, transfer or dispose of a Series 2004 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see “Appendix E – Auction Procedures”) or through a Broker-Dealer. Initially, Morgan Stanley & Co. Incorporated will be the sole Broker-Dealer for the Series 2004 Bonds. The ability to sell a Series 2004 Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Series 2004 Bonds at a rate equal to or less than the Maximum Auction Rate. The Broker-Dealer has advised the Authority that it intends to make a market between Auctions in the Series 2004 Bonds; however, the Broker-Dealer is not obligated to make such a market, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents.

## **Redemption Provisions**

The Series 2004 Bonds are subject to optional, special and mandatory redemption as described below.

### *Optional Redemption of the Series 2004 Bonds*

The Series 2004 Bonds are subject to optional redemption by the Authority in whole or in part on any Interest Payment Date immediately following an Auction Period, in denominations of \$25,000 or any integral multiple thereof, at a redemption price equal to 100% of the principal amount of Series 2004 Bonds or portions thereof to be redeemed, without premium, plus accrued interest, if any, to the redemption date.

### *Special Redemption*

Each series of the Series 2004 Bonds are also subject to redemption, in whole or in part, at 100% of the principal amount thereof, by the Authority, at the written request of the University, on any Interest Payment Date immediately following an Auction Period, as applicable, (i) from proceeds of a condemnation or insurance award, which proceeds are not used to repair, restore or replace the 2004 Project; and (ii) from unexpended proceeds of the Series 2004 Bonds upon the abandonment of all or a portion of the 2004 Project due to a legal or regulatory impediment.

### *Mandatory Redemption*

In addition, the Series 2004 Bonds are also subject to redemption, in part, on each July 1, or, in the case of Auction Rate Bonds, on the Interest Payment Date immediately preceding such July 1, if such July 1 (other than July 1, 2033) is not an Auction Rate Interest Payment Date, of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on such July 1 (or earlier date) of each year the principal amount of Series 2004 Bonds specified for each of the years shown below:

## Sinking Fund Installments

<u>Year</u>	<u>Series 2004A</u>	<u>Series 2004B</u>
2007	\$ 950,000	\$1,000,000
2008	950,000	1,025,000
2009	1,025,000	1,075,000
2010	1,075,000	1,100,000
2011	1,125,000	1,175,000
2012	1,175,000	1,225,000
2013	1,200,000	1,275,000
2014	1,225,000	1,325,000
2015	1,300,000	1,375,000
2016	1,350,000	1,400,000
2017	1,425,000	1,475,000
2018	1,475,000	1,550,000
2019	1,525,000	1,600,000
2020	1,575,000	1,675,000
2021	1,650,000	1,725,000
2022	1,725,000	1,800,000
2023	1,800,000	1,875,000
2024	1,875,000	1,950,000
2025	1,925,000	2,025,000
2026	2,025,000	2,125,000
2027	2,100,000	2,175,000
2028	2,175,000	2,275,000
2029	2,275,000	2,375,000
2030	2,375,000	2,475,000
2031	2,450,000	2,575,000
2032	2,575,000	2,675,000
2033	2,675,000†	2,775,000†

† Final maturity.

Any Series 2004 Bonds redeemed or otherwise retired other than through mandatory sinking fund redemptions will be credited against future Sinking Fund Installments as are applicable to such Series 2004 Bonds in like principal amounts in any order of their due dates at the option of the Authority or the University.

*Selection of Bonds to be Redeemed.* In the case of redemptions of Series 2004 Bonds at the option of the Authority or the University, the Authority or the University will select the Series of the Series 2004 Bonds to be redeemed. If less than all of the Series 2004 Bonds of a Series are to be redeemed, the Series 2004 Bonds of such Series to be redeemed will be selected by the Trustee, by lot, using such method of selection as the Trustee shall consider proper in its discretion. DTC has informed the Authority that so long as DTC acts as securities depository for the Series 2004 Bonds, if less than all of the Series 2004 Bonds of a Series are called for redemption, the particular Series 2004 Bonds of such Series or portions thereof to be redeemed will be selected by lot by DTC and the DTC Participants in accordance with their procedures. See “Book-Entry Only System” below.

*Notice of Redemption.* The Trustee is to mail a copy of such notice postage prepaid, not less than 30 days nor more than 45 days prior to the redemption date to the registered owners of any Series 2004 Bonds which are to be redeemed, at their last known addresses, if any, appearing on the registration books but such mailing is not a condition precedent to such redemption and failure to mail such notice to any such registered owners will not affect the validity of the proceedings for the redemption of such Series 2004 Bond. If directed in writing by an Authorized Officer of the Authority, the Trustee shall publish or cause to be published such notice in an Authorized Newspaper not less than 30 days nor more than 45 days prior to the redemption date, but such publication is not a condition precedent to such redemption and failure to publish such notice or any defect in such notice or publication will not affect the validity of the proceedings for the redemption of such Series 2004 Bonds.

If, on the redemption date, moneys for the redemption of the Series 2004 Bonds of like maturity to be redeemed, together with interest thereon to the redemption date, are held by the Trustee so as to be available for payment of the Redemption Price, and if notice of redemption has been mailed, then interest on the Series 2004 Bonds of such maturity will cease to accrue from and after the redemption date and such Series 2004 Bonds will no longer be considered to be Outstanding under the Resolution.

For a more complete description of the redemption and other provisions relating to the Series 2004 Bonds, see “Appendix D - Summary of Certain Provisions of the Resolution.” Also see “Book-Entry Only System” below for a description of the notices of redemption to be given to Beneficial Owners of the Series 2004 Bonds when the Book-Entry Only System is in effect.

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2004 Bonds. The Series 2004 Bonds will be issued as fully-registered securities 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 2004 Bond certificate will be issued for each maturity of each Series of the Series 2004 Bonds, each in the aggregate principal amount of such maturity of such Series, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities 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”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2004 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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 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 any Series of the Series 2004 Bonds, except in the event that use of the book-entry system for a Series of the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 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 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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 2004 Bonds within a maturity of a Series of the Series 2004 Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.



Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2004 Bonds. Under its usual procedures, DTC mails an omnibus proxy (the “Omnibus Proxy”) to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2004 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 2004 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 receipt of funds and corresponding detailed information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, 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 is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2004 Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the Series 2004 Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the Series 2004 Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Series 2004 Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2004 Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the Series 2004 Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its service with respect to a Series of the Series 2004 Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law, or the Authority may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for a Series of the Series 2004 Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Authority directs the Trustee to deliver such bond certificates, such Series 2004 Bonds of a Series may thereafter be exchanged for an equal aggregate principal amount of Series 2004 Bonds of a Series in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the Authority.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection “Book-Entry Only System” has been extracted from information given by DTC. Neither the Authority nor the Trustee makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

**NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY’S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.**

So long as Cede & Co. is the registered owner of the Series 2004 Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Series 2004 Bonds (other than under the captions “PART 10 - TAX EXEMPTION” herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2004 Bonds.

### Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the University during each twelve month period ending June 30 of the years shown below for the payment of (i) the principal of the Series 2004 Bonds payable on the succeeding July 1, the interest on the Series 2004 Bonds payable on January 1 of such year and on the succeeding July 1, and total debt service on the Series 2004 Bonds, (ii) debt service on other outstanding indebtedness for which the University is obligated, and (iii) total debt service on all indebtedness for which the University is obligated, including the Series 2004 Bonds.

### Debt Service on University Indebtedness <sup>(3)</sup>

Year Ending June 30,	Series 2004 Bonds			Other University Debt Service <sup>(1)(2)</sup>	Total University Debt Service <sup>(1)(2)</sup>
	Principal	Interest Payments <sup>(1)</sup>	Total		
2004	-	\$ 348,167	\$ 348,167	\$30,895,881	\$31,244,048
2005	-	3,724,933	3,724,933	30,460,079	34,185,012
2006	-	3,724,933	3,724,933	29,204,024	32,928,957
2007	\$1,950,000	3,725,794	5,675,794	28,497,557	34,173,351
2008	1,975,000	3,680,897	5,655,897	28,049,447	33,705,345
2009	2,100,000	3,567,019	5,667,019	27,591,557	33,258,577
2010	2,175,000	3,515,717	5,690,717	27,076,564	32,767,281
2011	2,300,000	3,393,795	5,693,795	26,481,404	32,175,198
2012	2,400,000	3,301,328	5,701,328	25,946,680	31,648,008
2013	2,475,000	3,204,567	5,679,567	23,357,219	29,036,785
2014	2,550,000	3,133,003	5,683,003	22,046,562	27,729,565
2015	2,675,000	3,001,028	5,676,028	29,236,182	34,912,210
2016	2,750,000	2,920,792	5,670,792	14,064,116	19,734,908
2017	2,900,000	2,781,517	5,681,517	14,270,784	19,952,301
2018	3,025,000	2,664,602	5,689,602	14,655,762	20,345,364
2019	3,125,000	2,542,650	5,667,650	14,780,139	20,447,789
2020	3,250,000	2,438,536	5,688,536	13,211,218	18,899,754
2021	3,375,000	2,305,875	5,680,875	13,743,320	19,424,195
2022	3,525,000	2,147,364	5,672,364	14,343,729	20,016,093
2023	3,675,000	2,005,239	5,680,239	15,013,243	20,693,482
2024	3,825,000	1,857,505	5,682,505	15,842,412	21,524,917
2025	3,950,000	1,717,817	5,667,817	16,733,060	22,400,877
2026	4,150,000	1,542,575	5,692,575	7,670,537	13,363,112
2027	4,275,000	1,387,031	5,662,031	7,660,615	13,322,646
2028	4,450,000	1,201,661	5,651,661	7,649,670	13,301,331
2029	4,650,000	1,022,267	5,672,267	7,492,248	13,164,515
2030	4,850,000	834,828	5,684,828	3,334,188	9,019,016
2031	5,025,000	643,409	5,668,409	0	5,668,409
2032	5,250,000	437,567	5,687,567	0	5,687,567
2033	5,450,000	221,622	5,671,622	0	5,671,622

- (1) For the purposes of this table, variable interest rates on the Series 2004 Bonds and approximately \$125 million of other tax-exempt debt are assumed at a rate of 4.00%. Variable interest rates for other tax-exempt debt are assumed at the applicable fixed swap rate.
- (2) This table excludes any debt outstanding under the \$100 million authorized tax-exempt commercial paper program and the \$100 million taxable commercial paper program.
- (3) For a discussion of the University’s indebtedness, see “PART 4 - THE UNIVERSITY - Outstanding Indebtedness.”

## **PART 4 - THE UNIVERSITY**

### **GENERAL INFORMATION**

#### **Introduction**

Cornell University (“Cornell” or the “University”) is a private, not-for-profit, co-educational, nonsectarian institution of higher learning chartered and operated under the laws of the State of New York. Cornell University was founded by Ezra Cornell whose original endowment was augmented by a substantial land grant from the State of New York received under the Federal Land Grant (Morrill) Act of 1862. The University is comprised of six privately funded schools and colleges located in Ithaca, New York (the “Endowed Colleges”), four State-supported schools located in Ithaca, New York (the “Contract Colleges”), and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences of Cornell University located in New York City (the “Medical College”). More than 13,700 undergraduate students and almost 6,700 graduate and professional students were enrolled in the University during the fall of 2003.

In addition to the academic programs of the University located at its main campus in Ithaca, New York and in New York City, extension services and research are carried out throughout New York State and there is a radio telescope facility in Arecibo, Puerto Rico. Cornell’s land holdings, as of March 1, 2004, comprise approximately 10,812 tax-exempt and 506 taxable acres in Tompkins County, New York; approximately 5,992 tax-exempt and 240 taxable acres in other areas of the State; and 1,838 taxable acres outside New York State. As of June 2003, the physical plant at Cornell’s campus in Tompkins County, to which substantial additions have been made in recent years, includes more than 757 buildings; and the physical plant at Cornell’s Medical College campus in New York City includes approximately 19 buildings. The University also owns approximately 90 buildings at the Agricultural Experiment Station in Geneva, New York.

The privately funded Endowed Colleges in Ithaca are the College of Architecture, Art and Planning; the College of Arts and Sciences; the College of Engineering; the School of Hotel Administration; the Law School; and the Samuel Curtis Johnson Graduate School of Management. The Medical College in New York City is the academic and teaching component of the New York Hospital-Cornell Medical Center.

The four State-supported Contract Colleges are operated by the University on behalf of the State pursuant to statute or contractual agreements under general supervision of the trustees of the State University of New York (“SUNY”). The annual State appropriations for the Contract Colleges and income generated by their operation (other than the portion of tuition remitted to SUNY) are restricted to their exclusive use. The Contract Colleges are the College of Agriculture and Life Sciences; the College of Human Ecology; the School of Industrial and Labor Relations; and the College of Veterinary Medicine. The New York State Agricultural Experiment Station at Geneva is a unit of the College of Agriculture and Life Sciences and its departments are integral parts of the University.

In 1865, the State Legislature designated Cornell as the State’s land grant institution under the Morrill Act of 1862. Although a private institution, Cornell’s Board of Trustees includes public representatives, consonant with its land grant status. As units of the State land grant institution, Cornell’s four Contract Colleges have been assigned by State legislation specific responsibilities in research and cooperative extension directed to State needs. These very specific statutory objectives in research and cooperative extension do not exist for other units of the State University of New York.

Cornell’s academic programs offer students the opportunity to pursue studies in the arts, sciences, humanities, human and veterinary medicine, law, engineering, agriculture, architecture, planning, human ecology, hotel administration, industrial and labor relations, and management. Undergraduate students may work toward the Bachelor of Architecture, Bachelor of Arts, Bachelor of Fine Arts, or Bachelor of Science degree. Graduate programs award degrees at the Master’s, Professional Master’s and Doctoral level. Professional degrees are offered in the fields of law, management, medicine, and veterinary medicine.

Cornell is accredited by the Middle States Association of Colleges and Secondary Schools and the Medical College in New York City is accredited by the Council on Medical Education for the American Medical Association and the Executive Council of the Association of American Medical Colleges. Other programs of the University are accredited by appropriate education accrediting associations.

Cornell’s research programs are broadly based, including disciplines of engineering and physical sciences, life and agricultural sciences, social sciences and humanities and medical sciences. Many national centers, which have the mission to serve the research needs of investigators nationally and, in some cases, internationally, are located at Cornell.

The Cornell University Library (“CUL”) supports the University’s teaching and research programs. The nineteen libraries that are part of CUL hold over 7 million volumes, 100,000 sound recordings, 240,000 maps, 65,000 graphic, film and video materials, 11,000 computer files, 65,000 cubic feet of manuscripts, and nearly 8 million microforms. CUL subscribes to nearly 65,000 journals and other serial publications and provides access to over 100,000 networked resources including electronic journals and books. The Library is a depository for U.S government documents, United Nations documents and most of its specialized agencies including the Food and Agriculture Organization.

CUL also provides resources for researchers outside of the University, filling interlibrary loan requests for over 51,000 items in 2002-2003 and participating in a large number of formal cooperative agreements for services both with individual institutions and with networks and consortia. Cornell is a member of the Research Libraries Group, OCLC, the Association of Research Libraries, the Center for Research Libraries, and the South Central Regional Library Council. CUL was the recipient of the 2002 Excellence in Academic Libraries Award from the Association of College and Research Libraries.

### **Contract Colleges**

The four Contract Colleges enroll approximately 36% of the student body and account for approximately 24% of the sponsored research work of the University and 31% of total research expenditures of the University. The cost of construction and acquisition for certain Contract College facilities was borne primarily by the State.

State operating and capital contributions provide significant financial support to the integrated academic and research program of the University as well as general campus overhead costs. Total funding from all sources (tuition, State, federal, gifts, etc.), for the operations of the Contract Colleges amounted to approximately \$498 million for the year ending June 30, 2003. The State appropriations for operation of the Contract Colleges received through SUNY of approximately \$144 million for 2002-03 represent about 29% of the 2002-03 operating budget of the four Contract Colleges. The proportion of State appropriation support has been decreasing for years, both as a function of increasing sponsored program, gift, and tuition income and of continuing State budget reductions. State operating budget appropriations are received as one line item in the SUNY appropriation schedule, but are subject to financial plan allocation adjustments by the SUNY Trustees. In addition to the direct operating budget appropriation received through SUNY, State funds (which do not appear in Cornell’s budget) also support fringe benefits and debt service on bonds used to finance Contract College facilities. Future State support for the Contract Colleges is dependent on the enactment of annual appropriations by the State and the willingness and ability of the State and SUNY to provide such payments. In the event that future State payments for the Contract Colleges are below historic levels, the University may be required to increase tuition charges and/or decrease expenditures at the Contract Colleges. See “Tuition and Other Student Charges.” For discussion of recent changes to the SUNY allocation method, see “Annual Financial Statement Information - Contract Colleges.”

Cornell’s four Contract Colleges have been assigned by State legislation specific responsibilities in research and extension directed to State needs. The specialized missions of the Contract Colleges, as set forth in the State Education Law, are included in the Cornell Charter. As units of Cornell most directly involved in the delivery of the University’s overall Land Grant mission, the Contract Colleges administer the Agricultural Experiment Stations at Geneva and Ithaca, New York, which receive research funding under the federal Hatch Act, along with the Cornell Cooperative Extension System which receives support under the federal Smith-Lever Act. The School of Industrial and Labor Relations operates an extension division with regional offices across the State, providing services and programs to rank and file workers, management and unions. The College of Veterinary Medicine runs the State’s only Veterinary Teaching Hospital and Medical Center. These colleges also operate a number of major contract programs for State agencies other than SUNY, including the State’s Animal Diseases Diagnostic Laboratories for the Department of Agriculture and Markets, the State’s Equine Drug Testing Program for the Racing and Wagering Board, an Integrated Pest Management Program for the Department of Agriculture and Markets, Child Protective Services Training for the Department of Social Services, and conduct public policy analyses for the State such as the impact of managed care on Workers’ Compensation programs and costs.

### **Governance**

Cornell is governed by a 64-member Board of Trustees (the “Board”) which meets four times a year. There is currently one vacancy on the Board. The Board includes: 43 members elected by the Board for staggered terms of four years each; eight members elected by alumni for staggered terms of four years each; two members elected by faculty for

terms of four years each; two members elected by students for terms of two years each; one member elected by employees for a term of four years and three members appointed by the Governor for terms of three years. There are four ex-officio trustees who serve during their respective terms of office: the Governor of the State of New York; the President Pro Tempore of the New York State Senate; the Speaker of the New York State Assembly and the President of the University. In addition, the eldest lineal descendant of Ezra Cornell serves as trustee for life. The Board, its leadership and its Executive, Investment and Audit Committees are as follows:

**Cornell University Board of Trustees**  
**As of May 1, 2004**

<u>Trustee</u>	<u>Affiliation</u>	<u>Board Position</u>
PETER C. MEINIG*	Chairman & Chief Executive Officer HM International, Inc.	Chairman
SAMUEL C. FLEMING*	Chairman & Chief Executive Officer Decision Resources, Inc.	Vice Chairman
BARBARA B. FRIEDMAN*	Philanthropist	Vice Chairman
JEFFREY S. LEHMAN*	President Cornell University	ex-officio

<u>Trustee</u>	<u>Affiliation</u>
JOHN E. ALEXANDER*	Chief Executive Officer, The CBORD Group, Inc.
ROBERT J. APPEL*	President, Appel Associates,
STEPHEN B. ASHLEY*	Chairman & Chief Executive Officer, The Ashley Group
STEVEN B. BELKIN	Chairman, Trans National Group
C. MORTON BISHOP	President, Pendleton Woolen Mills
ROBERT T. BLAKELY*	Executive Vice President & Chief Financial Officer, MCI
FRANCI J. BLASSBERG	Partner, Debevoise & Plimpton
ANN SCHMELTZ BOWERS*	Senior Trustee, RNN Trust
JOSEPH L. BRUNO	President Pro Tempore, New York State Senate
DWIGHT L. BUSH	Principal, Stuart Mill Capital, LLC
MICHAEL W.N. CHIU	Chairman & President, Prima Donna Development Corp.
J. THOMAS CLARK*	President, Dubin Clark and Company, Inc.
ABBY JOSEPH COHEN	Managing Director and Chair, Investment Policy Committee Goldman, Sachs & Company
PAUL F. COLE	Secretary/Treasurer, New York State AFL-CIO
EZRA CORNELL	Vice President, Salomon Smith Barney
MARTHA F. COULTRAP	Partner, Emmet, Marvin & Martin, LLP
EDWARD v.K. CUNNINGHAM JR.	Counsel, Van de Water & Van de Water
DIANA M. DANIELS*	VP, General Counsel & Secretary, The Washington Post Company
ELIZABETH D. EARLE	Professor, Department of Plant Breeding, Cornell University
MICHAEL V. ESPOSITO	Gifts and Exchanges Coordinator, Cornell University
MIGUEL A. FERRER	President, UBS PaineWebber Inc. of Puerto Rico
H. LAURANCE FULLER	Retired Co-Chairman, The Primary Business Center
BLANCHE SAVIN GOLDENBERG	Retired Chairman, The Hartford Foundation for Public Giving
PAUL A. GOULD*	Managing Director & Executive Vice President, Allen & Company, Inc.
ROBERT S. HARRISON	Partner and Managing Director, Goldman, Sachs & Co.
MYRA MALONEY HART	Professor, Harvard Graduate School of Business
ROBERT J. KATZ	Special Counsel and Advisory Director, Goldman, Sachs & Co.
KAREN RUPERT KEATING	Managing Director, JP Morgan Chase
JACQUELINE A. KOPELL	Student, College of Industrial & Labor Relations, Cornell University
MARCUS H. LOO	Medical Doctor
IFUNANYA O. MADUKA	Student, College of Arts and Sciences, Cornell University
THOMAS A. MANN	Chairman, Thomas A. Mann Inc.

**Trustee**

KEVIN M. McGOVERN  
DENISE P. MERIDITH  
ELIZABETH D. MOORE  
REBECCA Q. MORGAN  
EDWIN H. MORGENS\*  
N.R. NARAYANA MURTHY  
CAROLYN CHAUNCEY NEUMAN  
JOHN A. NOBLE  
ROY H. PARK, JR.  
GEORGE E. PATAKI  
ANDREW M. PAUL  
BRUCE S. RAYNOR  
CELIA E. RODEE  
JEROLD R. RUDERMAN  
WILLIAM D. SANDERS  
RICHARD J. SCHWARTZ\*  
SHELDON SILVER  
PETER C. STEIN  
SHERRI KOENIG STUEWER  
MARTIN Y. TANG  
SAMUEL O. THIER  
ANDREW H. TISCH  
SHERYL WuDUNN  
PHILIP M. YOUNG  
CRAIG YUNKER\*  
DAVID W. ZALAZNICK  
JAN ROCK ZUBROW\*

**Affiliation**

Chairman & Chief Executive Officer, McGovern Capital LLC  
Business Consultant, Denise Meredith Consultants, Inc.  
Partner, Nixon Peabody, LLP  
President, Morgan Family Foundation  
Chairman, Morgens Waterfall Vintiadis & Company, Inc.  
Chairman & Chief Mentor, Infosys Technologies Ltd.  
Family Therapy, Family Systems Consultation  
President, Noblehurst Farms, Inc.  
President & Chief Executive Officer, Park Outdoor Advertising of NY, Inc.  
Governor of New York State  
Chief Executive Officer, Enhanced Capital Partners, LLC  
President, UNITE  
First Vice President, Bank One  
Regional Managing Partner, Wilson, Elser, Moskowitz, Edelman & Dicker,  
Co-Chairman, Verde Group Inc.  
President, Richard J. Schwartz Corporation  
Speaker of the New York State Assembly  
Professor of Physics, Cornell University  
Manager, Strategy Division, Exxon Mobil Corp.  
Chairman-Asia, Spencer Stuart HK  
Professor of Medicine and Health Care Policy, Harvard Medical School  
Chairman of the Executive Committee, Loews Corporation  
Anchor, Page One, The New York Times, Television News Enterprise  
Managing Member, U.S. Venture Partners  
Managing Member, CY Farms, LLC  
Chairman Jordan/Zalaznick Advisors, Inc.  
President, MedCapital, LLC

\_\_\_\_\_  
\*Member of Executive Committee

The Board also has the following nine standing committees: Executive Committee; Academic Affairs and Campus Life; Investment Committee; Audit Committee; Alumni Affairs and Development; Board Membership; Buildings and Property; Land Grant and Contract College Affairs; and Finance Committee.

**Administration**

The President of Cornell, as chief executive officer, is charged with the principal responsibility for administration of the University. The Board elects all officers of Cornell some of whom include:

<b><u>Name</u></b>	<b><u>Position</u></b>
Jeffrey S. Lehman	President
C. Biddy Martin	Provost
Antonio M. Gotto, Jr.	Provost for Medical Affairs
Harold D. Craft	Vice President Administration and Chief Financial Officer
James J. Mingle	University Counsel and Secretary of the Corporation

Brief biographies for each of the above listed officers follow:

JEFFREY S. LEHMAN, President, took office as Cornell University's eleventh president on July 1, 2003. Mr. Lehman is the first alumnus to serve as president of the University, having earned his bachelor's degree in Mathematics from Cornell in 1977. Prior to his appointment, he was the Dean of the University of Michigan Law School. He earned two advanced degrees at the University of Michigan: a J.D. from the Law School, where he was editor-in-chief of the Michigan Law Review, and a master's degree in public policy from the Institute of Public Policy Studies. Mr. Lehman

served as law clerk to Chief Judge Frank M. Coffin of the U.S. Court of Appeals for the First Circuit and to Associate Justice John Paul Stevens of the U.S. Supreme Court. He then practiced tax law with the Washington, D.C., law firm of Caplin & Drysdale. He joined the faculty of the University of Michigan Law School in 1987, teaching and publishing about issues of law and public policy, and developing a program of clinical education that offered students an opportunity to represent community organizations in economic development projects. He has been a visiting professor at the Yale Law School and the University of Paris. He served as president of the American Law Deans Association from 2001 to 2003.

C. BIDDY MARTIN, Provost since July 1, 2000, received a B.A. degree in 1973 from the College of William and Mary, an M.A. degree in 1974 from Middlebury College, and a Ph.D. degree in 1985 from The University of Wisconsin at Madison. She was appointed Assistant Professor in Cornell University's Department of German Studies, with a joint appointment in the Women's Studies Program, in the College of Arts and Sciences in 1985. In 1991 she became Associate Professor and was promoted to Professor in 1997. She served as Chair of the German Studies Department from 1994 to 1997. In 1996 she was appointed Senior Associate Dean of the College of Arts and Sciences, serving through June, 2000.

ANTONIO M. GOTTO, JR., M.D., the Stephen and Suzanne Weiss Dean of the Medical College and Provost for Medical Affairs since January 1, 1997, received a B.A. in 1961 from the University of Oxford, where he was a Rhodes Scholar, and his M.D. in 1965 from Vanderbilt University School of Medicine. Dr. Gotto spent over two decades at Baylor College of Medicine in Houston, Texas, where he was the Bob and Vivian Smith Professor and Chairman of the Margaret M. and Albert B. Alkek Department of Medicine and the Chief of the Internal Medicine Service at the Methodist Hospital in Houston, Texas. During that time, he also held the J.S. Abercrombie Professor Chair for Atherosclerosis and Liprotein Research and was the Scientific Director of The DeBakey Heart Center at Baylor. Dr. Gotto has served as National President of the American Heart Association, as a member of the National Heart, Lung and Blood Advisory Council on the National Diabetes Advisory Board, and as President of the International Atherosclerosis Society. He is a member of the National Institute of Medicine and the National Academy of Sciences.

HAROLD D. CRAFT, Vice President of Administration and Chief Financial Officer since February 1, 2000, received a B.E.E. degree from Cornell University in 1961 and a Ph.D. in radio astronomy in 1970. He received his M.E.E. from New York University in 1963. Dr. Craft has been at the University for 33 years, most of that time in senior management positions. For ten years he was the Director of the Arecibo Radio Observatory in Puerto Rico, and for the remainder of the time he has held senior management positions in University support organizations, including the Vice President of Facilities and Campus Services. Prior to coming to Cornell, he was on the technical staffs of Bell Telephone Laboratories and the laboratory of the Communications Satellite Corporation (COMSAT).

JAMES J. MINGLE, University Counsel and Secretary of the Corporation since August 7, 1995, received a B.A. from St. Joseph's College in Philadelphia in 1968 and a J.D. from the University of Virginia School of Law in 1973. After serving as Assistant to the President at Frostburg State College in Maryland, he was Assistant Attorney General of the Educational Affairs Division from 1977 to 1989 and from 1981 to 1989 served as Chief Counsel for Educational Affairs in the Maryland Attorney General's Office. He has held instructional and administrative positions with the University of Maryland, Frostburg State College and the City of Frostburg. He is admitted to practice in Maryland and Virginia State courts, U.S. District Courts for the Districts of Maryland and Virginia (Western Division), U.S. Court of Appeals for the Fourth Circuit, and is a member of the Virginia and Maryland Bar Associations. From 1989 until coming to Cornell he served as University General Counsel for the University of Virginia.

## **Financial Management**

Cornell consists of three major fiscal units: Endowed Ithaca, which includes the Endowed Colleges, the central University administration, and the enterprise and service operations for the Ithaca campus; the Medical College in New York City; and the Contract Colleges at Ithaca. The University operates these units as self-supporting entities (fund balances relating to one of the units are generally not available to the other units), although the only legal limitations pertain to certain donor-restricted funds and funds of the Contract Colleges. Specifically, the laws establishing the Contract Colleges at Ithaca prohibit the use of funds attributable to those colleges by other segments of the University. In addition to the three major fiscal units, seven subsidiary corporations are included in the financial statements. All significant intercompany transactions and balances are eliminated in the financial statements.

Cornell's budget is approved by the Board of Trustees in May of each year and is developed through the following process. *Contract Colleges*: The State budget for the Contract Colleges is dependent upon the preparation of the budget for the State. The State budget development process for the Contract Colleges begins in late spring with preliminary requests that are reviewed with SUNY and culminates with the adoption of the State budget for the following State fiscal year (April 1 - March 31). For the past several years the State budget has been adopted after the start of the State's fiscal year. The Contract Colleges also begin preparing an all-funds budget in the fall for approval in late spring. *Endowed Colleges, Medical College and Central Services*: These units set basic priorities and income estimates in the fall which are then reviewed and refined and become the basis for the development of unit budget plans in the spring. The Medical College budget must first be approved by the Board of Overseers of the Medical College before becoming ratified by the Board of Trustees. *Capital Budget*: The capital budget process, through which the University considers the priorities, costs, and financing of capital projects, occurs throughout the year.

### **Investment Management**

The University manages its investments through the use of four investment groupings that include the Long Term Investment Pool ("LTIP"), the Pooled Balances Investment Fund ("PBIF"), the Life Income Fund Pools and the Separately Invested Portfolio.

The LTIP is a mutual fund-like vehicle used for investing the University's true endowment funds, funds functioning as endowment, and other funds not expected to be expended for at least three years. Generally, the investment objective of the pool is to maximize total return (investment income plus market value changes) within established risk parameters. Total investment return includes dividends, interest and realized and unrealized market gains and losses. The annual distribution from the endowment is set by the Board of Trustees, using a target percentage rate less than the assumed "real" long-run total investment return, i.e. the actual total investment return minus an amount reflecting inflation. The target percentage rate is applied to a twelve-quarter average of the unit value of the LTIP, and the actual distribution amount is set above or below the target to smooth out year-to-year fluctuations.

The PBIF is maintained for funds that are expected to be expended within three years and for working capital. The PBIF is divided into two investment vehicles. The working capital portion is invested only in short-term, liquid fixed income instruments. Other PBIF funds are invested substantially similar to the LTIP. Distributions from the PBIF are managed by University administration.

The Life Income Fund Pools consist of donated funds, the income of which is payable to one or more beneficiaries during their lifetime. On the termination of life interests, the principal becomes available for University purposes, and may be restricted by the donor.

The Separately Invested Portfolio consists of several types of funds that, for legal or other reasons, or by request of the donor, could not participate in any of the investment pools. In many cases, the University has a remainder interest in the principal with payments made to others for specified periods of time. In addition, the University has chosen to separately invest certain major expendable funds to maintain liquidity. Each of such funds has separate investment objectives.

## **OPERATING INFORMATION**

### **Application, Admissions and Enrollment**

Given the change in demographics and differential graduation rates in student populations over the last decade, colleges throughout the country have been in increasing competition with each other for top students. Cornell includes in its pool of competitors not only other Ivy League institutions but also other selective private universities and the flagship public universities from across the country.



The following table sets forth (a) the number of applications received for admission for full-time freshman enrollment, (b) the number of those applicants accepted, (c) the ratio of acceptances to total applicants, (d) the number of such successful applicants who declared their intentions to enroll and (e) the ratio of entering students to acceptances.

### Freshman Admission Statistics

<u>Fall</u>	<u>Total Applications</u>	<u>Acceptances</u>	<u>Acceptance Rate</u>	<u>Number Enrolled</u>	<u>Yield</u>
1999	19,949	6,561	32.9%	3,228	49.2%
2000	20,199	6,172	30.6	3,152	51.1
2001	21,519	5,861	27.2	3,043	51.9
2002	21,502	6,133	28.5	3,064	50.0
2003	20,441	6,334	31.0	3,135	49.5

The quality of applicants, as measured by class rank and entrance examination scores, is consistently high. The following table sets forth the percentage of Cornell's entering freshman achieving a score of 600 or greater on each component of the Scholastic Aptitude Test ("SAT") for the past five years. For the most recent class, entering in fall 2003, 85% scored over 600 on the verbal component and 91% scored over 600 on the math component. For fall 2003, 87% of entering freshmen graduated in the top 10% of their high school class (of the 50% who came from schools that report class rank).

### Percentage of Entering Freshman Scoring 600+ on SAT

<u>Fall</u>	<u>Verbal</u>	<u>Math</u>
1999	83	91
2000	84	92
2001	85	92
2002	85	92
2003	85	91

The following table sets forth admissions to the Graduate School and Professional Schools for fall 2003.

### Graduate and Professional School Admissions Fall 2003

<u>School</u>	<u>Total Applications</u>	<u>Acceptances</u>	<u>Acceptance Rate</u>	<u>Number Enrolled<sup>1</sup></u>	<u>Yield</u>
Graduate School	14,568	3,593	24.7%	1,543	42.9%
Graduate School of Medical Sciences	444	110	24.8	53	48.2
Medical College (MD)	5,307	259	4.9	101	39.0
Law School	4,706	778	16.5	194	24.9
Graduate School of Management	1,567	451	28.8	237	52.5
Veterinary School	1,001	121	12.1	85	70.2

<sup>1</sup> Data is as of the sixth week of classes.

The following table includes enrollment figures for the undergraduate, graduate and professional programs in Ithaca, and for the Medical College in New York City.

### Enrollment Summary

<u>Fall</u>	<u>Full-Time Undergraduate</u>	<u>Full-Time Graduate/ Professional</u>	<u>Total Full-Time Enrollment</u>
1999	13,669	5,991	19,660
2000	13,590	6,030	19,620
2001	13,801	6,340	20,141
2002	13,725	6,512	20,237
2003	13,655	6,679	20,334

Cornell attracts a diverse student body with students from every state of the United States and students from many foreign countries. Approximately 2,979 international students were enrolled at the Ithaca Campus in the fall of 2003. The percentage of international students has stayed constant at approximately 16% of enrollment.

For the fall of 2003, 35% of students enrolled at the Ithaca Campus were from New York State, down slightly from 38% in fall 1998. The percentage of students from the Middle Atlantic (excluding New York), New England and Southwestern states and in the foreign countries and United States possessions remain relatively constant over the same 5-year period. From fall 1998 to fall 2003, there was a 1% increase in students from the Southern states and a 2% increase in students from the Western states.

### Tuition and Other Student Charges

The table below indicates tuition rates and student activity fees for undergraduate and graduate students for the major divisions of the University:

### Tuition and Other Student Charges Tuition Rates

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
ENDOWED ITHACA					
Undergraduate	\$23,760	\$24,760	\$25,970	\$27,270	\$28,630
Graduate	23,760	24,760	25,970	27,270	28,630
Graduate School of Management	25,600	27,600	29,500	30,975	32,800
Law School	25,500	27,300	29,200	31,250	32,970
ENDOWED NEW YORK CITY					
Medical College	27,000	27,650	28,500	29,200	30,170
Graduate Medical College	19,700	20,180	20,800	21,235	20,030
CONTRACT COLLEGES					
Undergraduate:					
Resident	10,330	10,830	11,970	13,150	14,500
Non-Resident (Entering Students)	19,900	20,900	22,200	23,500	25,800
Non-Resident (Continuing Students)				23,500	24,680
Graduate (other than Veterinary)	12,100	12,700	13,910	15,200	16,600
Graduate (Master of Professional Studies program)	10,330	10,830	11,970	13,150	14,500
Veterinary Medicine:					
Professional:					
Resident	14,900	15,400	16,540	18,200	19,100
Non-Resident	20,100	21,100	22,240	24,500	27,000
Graduate	12,400	13,000	14,140	15,600	16,600

In addition to tuition, students pay an annual activity fee (approximately \$124 for undergraduate students and \$50 for graduate and professional students for 2003-04) and students in the Medical College pay a health service fee (of \$525 for 2003-04). There are several room and board plans. The average cost for room and board for 2003-04 is \$9,529.

### Financial Aid

Students receive assistance from various sources, which include University funds, State and federal financial aid programs, and other awards from outside sources. Cornell recently reaffirmed its policy of making admissions decisions without regard to the ability of students or parents to pay educational costs.

For the academic year 2003-04, approximately 62% of all Cornell undergraduates received some form of financial assistance. Approximately 46% were provided need-based financial aid, which amounted to \$156 million from all sources, in the form of grant aid, loans and jobs.

The following table provides a breakdown of the sources from which undergraduate need-based scholarship and grant aid has been provided over the last five academic years.

**Sources of Undergraduate Scholarship and Grant Aid**  
(In Thousands)

<b>Academic Year</b>	<b>Cornell Grants</b>	<b>State Grants</b>	<b>Federal Grants</b>	<b>Outside Awards</b>	<b>Total</b>
1998-99	\$67,977	\$5,522	\$46,088	\$5,047	\$124,634
1999-00	72,170	5,165	43,952	6,037	127,324
2000-01	73,538	5,377	42,609	6,704	128,228
2001-02	75,692	5,348	44,590	7,263	132,893
2002-03	83,950	5,572	46,387	7,001	142,910

In addition to the amounts described above, need-based financial assistance to undergraduate students for academic year 2003-04 included various loan programs (\$61.6 million) and jobs (\$6.9 million).

Financial assistance in the Graduate School is based on a student receiving one-half or more of his or her educational expenses. Support is focused upon students in doctoral programs; in 2003-04, 97% of the 2,937 doctoral students on campus received support. Among the doctoral students receiving support, 69% held teaching and research assistantships with the University, and an additional 28% received Cornell or outside fellowship support. In 2003-04, 54% of the 256 students in M.A. and M.S. degree programs (master's programs that are research degrees) received Cornell support as an assistantship, while an additional 16% received Cornell or outside fellowships.

### Faculty

The Cornell faculty includes leading scientists and scholars in hundreds of disciplines from many parts of the United States and abroad. Faculty members include Nobel Laureates, Pulitzer Prize winners, National Medal of Science winners, as well as other national award recipients. The resident faculty (exclusive of the Medical College), 98% of which held doctorates, first professional, or terminal professional degrees in academic year 2003-04, is supplemented each year by visiting scholars and lecturers from around the world.

In academic year 2003-04, Ithaca Campus faculty totaled 1,568 and the Medical College faculty totaled 946. The following table sets forth the faculty profile for the last five academic years, including acting appointments but excluding faculty at the Medical College and excluding courtesy, visiting, adjunct, emeritus, Health Services and ROTC appointments.

## Faculty Profile

<b>Academic Year</b>	<b>Full-Time Faculty</b>	<b>Part-Time Faculty</b>	<b>Total Faculty</b>	<b>Percent of Total Faculty Tenured</b>
1999-00	1,441	75	1,516	80%
2000-01	1,448	72	1,520	80
2001-02	1,469	81	1,550	79
2002-03	1,466	78	1,544	77
2003-04	1,489	79	1,568	77

### Employee Relations

Cornell University has collective bargaining agreements with five unions covering approximately 1,240 of its 3,711 non-exempt regular full-time and 337 non-exempt regular part-time employees. The contracts are with the Building Trades Council, the International Union of Operating Engineers, the Cornell Police Union, the Communication Workers of America and the United Auto Workers. These agreements expire June 2006, March 2007, November 2006, September 2005 and June 2005, respectively.

## ANNUAL FINANCIAL STATEMENT INFORMATION

### Independent Auditors

The University's financial statements as of and for the fiscal year ended June 30, 2003, included herein as Appendix B, were audited by KPMG LLP, independent auditors, as indicated in their report thereon, which is included in Appendix B.

### Financial Position

As of June 30, 2003, Cornell's total assets were \$6.28 billion, liabilities were \$1.28 billion, and Cornell's net assets were \$5.0 billion. The assets were dominated by investments (including cash and cash equivalents) of \$3.92 billion, and land, buildings, and equipment (including library books) of \$1.58 billion. The \$3.92 billion of investments was primarily \$2.91 billion of endowment and similar funds. The \$1.58 billion of land, buildings, and equipment was net of \$1.25 billion of accumulated depreciation. Receivables from various kinds of government agencies, patients of the faculty practice plan at the Medical College, students (including amounts loaned to present and former students), donor contributions and others were \$570 million, with inventories and deferred expenses making up the balance of the assets. Since June 30, 2003, there has been no material adverse change in the financial position of the University.

Following is a summary of Assets, Liabilities and Net Assets as of June 30, for the years 1999 through 2003:

### Assets, Liabilities, and Net Assets

**June 30,  
(In Thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 54,594	\$ 34,688	\$ 155,295	\$ 107,422	\$ 99,858
Collateral for securities loaned	-	-	-	86,599	205,238
Investments	3,561,112	4,149,244	3,890,110	3,549,764	3,622,966
Accounts receivable, net					
Government	22,832	27,430	35,387	43,925	45,295
Patients	57,152	62,042	64,485	60,035	57,065
Contributions	210,253	408,364	384,808	468,220	382,070
Other	60,036	76,993	78,849	83,368	85,674
Inventories and deferred charges	40,187	40,775	42,352	37,443	38,859
Student loans receivable	76,537	76,144	75,411	72,998	69,750
Land, buildings, and equipment, net of accumulated depreciation	1,303,748	1,387,944	1,452,351	1,512,469	1,583,491
Funds held in trust by others	66,039	73,764	82,876	92,681	93,818
Total assets	<u>5,452,490</u>	<u>6,337,388</u>	<u>6,261,924</u>	<u>6,114,924</u>	<u>6,284,084</u>
<b>Liabilities</b>					
Accounts payable and accrued expenses	114,649	125,785	150,996	159,380	190,259
Security Loan Agreements Payable	-	-	-	86,599	205,238
Deposits and deferred revenues	37,035	38,807	110,814	35,966	58,740
Deferred benefits	129,465	129,177	120,077	129,974	154,885
Funds held in trust for others	97,480	109,609	103,916	74,165	62,107
Obligations under living trust agreements	109,305	105,251	90,553	66,449	71,692
Bonds, mortgages, and notes payable	454,642	518,023	532,601	518,648	494,748
Refundable government grants	39,433	40,906	42,474	43,518	43,477
Total liabilities	<u>982,009</u>	<u>1,067,558</u>	<u>1,151,431</u>	<u>1,114,699</u>	<u>1,281,146</u>
<b>Net Assets</b>					
Unrestricted	3,210,113	3,659,423	3,389,220	3,080,831	3,046,992
Temporarily restricted	379,030	606,070	643,428	731,183	705,170
Permanently restricted	881,338	1,004,337	1,077,845	1,188,211	1,250,776
Total net assets	<u>4,470,481</u>	<u>5,269,830</u>	<u>5,110,493</u>	<u>5,000,225</u>	<u>5,002,938</u>
Total liabilities and net assets	<u>\$5,452,490</u>	<u>\$6,337,388</u>	<u>\$6,261,924</u>	<u>\$6,114,924</u>	<u>\$6,284,084</u>

### Annual Operations

In fiscal year 2002-03, revenues supporting general operations were approximately \$1.74 billion of which 2% was for restricted purposes. Net tuition and fees contributed 20% of total general operations revenues and 21% of general operations unrestricted revenues. State appropriations (principally in support of the four Contract Colleges) accounted for 8.6% of unrestricted revenues. Investment earnings contributed 4% of general operations fund revenue. Expenditures for general operations equaled \$1.8 billion. The increase in net assets under general operations was approximately \$15 million, comprised of a \$27 million gain from unrestricted sources, and reduction of \$12 million from restricted activities. The physical capital net assets decreased by approximately \$8 million, with capital gifts and investment totaling \$120 million offset by interest and depreciation expense of \$128 million. Financial capital net assets (primarily endowment and similar funds) decreased by approximately \$5 million, largely due to a realized loss in investments.

Since June 30, 2003, there has been no material adverse change in the results of operations of the University. In the 2003-04 fiscal year, the University continues to pursue and expects to achieve its objective of balancing its budget while maintaining the quality of its academic programs.

The following table is a summary of the revenue and other additions and expenses for the fiscal years ended June 30, 1999 through 2003 and is derived from the audited financial statements of the University. The following summary should be read in conjunction with the financial statements and the notes thereto included herein as Appendix B.

**Summary of Revenues and Other Additions and Expenses**  
**June 30,**  
**(In Thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Revenues and other additions</b>					
Tuition and fees	\$ 386,261	\$ 413,995	\$ 435,434	\$ 462,830	\$ 493,217
Scholarship allowance	(108,900)	(116,643)	(119,880)	(133,166)	(144,017)
Net tuition and fees	<u>277,361</u>	<u>297,352</u>	<u>315,554</u>	<u>329,664</u>	<u>349,200</u>
State appropriations <sup>(1)</sup>	147,558	157,262	160,114	165,857	158,708
Federal appropriations	18,308	18,223	19,637	19,495	18,770
Federal grants and contracts	280,282	286,006	297,556	329,884	397,244
State and local grants and contracts	18,634	20,663	21,850	22,560	23,979
Private grants and contracts	18,383	17,761	23,691	33,976	35,672
Contributions	302,622	505,760	272,681	437,373	222,606
Interest and dividends	129,128	118,549	113,764	119,065	91,155
Net realized gain (loss) on investments	166,192	257,168	69,263	(109,531)	(84,713)
Net unrealized gain (loss) on investments	53,344	185,671	(321,242)	(224,222)	126,059
Medical Physicians' Organization	241,398	245,980	259,991	283,090	306,469
Enterprises and subsidiaries	116,854	122,531	123,610	137,075	143,358
Educational departments	50,882	53,308	58,666	59,696	60,553
Other sources	34,949	65,504	43,915	62,124	54,295
Total revenues	<u>1,855,895</u>	<u>2,351,738</u>	<u>1,459,050</u>	<u>1,666,106</u>	<u>1,903,355</u>
<b>Expenses</b>					
Salaries and wages	717,746	760,718	821,159	906,138	973,240
Employee benefits	159,772	164,900	164,448	192,029	217,535
Purchased services	77,103	86,344	94,849	103,845	129,258
Supplies and general	258,034	289,592	298,990	326,907	335,959
Utilities, rents, and taxes	71,764	80,023	86,726	88,573	94,154
Interest expense	26,833	29,696	30,329	23,088	21,999
Depreciation	106,967	128,659	115,861	120,329	123,261
Other	<u>9,810</u>	<u>12,457</u>	<u>6,025</u>	<u>15,465</u>	<u>5,236</u>
Total expenses	<u>1,428,029</u>	<u>1,552,389</u>	<u>1,618,387</u>	<u>1,776,374</u>	<u>1,900,642</u>
Change in net assets	427,866	799,349	(159,337)	(110,268)	2,713
Total net assets, beginning of year	<u>4,042,615</u>	<u>4,470,481</u>	<u>5,269,830</u>	<u>5,110,493</u>	<u>5,000,225</u>
Total net assets, end of year	<u>\$4,470,481</u>	<u>\$5,269,830</u>	<u>\$5,110,493</u>	<u>\$5,000,225</u>	<u>\$5,002,938</u>

<sup>(1)</sup> Includes operating support and capital expenditures for the Contract Colleges.

## Organized Research

According to the most recently published National Science Foundation statistics (2000-2001), Cornell ranked thirteenth among American universities in terms of total organized research and development expenditures in sciences and engineering and twentieth in federally financed expenditures. Organized research is defined as those research activities separately budgeted and accounted for, and supported by competitive grants and contracts and non-competitive state and federal appropriations or institutional funds. Among private institutions, Cornell ranked fourth in the nation in total- and tenth in federal government supported- research and development expenditures for sciences and engineering. Among institutions in New York State, Cornell was first in overall support of organized research. During the academic year 2002-03, total organized research expenditures at Cornell were \$505 million compared to \$466 million in 2001-2002. (Source: *Academic Research and Development Expenditures: Fiscal Year 2001*, National Science Foundation)

In 2003-03, sponsored research (i.e., research supported by competitive grants and contracts from the federal government, state and local governments and private sources) accounted for \$404 million of the total expenditures for organized research. The University received \$326 million from the federal government in 2002-03 compared to \$283 million in 2001-02. Federal grants and contracts designated for sponsored research contributed the major portion (\$321 million in 2002-03 and \$278 million in 2001-02) of these funds. A substantial portion of federally sponsored research is obtained competitively from year to year.

The following table is a five-year summary of federally financed research and development expenditures at Cornell.

### Federal Support of Sponsored Research (In Thousands)

<u>Fiscal Year</u>	<u>Expenditures</u>	<u>Percent of Total Sponsored Research Expenditures</u>
1998-99	\$241,319	81.5%
1999-00	236,469	78.3
2000-01	247,558	75.8
2001-02	278,202	77.3
2002-03	321,352	79.5

## State Support for Contract Colleges

Operations at the Contract Colleges are supported by amounts appropriated by the State. For the past five years this amount has remained relatively flat with an annual growth rate of slightly less than 1%.

## Endowment and Similar Funds

As of June 30, 2003 Cornell's endowment and funds functioning as endowment, not including life income funds, had a market value of approximately \$2.915 billion. Such amounts include approximately \$817 million of funds functioning as endowment on that date. Both the income and principal of funds functioning as endowment are expendable. Approximately \$736 million of the \$817 million is unrestricted as to use.

The following is a five-year summary of the endowment and similar funds net asset balances for all divisions of the University. Living trust funds are excluded since the income from living trusts is payable to one or more beneficiaries during their lifetime, and is not available to Cornell. On the termination of life interests, the principal becomes available for University purposes, and may be restricted as to use by the donor.

**Market Value of Endowment and Similar Funds**  
(In Millions)

<u>June 30</u>	<u>True Endowment and Related Appreciation</u>	<u>Funds Functioning as Endowment</u>	<u>Funds Held in Trust</u>	<u>Total Endowment and Similar Funds</u>
1999	\$2,005.2	\$807.5	\$93.0	\$2,905.7
2000	2,379.4	943.7	113.8	3,436.9
2001	2,188.1	905.5	116.8	3,210.4
2002	1,994.8	791.5	133.9	2,920.2
2003	1,951.4	817.4	145.8	2,914.6

**Investment Policy**

The Investment Committee of the Board oversees the investments of the entire University portfolio, including the selection of external investment managers, the allocation of investments among managers and any restrictions on the amounts of funds in any type of investment.

The University's Investment Policy for the LTIP is to manage a balanced fund using external managers for domestic and international equity, domestic fixed assets and various partnerships for real estate and private equity. The assets are managed to maximize the total return. Departments are paid an annual dividend based on a payout policy approved by the Trustees. As of March 31, 2004, approximately 64% of LTIP was invested in equity securities, 24% was invested in bonds and fixed income investments, and 12% was invested in real estate and private equity investments.

**Gifts and Bequests**

Cornell received over \$1.6 billion in gifts and bequests over the last five fiscal years ended June 30, 2003. The tables below show gifts by type of donor and the allocation of these gifts by category of utilization as reported by the Cornell Alumni Affairs Office.

**Gifts By Type Of Donor**  
(In Millions)

<u>Donor</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
Corporations	\$ 26.6	\$ 34.3	\$ 28.5	\$ 33.2	\$ 23.1
Foundations	30.7	43.2	59.8	52.8	58.9
Alumni	184.4	154.3	153.6	158.9	172.0
Friends/Other	<u>99.7</u>	<u>76.9</u>	<u>67.5</u>	<u>118.1</u>	<u>63.0</u>
TOTAL	<u>\$341.4</u>	<u>\$308.7</u>	<u>\$309.4</u>	<u>\$363.0</u>	<u>\$317.0</u>

Cornell ranked fourth in the nation among colleges and universities in voluntary support from all sources (individuals, corporations and foundations) in fiscal year 2001-02, according to the most recent report of the Council for Aid to Education.



## Facilities

The recorded cost of Cornell's plant facilities (exclusive of accumulated depreciation) for June 30, 1999, through June 30, 2003, is as follows:

	<b>Plant Facilities</b>				
	<b>June 30,</b>				
	<b>(In Millions)</b>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Land & Buildings	\$1,342	\$1,468	\$1,586	\$1,700	\$1,797
Equipment & Books	787	808	827	859	888
Construction in Progress	<u>159</u>	<u>174</u>	<u>168</u>	<u>137</u>	<u>153</u>
TOTAL	<u>\$2,288</u>	<u>\$2,450</u>	<u>\$2,581</u>	<u>\$2,696</u>	<u>\$2,838</u>

For fiscal year 2003, the University recognized \$123 million in depreciation expense, and the balance of accumulated depreciation was \$1.254 billion. The investment in plant cost, net of accumulated depreciation, was \$1.583 billion at June 30, 2003. The 2003 figures include land, buildings, and equipment of the Contract Colleges aggregating \$318 million, the acquisition cost of which was borne primarily by the State of New York.

For its endowed buildings Cornell carries blanket property insurance policies providing replacement cost coverage with a \$500,000 self insurance retention of loss for each occurrence. State-owned buildings subject to outstanding notes or bonds of the Authority are separately insured by New York State. Fully amortized State-owned buildings are not insured against fire and associated risks.

## Outstanding Indebtedness

The University's total indebtedness outstanding as of June 30, 2003 was approximately \$495 million, including debt related to bonds issued by the Authority, other bond-related debt, capitalized leases and lines of credit. Since June 30, 2003, the University has incurred a gross amount of \$42.7 million of additional debt pursuant to a taxable commercial paper program (program authorized up to \$100 million). As of June 30, 2003, approximately \$152.1 million of the University's outstanding debt to the Authority and certain of the University's other indebtedness was secured by a pledge of its tuition, fees or other revenues. In the event of a default under any debt instrument secured by such pledged revenues, the holder or trustee under such debt instrument will have the right to collect a portion or all of such pledged revenues, and apply the revenues so collected to the payment of amounts due under such debt instrument. Any revenues so collected and applied will not be available for satisfying any of the University's obligations under the Loan Agreement. The University has also entered into interest rate swap agreements in an aggregate notional amount of approximately \$226.7 million. For further details regarding the outstanding indebtedness of the University and its interest rate swap agreements, see Note 6 and Tables 7 and 8 to the notes to the financial statements included in Appendix B hereto.

## Pension Plans

The University's employee pension plan coverage for Endowed Ithaca and the Medical College is provided by two basic types of plans: (1) those based on a predetermined level of funding (defined contribution); and (2) those based on a level of benefit to be provided (defined benefit). The primary plans for Endowed Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at the Medical College are funded with the Teachers Insurance and Annuity Association and College Retirements Equities Fund, which also permit employee contributions. In addition, certain accrued benefits and an appropriate amount of the University's pension reserves were frozen in connection with plan reorganizations.

The pension liabilities held by the University in connection with the frozen plans were established by charges to expenditures in prior years, to meet future retirement costs for current employees. Although the liabilities are considered internally funded, they are not intended to create a trust or fund in which any employee or former employee has any right or interest of any kind.

In accordance with ERISA requirements, for the defined benefit plans the University must annually fund with an independent trustee an actuarially determined amount representing normal costs plus amortization of prior service costs over a forty-year period that began on July 1, 1976. Total pension costs of the Endowed Ithaca and the Medical College plans for the years ended June 30, 2003 and June 30, 2002, amounted to \$51.2 million and \$47.1 million, respectively.

Employees of the Contract Colleges are covered under the State of New York pension plan. Contributions to the State retirement system and other fringe benefit costs are paid directly by the State. The amount of the direct payments applicable to the University as revenue and expenditures is not currently determinable and is not included in the financial statements. The University reimburses the State for fringe benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the State during the years ended June 30, 2003 and June 30, 2002, was \$10.9 million and \$9.9 million, respectively, which are included in the expenses of general operations.

#### **LITIGATION**

Litigation and other claims incident to the normal operation of the University are pending against Cornell. While the ultimate liability, if any, of Cornell is not presently determinable, such litigation and other claims, in the opinion of the University's administration, will not, in the aggregate, have a material adverse effect on Cornell's financial position or results of operations.

#### **PART 5 - THE 2004 PROJECT**

The 2004 Project consists of the refinancing of a portion of the Authority's outstanding Commercial Paper Notes (Cornell University 1998 Issue) and various construction, renovation and maintenance projects throughout the University, including (i) renovations and improvements to Lasdon House at Weill Medical College, (ii) renovations and improvements to the Physiology Department at Weill Medical College, (iii) deferred maintenance undertakings at Weill Medical College, (iv) renovations and the construction of an addition to the Africana Studies and Research Center, (v) Arts Quad Utilities Renewal Phase I, (vi) renovations to Willard Straight Hall, (vii) replacement of steam feed to Robert Purcell Community Center, (viii) renovations to portions of Ecology House, (ix) renovations at Low Rise #6 and #8, (x) renovations and improvements to Balch Hall, (xi) fire protection renovations and upgrades to certain dormitories, (xii) installation of an upgraded telecommunications system within Upson Hall, and (xiii) construction of athletic fields, support buildings and other infrastructure and utility work.

#### **PART 6 - ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds are as follows:

##### **Sources of Funds**

Principal Amount of Series 2004A Bonds	\$45,000,000
Principal Amount of Series 2004B Bonds	<u>47,100,000</u>
Total Sources .....	<u>\$92,100,000</u>

##### **Uses of Funds**

Deposit to Construction Fund .....	\$90,617,436
Costs of Issuance .....	954,124
Underwriter's Discount .....	<u>528,440</u>
Total Uses .....	<u>\$92,100,000</u>

## **PART 7 - THE AUTHORITY**

### **Background, Purposes and Powers**

The Authority is a body corporate and politic constituting a public benefit corporation. The Authority was created by the Act for the purpose of financing and constructing a variety of facilities for certain independent colleges and universities and private hospitals, certain not-for-profit institutions, public educational institutions including The State University of New York, The City University of New York and Boards of Cooperative Educational Services (“BOCES”), certain school districts in the State, facilities for the Departments of Health and Education of the State, the Office of General Services, the Office of General Services of the State on behalf of the Department of Audit and Control, facilities for the aged and certain judicial facilities for cities and counties. The Authority is also authorized to make and purchase certain loans in connection with its student loan program. To carry out this purpose, the Authority was given the authority, among other things, to issue and sell negotiable bonds and notes to finance the construction of facilities of such institutions, to issue bonds or notes to refund outstanding bonds or notes and to lend funds to such institutions.

On September 1, 1995, the Authority through State legislation (the “Consolidation Act”) succeeded to the powers, duties and functions of the New York State Medical Care Facilities Finance Agency (the “Agency”) and the Facilities Development Corporation (the “Corporation”), each of which will continue its corporate existence in and through the Authority. Under the Consolidation Act, the Authority has also acquired by operation of law all assets and property, and has assumed all the liabilities and obligations, of the Agency and the Corporation, including, without limitation, the obligation of the Agency to make payments on its outstanding bonds, and notes or other obligations. Under the Consolidation Act, as successor to the powers, duties and functions of the Agency, the Authority is authorized to issue and sell negotiable bonds and notes to finance and refinance mental health services facilities for use directly by the New York State Department of Mental Hygiene and by certain voluntary agencies. As such successor to the Agency, the Authority has acquired additional authorization to issue bonds and notes to provide certain types of financing for certain facilities for the Department of Health, not-for-profit corporations providing hospital, medical and residential health care facilities and services, county and municipal hospitals and nursing homes, not-for-profit and limited profit nursing home companies, qualified health maintenance organizations and health facilities for municipalities constituting social services districts. As successor to the Corporation, the Authority is authorized, among other things, to assume exclusive possession, jurisdiction, control and supervision over all State mental hygiene facilities and to make them available to the Department of Mental Hygiene, to provide for construction and modernization of municipal hospitals, to provide health facilities for municipalities, to provide health facilities for voluntary non-profit corporations, to make its services available to the State Department of Correctional Services, to make its services available to municipalities to provide for the design and construction of local correctional facilities, to provide services for the design and construction of municipal buildings, and to make loans to certain voluntary agencies with respect to mental hygiene facilities owned or leased by such agencies.

The Authority has the general power to acquire real and personal property, give mortgages, make contracts, operate dormitories and other facilities and fix and collect rentals or other charges for their use, contract with the holders of its bonds and notes as to such rentals and charges, make reasonable rules and regulations to assure the maximum use of facilities, borrow money, issue negotiable bonds or notes and provide for the rights of their holders and adopt a program of self-insurance.

In addition to providing financing, the Authority offers a variety of services to certain educational, governmental and not-for-profit institutions, including advising in the areas of project planning, design and construction, monitoring project construction, purchasing of furnishings and equipment for projects, designing interiors of projects and designing and managing projects to rehabilitate older facilities. In succeeding to the powers, duties and functions of the Corporation as described above, the scope of design and construction services afforded by the Authority has been expanded.

### **Outstanding Indebtedness of the Authority (Other than Indebtedness Assumed by the Authority)**

At March 31, 2004, the Authority had approximately \$29 billion aggregate principal amount of bonds and notes outstanding, excluding indebtedness of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act. The debt service on each such issue of the Authority’s bonds and notes is paid from moneys received by the Authority or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue or from borrowers in connection with its student loan program.

The Authority's bonds and notes include both special obligations and general obligations of the Authority. The Authority's special obligations are payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued or from borrowers in connection with its student loan program. Such payments are pledged or assigned to the trustees for the holders of respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. The Authority's general obligations are payable from any moneys of the Authority legally available for the payment of such obligations. However, the payments required to be made by or for the account of the institution for which general obligations were issued generally have been pledged or assigned by the Authority to trustees for the holders of such general obligations. The Authority has always paid the principal of and interest on its special and general obligations on time and in full.

The total amounts of the Authority bonds and notes (excluding debt of the Agency assumed by the Authority on September 1, 1995 pursuant to the Consolidation Act) outstanding at March 31, 2004 were as follows:

<b>Public Programs</b>	<b>Bonds Issued</b>	<b>Bonds Outstanding</b>	<b>Notes Outstanding</b>	<b>Bonds and Notes Outstanding</b>
State University of New York Dormitory Facilities	\$ 1,648,516,000	\$ 589,770,000	\$ 0	\$ 589,770,000
State University of New York Educational and Athletic Facilities	9,757,867,999	4,323,883,440	0	4,323,883,440
Upstate Community Colleges of the State University of New York	980,635,000	502,080,000	0	502,080,000
Senior Colleges of the City University of New York	7,616,453,549	2,907,383,511	0	2,907,383,511
Community Colleges of the City University of New York	2,094,411,563	618,557,257	0	618,557,257
BOCES and School Districts	1,402,831,208	1,189,895,000	0	1,189,895,000
Judicial Facilities	1,563,692,717	770,677,717	0	770,677,717
New York State Departments of Health and Education and Other	1,721,490,000	1,194,935,000	0	1,194,935,000
Mental Health Services Facilities	4,393,955,000	3,496,685,000	0	3,496,685,000
New York State Taxable Pension Bonds	773,475,000	0	0	0
Municipal Health Facilities Improvement Program	901,760,000	884,925,000	0	884,925,000
<b>Total Public Programs</b>	<b>\$ 32,855,088,036</b>	<b>\$ 16,478,791,925</b>	<b>\$ 0</b>	<b>\$ 16,478,791,925</b>
<b>Non-Public Programs</b>	<b>Bonds Issued</b>	<b>Bonds Outstanding</b>	<b>Notes Outstanding</b>	<b>Bonds and Notes Outstanding</b>
Independent Colleges, Universities and Other Institutions	\$ 10,877,486,953	\$ 5,146,916,371	\$ 167,485,000	\$ 5,314,401,371
Voluntary Non-Profit Hospitals	8,844,299,309	6,220,756,209	0	6,220,756,209
Facilities for the Aged	1,708,695,000	1,218,580,000	0	1,218,580,000
Supplemental Higher Education Loan Financing Program	95,000,000	0	0	0
<b>Total Non-Public Programs</b>	<b>\$ 21,525,481,262</b>	<b>\$ 12,586,252,581</b>	<b>\$ 167,485,000</b>	<b>\$ 12,753,737,581</b>
<b>GRAND TOTAL</b>	<b>\$ 54,380,569,298</b>	<b>\$ 29,065,044,506</b>	<b>\$ 167,485,000</b>	<b>\$ 29,232,529,506</b>

#### **Outstanding Indebtedness of the Agency Assumed by the Authority**

At March 31, 2004, the Agency had approximately \$1.9 billion aggregate principal amount of bonds outstanding, the obligations as to all of which have been assumed by the Authority. The debt service on each such issue of bonds is paid from moneys received by the Authority (as successor to the Agency) or the trustee from or on behalf of the entity having facilities financed with the proceeds from such issue.

The total amounts of the Agency's bonds (which indebtedness was assumed by the Authority on September 1, 1995) outstanding at March 31, 2004 were as follows:

<u>Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Mental Health Services Improvement Facilities .....	\$ 3,817,230,725	\$ -
<u>Non-Public Programs</u>	<u>Bonds Issued</u>	<u>Bonds Outstanding</u>
Hospital and Nursing Home Project Bond Program .....	\$ 226,230,000	\$ 31,640,000
Insured Mortgage Programs .....	6,056,990,000	1,615,089,927
Revenue Bonds, Secured Loan and Other Programs .....	2,414,240,000	297,445,000
Total Non-Public Programs .....	\$ 8,697,460,000	\$ 1,944,174,927
GRAND TOTAL .....	\$ 12,514,690,725	\$ 1,944,174,927

### Governance

The Authority carries out its programs through an eleven-member board, a full-time staff of approximately 660 persons, independent bond counsel and other outside advisors. Board members include the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her who serves until his or her successor is appointed, the Director of the Budget of the State, one member appointed by the Temporary President of the State Senate, one member appointed by the Speaker of the State Assembly and five members appointed by the Governor, with the advice and consent of the Senate, for terms of three years. The Commissioner of Education of the State, the Commissioner of Health of the State and the Director of the Budget of the State each may appoint a representative to attend and vote at Authority meetings. The members of the Authority serve without compensation, but are entitled to reimbursement of expenses incurred in the performance of their duties. Two appointments to the Board by the Governor are currently vacant.

The Governor of the State appoints a Chair from the members appointed by him or her and the members of the Authority annually choose the following officers, of which the first two must be members of the Authority: Vice-Chair, Secretary, Treasurer, Assistant Secretaries and Assistant Treasurers.

The current members of the Authority are as follows:

GAIL H. GORDON, Esq., *Chair*, Slingerlands.

Gail H. Gordon currently serves as Deputy Commissioner and General Counsel for the Office of Children and Family Services. She previously was of counsel to the law firm of Helm, Shapiro, Anito & McCale, P.C., in Albany, New York, where she was engaged in the private practice of law. From 1987 to 1993, Ms. Gordon served as Counsel to the Comptroller of the State of New York where she directed a legal staff of approximately 40 attorneys, was responsible for providing legal and policy advice to the State Comptroller and his deputies in all areas of the State Comptroller's responsibilities, including the supervision of accounts of public authorities and in the administration, as sole trustee, of the New York State Employees Retirement System and the Policeman's and Firemen's Retirement System. She served as Deputy Counsel to the Comptroller of the State of New York from 1983 to 1987. From 1974 to 1983, Ms. Gordon was an attorney with the law firm of Hinman, Howard & Kattell, Binghamton, New York, where she concentrated in areas of real estate, administrative and municipal law. Ms. Gordon holds a Bachelor of Arts degree from Smith College and a Juris Doctor degree from Cornell University School of Law. Ms. Gordon's term expires on March 31, 2007.

JOHN B. JOHNSON, JR., *Vice-Chair*, Watertown.

John B. Johnson, Jr. was appointed as a Member of the Authority by the Governor on April 26, 2004. Mr. Johnson is Chairman of the Board and Chief Executive Officer of the Johnson Newspaper Corporation, which publishes the Watertown Daily Times, Batavia Daily News, Malone Evening Telegram, Catskill Daily Mail, Hudson Register Star, Ogdensburg Journal, Massena-Potsdam Courier Observer, seven weekly newspapers and three shopping newspapers. He is director of the New York Newspapers Foundation, a member of the Development Authority of the North Country and the Fort Drum Regional Liaison Committee, president of the Bugbee Housing Development Corporation, President of the North Country Community Foundation, and director of the YMCA of Jefferson County. Mr. Johnson has been a member of the American Society of Newspaper Editors since 1978, and was a Pulitzer Prize juror in 1978, 1979 and 2001. He was a trustee of Clarkson University, Potsdam, New York. He holds a Bachelor's Degree from Vanderbilt

University, and Master's degrees in Journalism and Business Administration from the Columbia University Graduate School of Journalism and Business. Mr. Johnson was awarded an Honorary Doctor of Science Degree from Clarkson University. His term expires on March 31, 2007.

JOSE ALBERTO CORVALAN, M.D., *Secretary*, Armonk.

Dr. Corvalan was appointed as a Member of the Authority by the Governor on June 18, 2002. Dr. Corvalan is Chief of Surgery, Department of Surgery, St. Clare's Hospital and Health Center, New York, New York. He is also an attending surgeon at St. Vincent's Hospital and Medical Center and St. Clare's Hospital and Health Center. Dr. Corvalan is a Diplomate, American Board of Surgery, and is a Fellow of the American College of Surgeons and the New York Academy of Medicine. Dr. Corvalan has held a number of teaching positions and is Associate Professor of Surgery at New York Medical College, Valhalla, New York. His term expires on March 31, 2005.

SANDRA M. SHAPARD, Delmar.

Ms. Shapard was appointed as a Member of the Authority by the State Comptroller on January 21, 2003. Ms. Shapard served as Deputy Comptroller for the Office of the State Comptroller from January, 1995 until her retirement in 2001, during which time she headed the Office of Fiscal Research and Policy Analysis and twice served as Acting First Deputy Comptroller. Previously, Ms. Shapard held the positions of Deputy Director and First Deputy Director for the New York State Division of Budget, from 1991 to 1994, and Deputy Assistant Commissioner for Transit for the State Department of Transportation, from 1988 to 1991. She began her career in New York State government with the Assembly in 1975 where, over a thirteen year period, she held the positions of Staff Director of the Office of Counsel to the Majority, Special Assistant to the Speaker, and Deputy Director of Budget Studies for the Committee on Ways and Means. Ms. Shapard also served as Assistant to the County Executive in Dutchess County. A graduate of Mississippi University for Women, Ms. Shapard received a Masters of Public Administration from Harvard University, John F. Kennedy School of Government, where she has served as visiting lecturer, and has completed graduate work at Vanderbilt University.

ROMAN B. HEDGES, Delmar.

Dr. Hedges was appointed as a Member of the Authority by the Speaker of the State Assembly on February 24, 2003. Dr. Hedges currently serves as the Deputy Secretary of the New York State Assembly Committee on Ways and Means. Dr. Hedges serves on the Legislative Advisory Task Force on Demographic Research and Reapportionment. He previously served as the Director of Fiscal Studies of the Assembly Committee on Ways and Means where he was responsible for the preparation of studies of the New York State economy and revenues of local government, tax policy and revenue analyses, and for negotiating revenue and local government legislation for the Assembly. Dr. Hedges was an Associate Professor of Political Science and Public Policy at the State University of New York at Albany where he taught graduate and undergraduate courses in American politics, research methodology, and public policy. Dr. Hedges holds a Doctor of Philosophy and a Master of Arts degree from the University of Rochester and a Bachelor of Arts degree from Knox College.

DEAN H. LEITH, JR., Troy.

Mr. Leith was appointed as a Member of the Authority by the Temporary President of the State Senate on September 11, 1998. Mr. Leith is a former President, CEO, and Chairman of the Board of Garden Way, Inc. in Troy, New York. He has served on the boards of Samaritan Hospital and the Rensselaer County Historical Society, and has chaired fundraising campaigns for several not-for-profit organizations. He received his Bachelor of Arts degree from the University of Michigan.

RICHARD P. MILLS, *Commissioner of Education of the State of New York*, Albany; *ex-officio*.

Dr. Mills became Commissioner of Education on September 12, 1995. Prior to his appointment, Dr. Mills served as Commissioner of Education for the State of Vermont since 1988. From 1984 to 1988, Dr. Mills was Special Assistant to Governor Thomas H. Kean of New Jersey. Prior to 1984, Dr. Mills held a number of positions within the New Jersey Department of Education. Dr. Mills' career in education includes teaching and administrative experience at the secondary and postsecondary education levels. Dr. Mills holds a Bachelor of Arts degree from Middlebury College and a Master of Arts, a Master of Business Administration and a Doctor of Education degree from Columbia University.

CAROLE E. STONE, *Budget Director for the State of New York*, Albany; *ex-officio*.

Ms. Stone was appointed Director of the New York State Division of Budget by Governor George E. Pataki on June 26, 2000. As Budget Director, Ms. Stone is the Governor's chief advisor on State fiscal issues and is responsible for developing, negotiating and administering the New York State budget. In addition, she is the Governor's primary aide regarding the proper management and oversight of all funds and resources available to New York State. Ms. Stone has

served in the Division of Budget for 25 years. She was named Budget Director after serving as Acting Budget Director since January 1, 2000. Prior to that, she had served the past five years as Deputy Director. In 1986, she was appointed to serve as the head of the Division's Public Protection Unit — assuming budget management and oversight responsibilities for the State's criminal justice and public protection agencies. Ms. Stone has received national recognition for her outstanding achievements as a budget professional, including the receipt in 1996 of the John E. Burton Service Award, which is presented each year by the National Association of Budget Officials. Ms. Stone received a Bachelor's degree from Skidmore College.

ANTONIA C. NOVELLO, M.D., *Commissioner of Health of the State of New York, Albany; ex-officio.*

Dr. Novello became Commissioner of Health on June 15, 1999. Prior to her appointment, Dr. Novello held a number of teaching positions including Visiting Professor of Health Policy and Management and Special Director of Community Health Policies at the Johns Hopkins University School of Hygiene and Public Health, Adjunct Professor of Pediatrics and Communicable Diseases at the University of Michigan and Adjunct Professor of International Health at the Johns Hopkins School of Public Health. Between 1993 and 1996, Dr. Novello served as the United Nations Children's Fund (UNICEF) Special Representative for Health and Nutrition, where she advised UNICEF's executive director on global issues pertaining to vitamin deficiency disorders, immunizations and preventing substance abuse among the world's youth. Prior to that, Dr. Novello served as the Surgeon General of the United States. Before becoming Surgeon General, Dr. Novello had a long career working for the United States Public Health Service at the National Institutes of Health.

The principal staff of the Authority is as follows:

MARYANNE GRIDLEY is the Executive Director and chief administrative and operating officer of the Authority. Ms. Gridley is responsible to the Authority for the management, operations and administration of its affairs. Prior to joining the Authority in April 2002, she was First Deputy Secretary to Governor George E. Pataki, serving as a senior advisor on policy issues. From 1995 to 1999, she held positions with the Governor's Office of Public Authorities within the Executive Chamber, first as Assistant Secretary, and then as Deputy Secretary. From 1985 to 1995, she was Assistant Deputy Comptroller for Investments and Cash Management in the Office of the State Comptroller. She also served as a Senior Legislative Budget Analyst with the State Senate Finance Committee from 1977 to 1985. The Municipal Forum of New York honored Ms. Gridley with its Public Sector Career Service Award in March 2000. She received her Bachelor's degree from Newton College of the Sacred Heart, and holds a Master's degree in Public Administration from the State University of New York at Albany.

MICHAEL T. CORRIGAN is the Deputy Executive Director of the Authority, and assists the Executive Director in the administration and operation of the Authority. Mr. Corrigan came to the Authority in 1995 as Budget Director, and served as Deputy Chief Financial Officer from 2000 until 2003. He began his government service career in 1983 as a budget analyst for Rensselaer County, and served as the County's Budget Director from 1986 to 1995. Immediately before coming to the Authority, he served as the appointed Rensselaer County Executive for a short period. Mr. Corrigan holds a Bachelor's degree in Economics from the State University of New York at Plattsburgh and a Master's degree in Business Administration from the University of Massachusetts.

CHERYL ISHMAEL is the Managing Director of Public Finance. She conducts and coordinates financial feasibility studies for certain institutions and coordinates the production of disclosure documents for the sale of Authority obligations. Ms. Ishmael has worked in finance in both the public and private sectors, as a Managing Director of public finance at two investment banking firms. She served as Deputy Budget Director of the New York City Office of Management and Budget and as Director of Fiscal Studies for the State Senate Finance Committee. She also served as an Adjunct Professor at Columbia University. She holds a Bachelor's Degree in Political Science and Journalism from Syracuse University and a Master's degree in Public Administration from the State University of New York at Albany, Graduate School of Public Affairs.

LORA K. LEFEBVRE is the Managing Director of Policy and Program Development. She is responsible for the supervision and direction of the Authority's health care monitoring and higher education monitoring groups. Prior to joining the Authority in 1995, Ms. Lefebvre worked for the New York State Division of Budget for nine years in a number of different capacities, working in subject areas that included the State University of New York, school aid and public authority oversight. She holds a Bachelor of Arts in Political Science from Alfred University and a Master's degree in Public Administration from the State University of New York at Albany.

JOHN G. PASICZNYK is the Chief Financial Officer of the Authority. Mr. Pasicznyk is responsible for investment management and accounting, as well as the development of the financial policies for the Authority. Before joining the Authority in 1985, Mr. Pasicznyk worked in audit positions at KPMG Peat Marwick and Deloitte & Touche. He holds

a Bachelor's degree from Syracuse University and a Master of Business Administration degree from the Fuqua School of Business at Duke University.

JEFFREY M. POHL is General Counsel to the Authority. Mr. Pohl is responsible for all legal services including legislation, litigation, contract matters and the legal aspects of all Authority financings. He is a member of the New York State Bar, and most recently served as a counsel in the public finance group of a large New York law firm. Mr. Pohl had previously served in various capacities in State government with the Office of the State Comptroller and the New York State Senate. He holds a Bachelor's degree from Franklin and Marshall College and a Juris Doctor degree from Albany Law School of Union University.

DOUGLAS M. VAN VLECK is the Managing Director of Construction. In that capacity, he is responsible for the Authority's construction groups, including design, project management, rehabilitation, purchasing, interior design and engineering services. He has been with the Authority for over 25 years, where he has held increasingly responsible positions within the Construction Division. Mr. Van Vleck holds a Bachelor's degree from Siena College and Master of Business Administration from Rensselaer Polytechnic Institute.

### **Claims and Litigation**

Although certain claims and litigation have been asserted or commenced against the Authority, the Authority believes that these claims and litigation are covered by the Authority's insurance or by bonds filed with the Authority should the Authority be held liable in any of such matters, or that the Authority has sufficient funds available or the legal power and ability to seek sufficient funds to meet any such claims or judgments resulting from such litigation.

### **Other Matters**

#### *New York State Public Authorities Control Board*

The New York State Public Authorities Control Board (the "PACB") has authority to approve the financing and construction of any new or reactivated projects proposed by the Authority and certain other public authorities of the State. The PACB approves the proposed new projects only upon its determination that there are commitments of funds sufficient to finance the acquisition and construction of the projects. The Authority has obtained the approval of the PACB for the issuance of the Series 2004 Bonds.

#### *Legislation*

From time to time, bills are introduced into the State Legislature which, if enacted into law, would affect the Authority and its operations. The Authority is not able to represent whether such bills will be introduced or become law in the future. In addition, the State undertakes periodic studies of public authorities in the State (including the Authority) and their financing programs. Any of such periodic studies could result in proposed legislation which, if adopted, would affect the Authority and its operations.

#### *Environmental Quality Review*

The Authority complies with the New York State Environmental Quality Review Act and with the New York State Historic Preservation Act of 1980, and the respective regulations promulgated thereunder respecting the Project to the extent such acts and regulations are applicable.

#### *Independent Auditors*

The accounting firm of KPMG LLP audited the financial statements of the Authority for the fiscal year ended March 31, 2003. Copies of the most recent audited financial statements are available upon request at the offices of the Authority.

## **PART 8 - LEGALITY OF THE SERIES 2004 BONDS FOR INVESTMENT AND DEPOSIT**

Under New York State law, the Series 2004 Bonds are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees, conservators and other fiduciaries in the State may properly and legally invest funds in their control.

The Series 2004 Bonds may be deposited with the State comptroller to secure deposits of State moneys in banks, trust companies and industrial banks.



## **PART 9 - NEGOTIABLE INSTRUMENTS**

The Series 2004 Bonds shall be negotiable instruments as provided in the Act, subject to the provisions for registration and transfer contained in the Resolution and in the Series 2004 Bonds.

## **PART 10 - TAX EXEMPTION**

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 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 2004 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 interest on the Series 2004 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York). A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2004 Bonds. The Authority and the University have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2004 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2004 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2004 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. 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), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Series 2004 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2004 Bonds.

In addition, Bond Counsel has relied, among other things, on the opinion of General Counsel to the University regarding the current qualification of the University as an organization described in Section 501(c)(3) of the Code and the intended operation of the facilities to be financed and refinanced by the Series 2004 Bonds as substantially related to the University’s charitable purpose under Section 513(a) of the Code. Such opinion is subject to a number of qualifications and limitations. Furthermore, General Counsel to the University cannot give and has not given any opinion or assurance about the future activities of the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or changes in enforcement thereof by the Internal Revenue Service. Failure of the University to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2004 Bonds in a manner that is substantially related to the University’s charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2004 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2004 Bonds.

Certain requirements and procedures contained or referred to in the Resolution, the Loan Agreement, the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2004 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2004 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including the City of New York), the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Series 2004 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Series 2004 Bonds. Prospective purchasers of the Series 2004 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2004 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the University, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the University have covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the Authority, the University or the Beneficial Owners regarding the tax-exempt status of the Series 2004 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the University and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the University legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2004 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2004 Bonds, and may cause the Authority, the University or the Beneficial Owners to incur significant expense.

#### **PART 11 - STATE NOT LIABLE ON THE SERIES 2004 BONDS**

The Act provides that notes and bonds of the Authority shall not be a debt of the State nor shall the State be liable thereon, nor shall such notes or bonds be payable out of any funds other than those of the Authority. The Resolution specifically provides that the Series 2004 Bonds shall not be a debt of the State nor shall the State be liable thereon.

#### **PART 12 - COVENANT BY THE STATE**

The Act states that the State pledges and agrees with the holders of the Authority's notes and bonds that the State will not limit or alter the rights vested in the Authority to provide projects, to establish and collect rentals therefrom and to fulfill agreements with the holders of the Authority's notes and bonds or in any way impair the rights and remedies of the holders of such notes or bonds until such notes or bonds and interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of such notes or bonds are fully met and discharged. Notwithstanding the State's pledges and agreements contained in the Act, the State may in the exercise of its sovereign power enact or amend its laws which, if determined to be both reasonable and necessary to serve an important public purpose, could have the effect of impairing these pledges and agreements with the Authority and with the holders of the Authority's notes or bonds.

#### **PART 13 - LEGAL MATTERS**

Certain legal matters incidental to the authorization and issuance of the Series 2004 Bonds by the Authority are subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, Bond Counsel, whose approving opinion will be delivered with the Series 2004 Bonds. The proposed form of Bond Counsel's opinion is set forth in Appendix F hereto.

Certain legal matters will be passed upon for the University by its University Counsel and Secretary of the Corporation, James Mingle, Esq., Ithaca, New York. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series 2004 Bonds or questioning or affecting the validity of the Series 2004 Bonds or the proceedings and authority under which they are to be issued.

#### **PART 14 - UNDERWRITING**

Morgan Stanley & Co. Incorporated has agreed, subject to certain conditions, to purchase the Series 2004 Bonds from the Authority at an aggregate purchase price of \$91,571,559.67 and to reoffer the Series 2004 Bonds at par. The Underwriter will be obligated to purchase all such Series 2004 Bonds if any are purchased.

The Series 2004 Bonds may be offered and sold to certain dealers (including the Underwriter) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriter.

#### **PART 15 - CONTINUING DISCLOSURE**

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the University has undertaken in a written agreement for the benefit of the Series 2004 Bondholders to provide to the Authority, on or before 120 days after the end of each fiscal year, commencing with the fiscal year of the University ending June 30, 2004 for filing by the Authority with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission in accordance with Rule 15c2-12 (each a "Repository"), and if and when one is established, the New York State Information Depository (the "State Information Depository"), on an annual basis, operating data and financial information of the type hereinafter described which is included in this Official Statement (the "Annual Information"), together with the University's annual financial statements prepared in accordance with generally accepted accounting principles and audited by an independent firm of certified public accountants in accordance with generally accepted accounting standards.

If, and only if, and to the extent that it receives the Annual Information and annual financial statements described above from the University, the Authority has undertaken in a written agreement for the benefit of the Bondholders, on behalf of and as agent for the University, to file such information and financial statements, as promptly as practicable, but no later than three business days after receipt of the information by the Authority from the University, with each such Repository and with the State Information Depository. In addition, the Authority has undertaken, for the benefit of the Series 2004 Bondholders, to provide each such Repository or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Information Depository, in a timely manner, the notices required to be provided by Rule 15c2-12 and described below (the "Notices").

The Annual Information means (a) annual information concerning the University consisting of operating data and financial information of the type included in "PART 4 - THE UNIVERSITY," herein under the headings "OPERATING INFORMATION" and "ANNUAL FINANCIAL STATEMENT INFORMATION" relating to: (1) *student admissions*, similar to that set forth under the table headings, "Freshman Admission Statistics," "Percentage of Entering Freshman Scoring 600+ on SAT" and "Graduate and Professional School Admissions;" (2) *student enrollment*, similar to that set forth under the table heading, "Enrollment Summary;" (3) *tuition and other student charges*, similar to that set forth under the table heading, "Tuition and Other Student Charges - Tuition Rates;" (4) *financial aid*, similar to that set forth under the table heading, "Sources of Undergraduate Scholarship and Grant Aid;" (5) *faculty*, similar to that set forth under the table heading, "Faculty Profile;" (6) *labor relations*, including material information about union contracts and, unless such information is included in the audited financial statements of the University, retirement plans; (7) *federal government grants and contracts*, unless such information is included in the audited financial statements of the University; (8) *endowment and similar funds*, unless such information is included in the audited financial statements of the University; (9) *gifts and bequests*, unless such information is included in the audited financial statements of the University; (10) *plant values*, unless such information is included in the audited financial statements of the University; and (11) *outstanding long-term indebtedness*, unless such information is included in the audited financial statements of the University; and (b) a narrative explanation, if necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial and operating data concerning the University and in judging the financial and operating condition of the University.

The Notices include notices of any of the following events with respect to the Series 2004 Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2004 Bonds; (7) modifications to the rights of holders of the Series 2004 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2004 Bonds; and (11) rating changes. In addition, the Authority will undertake, for the benefit of the Holders of the Series 2004 Bonds, to provide to each Repository or the MSRB and to the State Information Depository, in a timely manner, notice of any failure by the University to provide the Annual Information and annual financial statements by the date required in the University's undertaking described above.

The sole and exclusive remedy for breach or default under the agreement to provide continuing disclosure described above is an action to compel specific performance of the undertakings of the University and/or the Authority, and no person, including any Holder of the Series 2004 Bonds, may recover monetary damages thereunder under any circumstances. The Authority or the University may be compelled to comply with their respective obligations under the continuing disclosure agreement (i) in the case of enforcement of their obligations to provide information required thereunder by any Holder of Outstanding Series 2004 Bonds or by the Trustee on behalf of the Holders of Outstanding Series 2004 Bonds or (ii) in the case of challenges to the adequacy of the information provided, by the Trustee on behalf of the Holders of the Series 2004 Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than 25% in aggregate principal amount of Series 2004 Bonds at the time Outstanding. A breach or default under the agreement shall not constitute an Event of Default under the Resolution, the Series 2004 Resolutions or the Loan Agreement. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the agreement, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the description is not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The agreement, however, may be amended or modified without Series 2004 Bondholders' consent under certain circumstances set forth therein. Copies of the agreement when executed by the parties thereto upon the delivery of the Series 2004 Bonds will be on file at the principal office of the Authority.

## **PART 16 - MISCELLANEOUS**

References in this Official Statement to the Act, the Resolution, the Series 2004 Resolutions and the Loan Agreement do not purport to be complete. Refer to the Act, the Resolution, the Series 2004 Resolutions and the Loan Agreement for full and complete details of their provisions. Copies of the Resolution, the Series 2004 Resolutions and the Loan Agreement are on file with the Authority and the Trustee.

The agreements of the Authority with Holders of the Series 2004 Bonds are fully set forth in the Resolution. Neither any advertisement of the Series 2004 Bonds nor this Official Statement is to be construed as a contract with purchasers of the Series 2004 Bonds.

Any statements in this Official Statement involving matters of opinion, whether or not expressly stated, are intended merely as expressions of opinion and not as representations of fact.

The information regarding the University, the 2004 Project, the Estimated Sources and Uses of Funds, and the financial statements in Appendix B was supplied by the University. The Authority believes that this information is reliable, but the Authority makes no representations or warranties whatsoever as to the accuracy or completeness of this information.

The information regarding DTC and DTC's book-entry only system has been furnished by DTC. The Authority believes that this information is reliable, but makes no representations or warranties whatsoever to the accuracy or completeness of this information.

“Appendix A - Definitions,” “Appendix C - Summary of Certain Provisions of the Loan Agreement,” “Appendix D - Summary of Certain Provisions of the Resolution,” “Appendix E - Auction Procedures” and “Appendix F - Form

of Approving Opinion of Bond Counsel” have been prepared by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel.

Financial Statements as of and for the years ended June 30, 2003 and 2002 of the University included in Appendix B have been audited by the University's independent auditors, KPMG LLP, to the extent and for the periods indicated in their report.

The University has reviewed the parts of this Official Statement describing the University, the 2004 Project, the Estimated Sources and Uses of Funds and Appendix B. The University shall certify as of the dates of sale and delivery of the Series 2004 Bonds that such parts do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to make the statements made therein, in the light of the circumstances under which the statements are made, not misleading.

The University has agreed to indemnify the Authority, the Underwriter and certain others against losses, claims, damages and liabilities arising out of any untrue statements or omissions of statements of any material fact as described in the preceding paragraph.

The execution and delivery of this Official Statement by an Authorized Officer have been duly authorized by the Authority.

DORMITORY AUTHORITY OF  
THE STATE OF NEW YORK

By: /s/ Maryanne Gridley  
Authorized Officer

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## **DEFINITIONS**

*Appendix A*

**[THIS PAGE INTENTIONALLY LEFT BLANK]**



## DEFINITIONS

The following are definitions of certain terms used in this Official Statement.

“*Accreted Value*” means with respect to any Capital Appreciation Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Capital Appreciation Bond or a Bond Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Accreted Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Accreted Values for such Valuation Dates;

“*Act*” means the Dormitory Authority Act (being Chapter 524 of the Laws of 1944 of the State, as amended, and constituting Title 4 of Article 8 of the Public Authorities Law, as amended);

“*Annual Administrative Fee*” means the fee payable during each Bond Year for the general administrative and supervisory expenses of the Authority in an amount more particularly described in the Loan Agreement, and (ii) one or more separate certificate or document executed by an Authorized Officer of the Authority and agreed to by an Authorized Officer of the University with respect to any other Series of Bonds;

“*Appreciated Value*” means with respect to any Deferred Income Bond (i) as of any Valuation Date, the amount set forth for such date in the Series Resolution authorizing such Deferred Income Bond or a Bond Series Certificate and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, calculated based on the assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve thirty-day months, and (2) the difference between the Appreciated Values for such Valuation Dates, and (iii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date;

“*Arbitrage Rebate Fund*” means the fund so designated, created and established pursuant to the Resolution;

“*Authority*” means the Dormitory Authority of the State of New York, a body corporate and politic constituting a public benefit corporation of the State created by the Act, or any body, agency or instrumentality of the State which succeeds to the rights, powers, duties and functions of the Authority;

“*Authority Fee*” means the fee payable to the Authority consisting of all of the Authority's internal costs and overhead expenses attributable to the issuance of the Bonds of a Series and the construction of the Projects, as more particularly described in the Loan Agreement, and (ii) one or more separate certificates or documents executed by an Authorized Officer of the Authority and agreed to by an Authorized Officer of the University with respect to any other Series of Bonds;

“*Authorized Newspaper*” means The Bond Buyer or any other newspaper of general circulation printed in the English language and customarily published at least once a day for at least five days (other than legal holidays) in each calendar week in the Borough of Manhattan, City and State of New York, designated by the Authority;

“*Authorized Officer*” means (i) in the case of the Authority, the Chair, the Vice-Chair, the Treasurer, an Assistant Treasurer, the Secretary, an Assistant Secretary, the Executive Director, the Deputy Executive Director, the Chief Financial Officer, the Managing Director of Public Finance, the Managing Director of Construction, the

Managing Director of Policy and Program Development, the Chief Financial Officer, the General Counsel, the Deputy General Counsel, the Associate General Counsel, and an Assistant General Counsel, and when used with reference to any act or document also means any other person authorized by a resolution or the by-laws of the Authority to perform such act or execute such document; (ii) in the case of the University, any officer of the University, and when used with reference to any act or document, means the person or persons authorized by a resolution or the by-laws of the University, or designated in writing by an officer of the University to act on such officer's behalf, to perform such act or execute such document; and (iii) in the case of the Trustee, any officer of the Trustee with direct responsibility for the administration of the Resolution and also means any other person authorized to perform any act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee;

“*Available Assets*” means total assets of the University less all permanently restricted net assets of the University all as shown on the financial statements of the University determined in accordance with generally accepted accounting principles applied on a consistent basis;

“*Bond or Bonds*” means any of the bonds of the Authority authorized pursuant to the Resolution and issued pursuant the Resolution and to a Series Resolution;

“*Bond Counsel*” means an attorney or a law firm, appointed by the Authority, having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal obligations;

“*Bondholder or Holder of Bonds or Holder*” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond;

“*Bond Purchase Fund*” means the fund so designated, created and established pursuant to the Resolution;

“*Bond Series Certificate*” means a certificate of an Authorized Officer of the Authority fixing terms, conditions and other details of Bonds in accordance with the delegation of power to do so under the Resolution or under a Series Resolution;

“*Bond Year*” means a period of twelve (12) consecutive months beginning July 1 in any calendar year and ending on June 30 of the succeeding calendar year;

“*Book-Entry Bond*” means a Bond authorized to be issued, and issued to and registered in the name of, a Depository for the participants in such Depository or the beneficial owner of such Bond;

“*Business Day*” means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which banking institutions chartered by the State or the United States of America or the Trustee, are legally authorized to close in The City of New York; provided that, with respect to Option Bonds and Variable Rate Bonds of a Series, such a term means any day which is not a Saturday, Sunday or a legal holiday in the State or a day on which the New York Stock Exchange, banking institutions chartered by the State or the United States of America, the Trustee or the issuer of the Credit Facility or Liquidity Facility for such Bonds are legally authorized to close in The City of New York;

“*Capital Appreciation Bond*” means any Bond as to which interest is compounded on each Valuation Date therefor and is payable only at the maturity or prior redemption thereof;

“*Code*” means the Internal Revenue Code of 1986 or any successor provisions of law, and the applicable regulations thereunder;

“*Construction Fund*” means the fund so designated, created and established for a Project pursuant to a Series Resolution;

“*Contract Documents*” means any general contract or agreement for the construction of a Project, notice to bidders, information for bidders, form of bid, general conditions, supplemental general conditions, general

requirements, supplemental general requirements, bonds, plans and specifications, addenda, change orders, and any other documents entered into or prepared by or on behalf of the University relating to the construction of a Project, and any amendments to the foregoing;

“*Cost or Costs of Issuance*” means the items of expense incurred in connection with the preparation, authorization, sale and issuance of Bonds and the preparation and execution of the Loan Agreement, which items of expense shall include, but not be limited to, document printing and reproduction costs, filing and recording fees, costs of credit ratings, initial fees and charges of the Trustee, legal fees and charges, professional consultants’ fees, fees and charges for execution, transportation and safekeeping of Bonds, premiums, fees and charges for insurance on Bonds, commitment fees or similar charges relating to a Credit Facility or a Liquidity Facility, costs and expenses of refunding Bonds or other bonds or notes of the Authority, costs and expenses incurred pursuant to a Remarketing Agreement, and other costs, charges and fees, including the Authority Fee, in connection with the foregoing;

“*Cost or Costs of a Project*” means costs and expenses or the refinancing of costs and expenses determined by the Authority to be necessary in connection with a Project, including, but not limited to, (i) costs and expenses of the acquisition of the title to or other interest in real property, including easements, rights-of-way and licenses, (ii) cost and expenses incurred for labor and materials and payments to contractors, builders and materialmen, for the acquisition, construction, reconstruction, rehabilitation, repair and improvement of such Project, (iii) the cost of surety bonds and insurance of all kinds, including premiums and other charges in connection with obtaining title insurance, that may be required or necessary prior to completion of such Project, which is not paid by a contractor or otherwise provided for, (iv) the costs and expenses for design, environmental inspections and assessments, test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction of such Project, (v) costs and expenses required for the acquisition of equipment or machinery, (vi) all other costs which the University shall be required to pay for the acquisition, construction, reconstruction, rehabilitation, repair, improvement and equipping of such Project, (vii) any sums required to reimburse the University or the Authority for advances made by them for any of the above items or for other costs incurred and for work done by them in connection with such Project (including interest on moneys borrowed from parties other than the University), (viii) interest on Bonds prior to, during and for a reasonable period after the acquisition, construction, reconstruction, rehabilitation, repair, improvement or equipping of such project, and (ix) fees, expenses and liabilities of the Authority incurred in connection with such Project or pursuant to the Loan Agreement, the Resolution, a Credit Facility, a Liquidity Facility or a Remarketing Agreement;

“*Debt*” means indebtedness for borrowed money whether or not evidenced by notes, bonds, debentures or other similar evidences of indebtedness, or any guarantee of indebtedness for borrowed money, including indebtedness under purchase money mortgages, capital leases, installment sales contracts and similar security arrangements which appear as debt on the audited balance sheet of the University;

“*Debt Service Fund*” means the fund so designated, created and established pursuant to the Resolution;

“*Defeasance Security*” means (a) a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment), an obligation to which the full faith and credit of the United States of America are pledged (other than an obligation the payment of the principal of which is not fixed as to amount or time of payment) and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America, which, in each case, is not subject to redemption prior to maturity other than at the option of the holder thereof or which has been irrevocably called for redemption on a stated future date or (b) an Exempt Obligation (i) which is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (ii) which is secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or direct obligations of the United States of America which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions

referred to in clause (i) above, (iii) as to which the principal of and interest on the direct obligations of the United States of America which have been deposited in such fund, along with any cash on deposit in such fund, are sufficient to pay the principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (i) above, and (iv) which are rated by each Rating Service in the highest rating category of each Rating Service for such Exempt Obligation; provided, however, that such term shall not mean any interest in a unit investment trust or mutual fund;

*“Deferred Income Bond”* means any Bond as to which interest accruing thereon prior to the Interest Commencement Date of such Bond is compounded on each Valuation Date for such Deferred Income Bond, and as to which interest accruing after the Interest Commencement Date is payable periodically during each Bond Year;

*“Depository”* means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State, or its nominee, or any other person, firm, association or corporation designated in the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating to a Series of Bonds to serve as securities depository for the Bonds of such Series;

*“Exempt Obligation”* means an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is (i) excludable from gross income under Section 103 of the Code, (ii) not an item of tax preference within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” and numerical notation, in the highest rating category by each Rating Agency, or, if such obligation is not rated by a Rating Agency, has been assigned a comparable rating by another nationally recognized rating service;

*“General Liabilities”* means total liabilities all as shown on the financial statements of the University determined in accordance with generally accepted accounting principles applied on a consistent basis;

*“Government Obligation”* means a direct obligation of the United States of America, an obligation the principal of and interest on which are guaranteed by the United States of America, an obligation (other than an obligation the payment of the principal of which is not fixed as to amount or time or payment) to which the full faith and credit of the United States of America are pledged, an obligation of any federal agency approved by the Authority, and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or a share or interest in a mutual fund, partnership or other fund wholly comprised of such obligations;

*“Governmental Requirements”* means any present and future laws, rules, orders, ordinances, regulations, statutes, requirements and executive orders applicable to a Project, of the United States, the State and any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of them, now existing or hereafter created, and having or asserting jurisdiction over a Project or any part thereof;

*“Insurance Consultant”* means a person or firm who is not an employee or officer of the University or an employee or member of the Authority who is appointed by the University and is satisfactory to the Trustee, is qualified to survey risks and to recommend insurance coverage for hospital facilities and services and organizations engaged in like operations, has actuarial personnel experienced in the area of insurance for which the University is insuring and who has a favorable national reputation for skill and experience in such surveys and such recommendations;

*“Interest Commencement Date”* means, with respect to any particular Deferred Income Bond, the date prior to the maturity date thereof specified in the Series Resolution authorizing such Bond or a Bond Series Certificate, after which interest accruing on such Bond shall be payable on the interest payment date immediately succeeding such Interest Commencement Date and semi-annually thereafter periodically during each Bond Year;

*“Investment Agreement”* means an agreement for the investment of moneys with a Qualified Financial

Institution;

“*Liens*” means any mortgage, pledge, lien, charge, security interest or lease in the nature thereof (including any conditional sale agreement, equipment trust agreement or other title retention agreement) or other encumbrance of whatsoever nature;

“*Loan Agreement*” means the Loan Agreement executed by and between the Authority and the University, in connection with the issuance of the Bonds, as the same shall have been heretofore or hereafter amended, supplemented or otherwise modified as permitted by the Resolution and by the Loan Agreement;

“*Management Consultant*” means a nationally recognized accounting or management consulting firm or other similar firm, experienced in reviewing and assessing university and hospital operations, acceptable to the Authority;

“*Maximum Interest Rate*” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, which shall be set forth in the Series Resolution authorizing such Bond or a Bond Series Certificate, that shall be the maximum rate at which such Bond may bear interest at any time;

“*Minimum Interest Rate*” means, with respect to any particular Variable Interest Rate Bond, a numerical rate of interest, if any, set forth in the Series Resolution authorizing such Bond or a Bond Series Certificate, that shall be the minimum rate at which such Bond may bear interest at any time;

“*Moody’s*” means Moody’s Investors Service Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns;

“*Note or Notes*” means any obligation or obligations described in the Resolution and issued by the Authority in accordance with the Act;

“*Option Bond*” means any Bond which by its terms may be tendered by and at the option of the Holder thereof for redemption by the Authority prior to the stated maturity thereof or for purchase thereof, or the maturity of which may be extended by and at the option of the Holder thereof;

“*Outstanding,*” when used in reference to Bonds, means, as of a particular date, all Bonds authenticated and delivered under the Resolution and under any applicable Series Resolution except (i) any Bond cancelled by the Trustee at or before such date; (ii) any Bond deemed to have been paid in accordance with the Resolution; (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; (iv) any Option Bond tendered or deemed tendered in accordance with the provisions of the Series Resolution authorizing such Bond on the applicable adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution and in the Series Resolution authorizing such Bond;

“*Paying Agent*” means, with respect to the Bonds of any Series, the Trustee and any other bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution or of a Series Resolution, a Bond Series Certificate or any other resolution of the Authority adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed;

“*Project*” means a “dormitory” as defined in the Act, which may include more than one part, financed in whole or in part from the proceeds of the sale of Bonds, as more particularly described and designated in the Resolution or any Series Resolution;

“*Qualified Financial Institution*” means (i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, (ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a

foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of any state of the United States of America, (iii) a corporation affiliated with or which is a subsidiary of any entity described in (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity or (iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality approved by the Authority; provided, however, that in the case of any entity described in (ii) or (iii) above, the unsecured or uncollateralized long-term debt obligations of which, or obligations secured or supported by a letter of credit, contract, agreement or surety bond issued by any such organization, at the time an Investment Agreement is entered into by the Authority are rated, without regard to qualification of such rating by symbols such as "+" or "-" or numerical notation, "A" or better by each Rating Service, or, if such obligations are not rated by a Rating Service, have been assigned a comparable rating by another nationally recognized rating service; provided, however, in no event shall such obligations be rated lower than the lowest rating assigned by a Rating Service to any Outstanding Bonds;

*“Qualified Hedge”* means, with respect to any Bonds, any financial arrangement (i) that is entered into by the Authority at the request of the University or the University with the approval of the Authority with an entity which is a Qualified Hedge Provider at the time the arrangement is entered into; (ii) which provides that the Authority or the University shall pay to such Qualified Hedge Provider for any period an amount based on the interest accruing at a fixed rate on an amount equal to the principal amount of such Bonds Outstanding, and that such entity shall pay to the Authority during such period an amount based on the interest accruing on a principal amount equal to the same principal amount of such Bonds, at a variable rate of interest computed according to a formula set forth in such arrangement, or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Hedge with respect to such Bonds;

*“Qualified Hedge Provider”* means, with respect to any Bonds, an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability or whose payment obligations under a Qualified Hedge are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability are rated (at the time the subject Qualified Hedge is entered into) at least as high as A3 and A- , or the equivalent thereof, by each Rating Service;

*“Record Date”* means, unless the Series Resolution authorizing a Series of Bonds or a Bond Series Certificate relating thereto provides otherwise with respect to Bonds of such Series, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding an interest payment date;

*“Redemption Price,”* when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution or to the applicable Series Resolution or Bond Series Certificate;

*“Refunding Bonds”* means all Bonds, whether issued in one or more Series of Bonds, authenticated and delivered on original issuance pursuant to the Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution;

*“Report Date”* means June 30 and December 31 of each year;

*“Resolution”* means the “Cornell University Revenue Bond Resolution”, adopted January 26, 2000, as amended or supplemented by Supplemental Resolutions or Series Resolutions in accordance with the terms and provisions thereof;

*“Restricted Property”* means any of the University’s assets;

*“Revenues”* means all payments received or receivable by the Authority pursuant to the Loan Agreement, which are to be paid to the Trustee (except payments to the Trustee for the administrative costs and expenses or fees of the Trustee and payments to the Trustee for deposit to the Arbitrage Rebate Fund);

“S&P” means Standard & Poor’s Corporation, a corporation organized and existing under the laws of the State of New York, and its successors and assigns;

“*Securities*” means (i) moneys, (ii) Government Obligations, (iii) Exempt Obligations, (iv) any bond, debenture, note, preferred stock or other similar obligation of any corporation incorporated in the United States, which security, at the time an investment therein is made or such security is deposited in any fund or account hereunder, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, not less than the second highest rating category by each Rating Agency or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority and (v) common stock of any corporation incorporated in the United States of America whose senior debt, if any, at the time an investment in its stock is made or its stock is deposited in any fund or account established under the Resolution, is rated, without regard to qualification of such rating by symbols such as “+” or “-” or numerical notation, not less than the second highest rating category by each Rating Agency or is rated with a comparable rating by any other nationally recognized rating service acceptable to an Authorized Officer of the Authority;

“*Serial Bonds*” means the Bonds so designated in a Series Resolution or a Bond Series Certificate;

“*Series*” means all of the Bonds authenticated and delivered on original issuance and pursuant hereto and to the Series Resolution authorization such Bonds as a separate Series of Bonds or a Bond Series Certificate, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions;

“*Series Resolution*” means a resolution of the Authority authorizing the issuance of a Series of Bonds adopted by the Authority pursuant to the Series Resolution;

“*Short-Term Debt*” means Debt of the University, other than Debt to the Authority, (i) which Debt is payable upon demand, (ii) twenty percent (20%) or more of the original principal amount of which Debt is payable in any Bond Year prior to the Bond Year during which Bonds are no longer Outstanding or (iii) the principal amount of which is payable prior to maturity at the option of the holder thereof (other than upon acceleration upon an event of default) prior to the Bond Year during which Bonds are no longer Outstanding, including any note, bond, debenture or other evidence of indebtedness of the University which may be tendered to the University at the option of the holder thereof for purchase, payment or redemption prior to maturity; provided that such term shall not include any Debt twenty percent (20%) or more of the original principal amount of which is payable during any Bond Year if (x) such Debt was incurred on the same date as other Debt of the University is incurred, (y) such Debt and such other Debt were incurred pursuant to a common plan of financing and (z) less than twenty percent (20%) of the aggregate original principal amount of such Debt and such other Debt is payable in each Bond Year prior to the Bond Year during which Bonds are no longer Outstanding; provided further that such term shall not include Debt less than twenty percent (20%) of the original principal amount of which is payable during each of the current and immediately succeeding two (2) Bond Years and Debt which is not payable at the option of the holder thereof during the current or either of the immediately succeeding two(2) Bond Years;

“*Sinking Fund Installment*” means, as of any date of calculation and with respect to any Bonds of a Series, so long as any Bonds thereof are Outstanding, the amount of money required by the Resolution or Series Resolution pursuant to which such Bonds were issued or by the applicable Bond Series Certificate, to be paid on a single future July 1 for the retirement of any Outstanding Bonds of said Series which mature after said future July 1, but does not include any amount payable by the Authority by reason only of the maturity of a Bond, and said future July 1 is deemed to be the date when a Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be Bonds entitled to such Sinking Fund Installment;

“*State*” means the State of New York;

“*Supplemental Resolution*” means any resolution of the Authority amending or supplementing the Resolution, any Series Resolution or any Supplemental Resolution adopted and becoming effective in accordance with the terms of the Resolution;

“*Tax Certificate and Agreement*” means the Tax Certificate and Agreement executed by an Authorized Officer of the Authority in connection with the issuance of Bonds of a Series;

“*Term Bonds*” means the Bonds so designated in a Series Resolution or a Bond Series Certificate and payable from Sinking Fund Installments;

“*Trustee*” means the bank or trust company appointed as Trustee for the Bonds pursuant to the Resolution and having the duties, responsibilities and rights provided for herein, and its successor or successors and any other bank or trust company which may at any time be substituted in its place pursuant hereto;

“*University*” means the institution of higher education, duly incorporated and existing under the laws of the State, whose principal campus is located in Ithaca, New York, the corporate name of which is “Cornell University” and any successor thereto as permitted by the Loan Agreement;

“*Valuation Date*” means (i) with respect to any Capital Appreciation Bond, the date or dates set forth in the Series Resolution authorizing such Bond or a Bond Series Certificate on which specific Accreted Values are assigned to such Capital Appreciation Bond, and (ii) with respect to any Deferred Income Bond, the date or dates prior to the Interest Commencement Date set forth in the Series Resolution authorizing such Bond or a Bond Series Certificate on which specific Appreciated Values are assigned to such Deferred Income Bond;

“*Variable Interest Rate*” means a variable interest rate or rates to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds, the method of computing such variable interest rate is specified in the Series Resolution authorizing such Bonds or a Bond Series Certificate and shall be based on (i) a percentage or percentages or other function of an objectively determinable interest rate or rates (e.g., a prime lending rate) or a function of such objectively determinable interest rate or rates which may be in effect from time to time or at a particular time or times; provided that such variable interest rate shall be subject to a Maximum Interest Rate and may be subject to a Minimum Interest Rate and that there may be an initial rate specified, in each case as provided in such Series Resolution or a Bond Series Certificate or (ii) a stated interest rate that may be changed from time to time as provided in the Series Resolution authorizing such Bonds or a Bond Series Certificate; and provided that such interest rate shall be subject to a Maximum Interest Rate; and provided, further, that such Series Resolution or Bond Series Certificate shall also specify either (i) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective;

“*Variable Interest Rate Bond*” means any Bond which bears a Variable Interest Rate, provided that a Bond the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be a Variable Interest Rate Bond.



**FINANCIAL STATEMENTS OF  
CORNELL UNIVERSITY  
(WITH INDEPENDENT AUDITORS' REPORT THEREON)**

*Appendix B*

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

---

**Independent Auditor's Report**

To the Board of Trustees  
Cornell University

We have audited the accompanying statement of financial position of Cornell University as of June 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2002 financial statements and, in our report dated September 10, 2002, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornell University as of June 30, 2003, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

September 9, 2003  
Rochester, New York

## STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2003 (IN THOUSANDS)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	General Operations	Physical Capital	Financial Capital	2003 Total	2002 Total
<b>Assets</b>					
1 Cash and cash equivalents (note 2)	\$ 36,546	\$ 37,609	\$ 25,703	\$ 99,858	\$ 107,422
2 Collateral for securities loaned (note 2)			205,238	205,238	86,599
3 Investments (note 2)	529,958	81,004	3,012,004	3,622,966	3,549,764
4 Accounts receivable, net (note 3)					
5 Government	45,295			45,295	43,925
6 Patient	57,065			57,065	60,035
7 Contributions	207,541	114,659	59,870	382,070	468,220
8 Other	79,113	4,702	1,859	85,674	83,368
9 Inventories and deferred charges	35,096	3,763		38,859	37,443
10 Student loans receivable (note 3C)	52,005		17,745	69,750	72,998
11 Land, buildings, and equipment, net (note 5)		1,583,491		1,583,491	1,512,469
12 Funds held in trust by others (note 1D)			93,818	93,818	92,681
13 Advances for capital investment	22,628	( 22,628 )			
14 Total assets	<u>\$1,065,247</u>	<u>\$1,802,600</u>	<u>\$3,416,237</u>	<u>\$6,284,084</u>	<u>\$6,114,924</u>
<b>Liabilities</b>					
15 Accounts payable and accrued expenses	\$ 163,259	\$ 27,000		\$ 190,259	\$ 159,380
16 Securities loan agreements payable (note 2)			\$ 205,238	205,238	86,599
17 Deposits and deferred revenues	57,639	1,101		58,740	35,966
18 Deferred benefits (note 7)	107,607		47,278	154,885	129,974
19 Funds held in trust for others (note 1E)			62,107	62,107	74,165
20 Living trust obligations (note 1C)			71,692	71,692	66,449
21 Bonds, mortgages, & notes payable (note 6)	19,173	475,575		494,748	518,648
22 Refundable government grants	43,477			43,477	43,518
23 Total liabilities	<u>391,155</u>	<u>503,676</u>	<u>386,315</u>	<u>1,281,146</u>	<u>1,114,699</u>
<b>Net Assets (note 1B)</b>					
<b>24 Unrestricted</b>					
25 Available for operations	319,705			319,705	292,438
26 Designated for student loans	5,091			5,091	4,822
27 Designated for plant		155,659		155,659	165,986
28 Net investment in plant		956,311		956,311	923,075
29 Appreciation on true endowments			874,127	874,127	970,199
30 Funds functioning as endowments			736,099	736,099	724,311
<b>31 Temporarily restricted</b>					
32 Available for operations	349,296			349,296	361,583
33 Designated for plant		186,954		186,954	217,552
34 Funds functioning as endowments			81,323	81,323	67,197
35 Funds subject to living trust agreements			51,916	51,916	51,281
36 Funds held in trust			35,681	35,681	33,570
<b>37 Permanently restricted</b>					
38 Student loan funds			29,995	29,995	28,545
39 True endowments			1,077,313	1,077,313	1,024,567
40 Funds subject to living trust agreements			33,370	33,370	34,789
41 Funds held in trust			110,098	110,098	100,310
42 Total net assets	<u>674,092</u>	<u>1,298,924</u>	<u>3,029,922</u>	<u>5,002,938</u>	<u>5,000,225</u>
43 Total liabilities and net assets	<u>\$1,065,247</u>	<u>\$1,802,600</u>	<u>\$3,416,237</u>	<u>\$6,284,084</u>	<u>\$6,114,924</u>

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

**STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)**

(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	General Operations		Physical Capital	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
<b>Revenues and other additions</b>				
1 Tuition and fees	\$ 493,217			
2 Scholarship allowance	( 144,017 )			
3 Net tuition and fees	349,200			
4 State appropriations	145,747		\$ 12,961	
5 Federal appropriations	18,770			
6 Federal grants and contracts	397,244			
7 State and local grants and contracts	23,979			
8 Private grants and contracts	35,672			
9 Contributions	95,549	\$ 35,669	3,206	\$ 8,044
10 Interest and dividends	36,733	3,678	1,597	1,231
11 Net realized gain (loss) on investments	( 407 )	5		
12 Net unrealized gain (loss) on investments	33,792		( 15,700 )	
13 Medical Physicians' Organization	306,469			
14 Enterprises and subsidiaries	143,358			
15 Educational departments	60,549		4	
16 Other sources	55,945	( 1,475 )	2,598	448
17 Total revenues	1,702,600	37,877	4,666	9,723
18 Investment payout	131,323	14,268	553	127
19 Net assets released from restrictions	67,178	( 67,178 )	920	( 920 )
20 Capital investments (withdrawals)	( 101,420 )	2,746	145,267	( 39,528 )
21 Total revenues and other additions	1,799,681	( 12,287 )	151,406	( 30,598 )
<b>Expenses (Note 8)</b>				
22 Salaries and wages	973,240			
23 Employee benefits	217,535			
24 Purchased services	129,258			
25 Supplies and general	335,959			
26 Utilities, rents, and taxes	94,154			
27 Interest expense	21,999			
28 Depreciation			123,261	
29 Other			5,236	
30 Total expenses	1,772,145		128,497	
31 Change in net assets	27,536	( 12,287 )	22,909	( 30,598 )
32 Total net assets, beginning of year	297,260	361,583	1,089,061	217,552
33 Total net assets, end of year	\$ 324,796	\$ 349,296	\$1,111,970	\$ 186,954

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

			Financial Capital			
Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total	2002 Total		
			\$ 493,217	\$ 462,830		1
			( 144,017 )	( 133,166 )		2
			349,200	329,664		3
			158,708	165,857		4
			18,770	19,495		5
			397,244	329,884		6
			23,979	22,560		7
			35,672	33,976		8
\$ 21,593	\$ 18,043	\$ 40,502	222,606	437,373		9
15,556	16,887	15,473	91,155	119,065		10
( 90,896 )	1,444	5,141	( 84,713 )	( 109,531 )		11
107,261	1,157	( 451 )	126,059	( 224,222 )		12
			306,469	283,090		13
			143,358	137,075		14
			60,553	59,696		15
503	( 1,318 )	( 2,406 )	54,295	62,124		16
54,017	36,213	58,259	1,903,355	1,666,106		17
( 131,876 )	( 14,395 )					18
						19
( 6,425 )	( 4,946 )	4,306				20
( 84,284 )	16,872	62,565	1,903,355	1,666,106		21
			973,240	906,138		22
			217,535	192,029		23
			129,258	103,845		24
			335,959	326,907		25
			94,154	88,573		26
			21,999	23,088		27
			123,261	120,329		28
			5,236	15,465		29
			1,900,642	1,776,374		30
( 84,284 )	16,872	62,565	2,713	( 110,268 )		31
1,694,510	152,048	1,188,211	5,000,225	5,110,493		32
<u>\$1,610,226</u>	<u>\$ 168,920</u>	<u>\$1,250,776</u>	<u>\$5,002,938</u>	<u>\$5,000,225</u>		33

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2002)

	2003	2002
<b>Cash flows from operating activities</b>		
1 Increase/(decrease) in net assets	\$ 2,713	(\$ 110,268)
2 Adjustments to reconcile change in net assets to net cash provided by operating activities		
<b>3 Nonoperating items</b>		
4 Contributions for physical and financial capital	( 90,228 )	( 184,085 )
5 Net realized (gains)/losses on investments	84,713	109,531
6 Income restricted for financial capital	( 13,067 )	( 22,453 )
<b>7 Noncash items</b>		
8 Depreciation	123,261	120,329
9 Net unrealized (gains)/losses on investments	( 126,059 )	224,222
10 Loss on equipment disposals	2,628	9,853
11 Provision for receivable allowances	1,213	21,422
12 Accretion of bond discount	973	914
13 Other noncash items	1,705	1,167
<b>14 Change in assets and liabilities</b>		
15 Accounts receivable	85,750	( 113,206 )
16 Inventories and deferred charges	( 3,113 )	3,750
17 Accounts payable and accrued expenses	30,879	8,384
18 Deposits and deferred revenues	22,774	4,801
19 Deferred benefits	24,911	9,897
20 Refundable government grants	( 41 )	1,044
21 Net cash provided by operating activities	<u>149,012</u>	<u>85,302</u>
<b>Cash flows from investing activities</b>		
22 Proceeds from the sale of investments	2,929,806	3,635,651
23 Purchase of investments	( 2,961,662 )	( 3,629,058 )
24 Acquisition of land, buildings, and equipment (net)	( 194,555 )	( 180,892 )
25 Student loans granted	( 13,888 )	( 11,596 )
26 Student loans repaid	15,608	13,766
27 Change in funds held in trust for others	( 12,058 )	( 29,751 )
28 Net cash used by investing activities	<u>( 236,749 )</u>	<u>( 201,880 )</u>
<b>Cash flow from financing activities</b>		
<b>29 Resources for long-term purposes</b>		
<b>30 Contributions restricted to</b>		
31 Investment in true endowment	37,642	84,642
32 Investment in physical capital	8,894	54,507
33 Investment subject to living trust agreements	4,097	7,246
34 Income restricted for financial capital	13,067	22,453
35 Contributions designated for funds functioning as endowments	37,239	28,282
<b>36 Other financing activities</b>		
37 Principal payments of bonds, mortgages, and notes payable	( 25,146 )	( 90,597 )
38 Proceeds from issuance of bonds, mortgages, and notes payable	274	75,730
39 Change in obligations under living trust agreements	4,106	( 33,909 )
40 Net cash provided by financing activities	<u>80,173</u>	<u>148,354</u>
41 Net change in cash and cash equivalents	( 7,564 )	31,776
42 Cash and cash equivalents, beginning of year	107,422	75,646
43 Cash and cash equivalents, end of year	<u>\$ 99,858</u>	<u>\$ 107,422</u>

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

### A. Description of the Organization

From a fiscal viewpoint, Cornell University consists of three major organizational units: Endowed Ithaca, which includes the endowed colleges, the central university administration, and the enterprise and service operations for the Ithaca campus; Contract Colleges at Ithaca (colleges operated by Cornell on behalf of New York State); and the Joan and Sanford I. Weill Medical College and Graduate School of Medical Sciences (Medical College) in New York City. All three units are subject to the common administrative authority and control of the Cornell University Board of Trustees and operate as self-supporting entities (net assets relating to one of the units are generally not available to the other units); the only legal limitations pertain to certain donor-restricted funds and funds of the contract colleges. Specifically, the laws establishing the contract colleges at Ithaca prohibit other segments of the university from using funds attributable to those colleges. Except as specifically required by law, the contract and endowed colleges at Ithaca are, to the extent practicable, governed by common management principles and policies determined within the private discretion of Cornell University. In addition to the three major organizational units, seven subsidiary corporations are included in the financial statements. All significant intercompany transactions and balances are eliminated in the accompanying consolidated financial statements.

### B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and presented in accordance with the AICPA Audit and Accounting Guide for Not-for-Profit Organizations. The standards for general

purpose external financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows, and are displayed based on the concept of “net assets.” The audit guide requires presentation of net assets and revenues, expenses, gains, and losses in three categories, based on the presence or absence of donor-imposed restrictions. The categories are Permanently Restricted, Temporarily Restricted, and Unrestricted Net Assets.

Permanently restricted net assets include the historical dollar amount of gifts, including pledges and trusts, as well as gains, all of which are explicitly required by donors to be permanently retained. Pledges and trusts are reported at their estimated fair value on the date of donation.

Temporarily restricted net assets include gifts, pledges, trusts, income, and gains that can be expended, but for which the use and purpose restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (e.g., capital projects, pledges to be paid in the future, and life income funds.)

Unrestricted net assets are the remaining net assets of the university, including appreciation on true endowments where the donor restrictions are deemed to have been met.

Temporarily restricted net assets are reported as reclassifications from temporarily restricted to unrestricted when the donor purpose has been fulfilled or when the stipulated time period has elapsed. Contributions that are released from restriction within the current fiscal year are classified as increases in unrestricted net assets in the year the contribution is received.



Table 1 shows a summary of the balances and changes in net assets by restriction class for the years ended June 30, 2003 and June 30, 2002.

Classifying and aggregating items with similar characteristics into reasonably homogeneous groups and separating items with differing characteristics is a basic reporting practice that increases the usefulness of the information. Cornell has chosen to separate financial statement activity into three primary groups: general operations, physical capital, and financial capital.

General operations includes the financial activities and balances that are the result of carrying on the primary and supporting missions of the university.

Physical capital includes the activities and balances related to the acquisition, renewal, and replacement of investment in the university's infrastructure.

Financial capital includes balances or activity related to amounts set aside for the long-term economic stability of the university. Table 2 shows the composition of financial capital net assets.

As of June 30, 2003, the university's true endowment net assets consisted of approximately 15 percent for unrestricted purposes, 24 percent for student aid, 41 percent for instruction, and 20 percent for other donor-specified purposes. On June 30, 2002, the breakdown was 15 percent for unrestricted purposes, 21 percent for student aid, 42 percent for instruction, and 22 percent for other donor-specified purposes.

### C. Living Trust Agreements

The university's living trust agreements with donors consist primarily of charitable gift annuities, charitable remainder trusts, and pooled income funds for which the university serves as trustee. Assets held in trust are either separately invested or included in the university's investment pools in accordance with trust instruments. Contribution revenue and the assets related to living trust agreements, net of related liabilities, are classified as increases in temporarily restricted net assets or permanently restricted net assets. Liabilities associated with charitable gift annuities and charitable remainder trusts represent the present value of the expected payments to the beneficiaries over the term of the agreement. Pooled income funds are recognized at the net present value expected to be received at a future date. Gains or losses resulting from changes in actuarial assumptions and accretion of the discount are recorded as increases or decreases in the respective net asset categories in the *Statement of Activities*.

**TABLE 1. SUMMARY OF CHANGE IN NET ASSETS (IN THOUSANDS)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
1 Net assets at June 30, 2001	\$3,389,220	\$ 643,428	\$1,077,845	\$5,110,493
<b>2002 change in net assets:</b>				
2 General operations	25,230	45,989		71,219
3 Physical capital	62,093	26,595		88,688
4 Financial capital	( 395,712 )	15,171	110,366	( 270,175 )
5 Total change in net assets	( 308,389 )	87,755	110,366	( 110,268 )
6 Net assets at June 30, 2002	\$3,080,831	\$ 731,183	\$1,188,211	\$5,000,225
<b>2003 change in net assets:</b>				
7 General operations	27,536	( 12,287 )		15,249
8 Physical capital	22,909	( 30,598 )		( 7,689 )
9 Financial capital	( 84,284 )	16,872	62,565	( 4,847 )
10 Total change in net assets	( 33,839 )	( 26,013 )	62,565	2,713
11 Net assets at June 30, 2003	\$3,046,992	\$ 705,170	\$1,250,776	\$5,002,938

**TABLE 2. COMPOSITION OF FINANCIAL CAPITAL NET ASSETS AT JUNE 30, 2003 (IN THOUSANDS)**  
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION AS OF JUNE 30, 2002)

	Net Asset Classification			2003	2002
	Unrestricted	Temporarily Restricted	Permanently Restricted		
1 True endowment and unspent earnings, including contributions receivable of \$59,870	\$ 874,127		\$1,077,313	\$1,951,440	\$1,994,766
2 Functioning as endowment	736,099	\$ 81,323		817,422	791,508
3 Funds held in trust		35,681	110,098	145,779	133,880
4 Total university endowment	1,610,226	117,004	1,187,411	2,914,641	2,920,154
5 Living trust funds		51,916	33,370	85,286	86,070
6 Loan funds			29,995	29,995	28,545
7 Total	<u>\$1,610,226</u>	<u>\$ 168,920</u>	<u>\$1,250,776</u>	<u>\$3,029,922</u>	<u>\$3,034,769</u>

#### D. Funds Held in Trust by Others

Funds held in trust represent resources neither in the possession nor under the control of the university. These funds are administered by outside trustees, with the university deriving income or residual interest from the assets of the funds. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the university is notified of its existence. Contribution revenues related to these trusts for the fiscal years 2002-03 and 2001-02 were \$276,396 and \$7,299,457, respectively.

#### E. Funds Held in Trust for Others

Financial capital includes funds invested by the university as custodian for others. Independent trustees are responsible for the funds and for the designation of income distribution. The Center Fund, which benefits the New York Cornell Weill Center of the New York Presbyterian Hospital, is one of those organizations, with assets having a market value of \$72,862,624, and \$75,575,880 at June 30, 2003 and June 30, 2002, respectively. Of these investments, a portion of the future income stream has been directed in perpetuity to benefit the Medical College. As such, the present value of the income stream, calculated to be \$51,960,992 and \$41,199,000 at June 30, 2003 and June 30, 2002, respectively, has been recorded in Net assets of financial capital.

#### F. Medical Physicians' Organization

The Medical Physicians' Organization provides the management structure for the practice of medicine in an academic medical center. Physician members generate clinical-practice income from their professional services to patients, in addition to conducting instructional and research activities. Medical Physicians' Organization fees are reflected as university revenues. Expenses of the clinical practice, including physician compensation, administrative operations, and provision for uncollectible accounts, are reflected as university expenses. Net assets resulting from the activities of the Medical Physicians' Organization are set aside for the respective clinical departments of the Medical College.

#### G. Collections

Cornell's collections, which have been acquired through purchases and contributions since the university's inception, are recognized as capital assets in the *Statement of Financial Position*. Gifts of collection items are recorded as increases in net assets in the year in which the items are acquired.

**TABLE 3A. INVESTMENTS AT FAIR VALUE (IN THOUSANDS)**

	2003	2002
1 Cash and cash equivalent holdings	(\$ 22,912 )	\$ 78,421
<b>Equity Securities</b>		
2 Domestic	1,306,519	1,337,219
3 International	274,975	201,243
<b>Debt Securities</b>		
4 Domestic - government	614,328	389,836
5 Domestic - corporate debt securities	275,032	355,138
6 International - governments	55,195	44,163
7 International - corporate	29,775	67,451
8 Mortgages and other asset-backed securities	78,540	156,169
<b>Other Investments</b>		
9 Limited partnerships	951,058	860,440
10 Real Estate	27,217	24,510
11 Other	33,239	35,174
12 Total Investments	<u>\$3,622,966</u>	<u>\$3,549,764</u>

**H. Derivative Instruments and Hedging Activities**

The university records the fair value of its derivatives related to its investment securities within the applicable portfolio. The change in the fair value of those derivatives is included in Net unrealized gain (loss) on investments in the *Statement of Activities*.

Derivative instruments related to the university's long-term debt are included in Physical Capital, Accounts payable and accrued expenses on the *Statement of Financial Position*. The change in the fair value of the derivative instruments is also included in Net unrealized gain (loss) on investments in the *Statement of Activities*, in the Physical Capital category.

**I. Use of Estimates**

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

**J. Comparative Financial Information**

The *Statement of Activities* includes prior-year summarized information in total rather than by net asset class. Such information does not include sufficient detail to constitute a presentation of prior-year data in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with the university's financial statements for the fiscal year ended June 30, 2002 from which the summarized information was derived.

**K. Reclassifications**

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

**L. Income Taxes**

The university is a not-for-profit organization as described in section 501(c) (3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to the appropriate sections of the Internal Revenue Code.

**2. CASH AND INVESTMENTS****A. General Information**

Investment policy of the university is established by the Investment Committee of the Board of Trustees. University investments are stated at fair value. The value of fixed-income and publicly traded equity securities is based upon quoted market prices and exchange rates, if applicable. Private equities, real estate partnerships, and certain other nonmarketable securities are valued using current information obtained from the general partner or investment manager for the respective funds. Fees paid to managers in fiscal years 2002-03 and 2001-02 for investing the university's portfolios amounted to approximately \$5,900,000 and \$6,900,000, respectively. The composition of investments at June 30, 2003 and June 30, 2002 are shown in Table 3A.

**TABLE 3B. INVESTMENT POOLS/CATEGORIES AT FAIR VALUE (IN THOUSANDS)**

	2003	2002
1 Working capital	\$ 11,827	1,531
2 Intermediate-term (resources for spending in less than 3 years)	508,790	418,228
3 Long-term investment pool (resources held for 3 years or longer)	2,720,790	2,750,401
4 Separately invested securities	317,349	287,843
5 Life income fund pools	20,900	21,435
6 DASNY holdings	39,923	66,585
7 Other purposes of investment	3,387	3,741
8 Total Investments	<u>\$3,622,966</u>	<u>\$3,549,764</u>

Investment income is recorded on the accrual basis, and purchases and sales of investment securities are reflected on a trade-date basis.

Realized and unrealized gains and losses on investments are accounted for in the group (General Operations, Physical Capital, or Financial Capital) holding the assets. Realized gains and losses are calculated on the average-cost basis. Income earned from investments or from services rendered is accounted for in the same group as the assets or service provider.

The university considers all instruments that bear an original maturity date of ninety days or less to be cash or a cash equivalent. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments.

### **B. Collateral Held for Investments Lent to Brokerage Firms**

Investment securities having a fair value of \$199,323,136 and \$82,780,566 at June 30, 2003 and June 30, 2002, respectively, were lent to various brokerage firms. The loaned securities are returnable on demand and are collateralized by cash deposits. The university has recorded the fair value of the collateral received of \$205,238,322 and \$86,598,488 and an offsetting liability for the return of the collateral in Financial Capital on the *Statement of Financial Position* at June 30, 2003 and June 30, 2002, respectively. The collateral is invested in short-term securities and income earned is credited as additional income to the investment pools.

### **C. Investment Pools and Separately Invested Portfolios**

The university maintains a number of investment pools, and invests the principal of certain funds separately. Table 3B shows the investments by university category or pool.

The university's working capital and intermediate-term funds are invested for the production of income and capital appreciation on principal anticipated to be expended within three years.

The long-term investment pool is a mutual fund-like vehicle used for investing the university's true endowment funds, funds functioning as endowment, and other funds that are not expected to be expended for at least three years.

The pool is divided into units that represent ownership. These units are determined based on the date of purchase and market value per unit. At June 30, 2003 and June 30, 2002, the market prices per unit were \$42.65 and \$44.95, respectively.

The long-term investment pool was invested, as of June 30, 2003, as a balanced fund consisting of 61 percent marketable-equity securities, 11 percent real estate and private-equity investments, and 28 percent bonds and fixed-income investments. At June 30, 2002, the pool consisted of 57 percent marketable-equity securities, 12 percent real estate and private-equity investments, and 31 percent bonds and fixed-income investments. The objective is to achieve a total return, net of expenses, of at least 5 percent in excess of inflation, as measured by the Consumer Price Index, over rolling five-year periods. Table 4 summarizes certain information about the long-term investment pool.

**TABLE 4. SUMMARY INFORMATION—LONG-TERM INVESTMENT POOL**

	Fair Value (in thousands)	Cost (in thousands)	Net Change (in thousands)	Fair Value Per Unit	Number of Units
<b>Long-Term Investment Pool</b>					
1 End of year	\$2,720,790	\$2,502,861	\$ 217,929	\$42.65	63,791,217
2 Beginning of year	\$2,750,401	\$2,604,569	\$ 145,832	\$44.95	61,184,733
3 Unrealized net gain for year			\$ 72,097		
4 Change in interest receivable for year			2,292		
5 Realized net gain/(loss) for year			( 97,909 )		
6 Net gain/(loss) for year			(\$ 23,520 )		

The university has a total return policy. Under this policy, a distribution is provided from the pool that is independent of the cash yield and investment changes occurring in a given year. This insulates investment policy from budgetary pressures, and insulates the distribution from fluctuations in capital markets. The total return of the long-term investment pool was a gain of \$29,593,620 (1.90 percent) for fiscal year 2002-03. The total return consisted of \$53,113,715 (3.41 percent) of income and \$23,520,095 (-1.51 percent) of depreciation.

Distributions from the pool are approved by the Board of Trustees as part of the financial planning process. The annual distribution is set so that over time, a sufficient portion of the return is reinvested to maintain the purchasing power of the endowment, and to provide reasonable growth in support of program budgets.

For the year ended June 30, 2003, distributions for investment payout were \$167,553,378 (\$2.70 per unit), of which \$146,271,647 supported general operations and physical capital. The remaining distribution of \$21,281,731 was returned to principal, or went to funds held in trust for others, shown in the accompanying *Statement of Financial Position*. The distribution for 2003 was comprised of \$35,634,933 in net investment income and \$131,918,445 paid from prior year accumulated gains. For the fiscal year ended June 30, 2002, the investment payout was \$160,549,571 (\$2.70 per unit). The distribution for 2002 was comprised of \$48,908,006 in net investment income and \$111,641,565 paid from prior year accumulated gains.

At June 30, 2003, 1,469 of 4,680 true endowment funds invested in the long-term investment pool had market values below book values by \$47,840,796, on a total book value of \$387,644,017. The university holds significant unrestricted appreciation on endowments to offset this temporary decrease in value. The university has maintained these true endowment funds at their historical dollar values.

Separately invested securities consist of several types of funds that—for legal or other reasons, or by request of the donor—could not participate in any of the investment pools.

Life income fund pools consist of donated funds, the income from which is payable to one or more beneficiaries during their lifetime. On the termination of life interests, the principal becomes available for university purposes, which may or may not have been restricted by the donor.

#### **D. Other Investments**

Under the terms of certain limited partnership agreements, the university is obligated to periodically advance additional funding for private-equity and real estate investments. At June 30, 2003 and June 30, 2002, the university had commitments of approximately \$335,806,000 and \$394,147,000, respectively, for which capital calls had not been exercised. Such commitments generally have fixed expiration dates or other termination clauses. The university maintains sufficient liquidity in its investment portfolio to cover such calls.

The university engages in limited use of derivative instruments, including futures, options, and other similar vehicles to manage market exposure and to enhance the total return of the investment portfolio. These financial instruments and certain other investments necessarily involve market risk and counterparty credit exposure.

### **3. ACCOUNTS AND LOANS RECEIVABLE**

#### **A. Patient Accounts and Other**

Patient accounts receivable at June 30, 2003 and June 30, 2002, are net of provisions for allowances and doubtful accounts of \$58,866,618 and \$60,257,246, respectively. Other accounts receivable, including student accounts, at June 30, 2003 and June 30, 2002 are

**TABLE 5. CONTRIBUTIONS RECEIVABLE (IN THOUSANDS)**

	2003	2002
<b>Contributions expected to be realized</b>		
1 In one year or less	\$ 92,735	\$ 111,432
2 Between one year and five years	288,196	393,747
3 More than five years	<u>138,335</u>	<u>131,075</u>
4 Gross contributions receivable	519,266	636,254
5 Discount	( 117,087 )	( 143,391 )
6 Allowance	<u>( 20,109 )</u>	<u>( 24,643 )</u>
7 Total discount and allowance	( 137,196 )	( 168,034 )
8 Net contributions receivable	<u>\$ 382,070</u>	<u>\$ 468,220</u>

net of allowances for doubtful accounts of \$1,701,680 and \$1,565,779, respectively.

### B. Contributions

Contributions, which include unconditional written or oral promises to donate to the university in the future, are recognized when received. Contributions of approximately \$382,070,000 and \$468,220,000, representing the present value of future cash flows, are recorded as receivables at June 30, 2003 and June 30, 2002, respectively. The corresponding revenue is assigned to the appropriate net asset category in the year the promise is received. The face value, discount (7.00 percent for both fiscal years 2002-03 and 2001-02), and allowance for contributions receivable are shown in Table 5. Conditional promises are recorded when donor stipulations are substantially met. At June 30, 2003 and 2002, conditional promises and donor intentions not reflected in the financial statements were approximately \$114,060,000 and \$107,042,000, respectively. Expenses related to fund-raising activities amounted to approximately \$24,667,000 and \$21,425,000 for fiscal years 2002-03 and 2001-02, respectively.

### C. Student Loans

Student loans receivable at June 30, 2003 and June 30, 2002, are reported net of allowances for doubtful loans of \$8,439,983 and \$7,332,306, respectively. The allowance is intended to provide for loans, both in repayment status and not yet in repayment status (borrowers are still in school or in the grace period following graduation), that may not be collected.

Determination of the fair value of student loans receivable could not be made without incurring excessive costs. These loans include donor-restricted and federally sponsored student loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition.

### 4. PLEDGED ASSETS AND FUNDS ON DEPOSIT

The Dormitory Authority of the State of New York (DASNY) and others hold investments in lieu of various required reserves as follows: \$10,138,715 and \$10,256,099 at June 30, 2003 and June 30, 2002, respectively, of financial capital; and \$389,541 and \$1,079,935, respectively, of general operations. Escrow held by the Workers' Compensation Board of New York includes investment securities of financial capital comprised of United States government obligations of \$106,281 and \$105,000 at June 30, 2003 and June 30, 2002, respectively.

Physical capital assets include cash and United States government obligations of \$36,682,363, and \$26,854,200 at June 30, 2003 and June 30, 2002, respectively, held by DASNY, that will be used primarily for the retirement of debt at a future time. In addition, \$14,586 and \$36,436,510 of bond proceeds were on deposit for future project expenditures at June 30, 2003 and 2002, respectively.

Student loan assets in general operations include \$3,225,883 and \$3,294,315 at June 30, 2003 and June 30, 2002, respectively, on deposit with DASNY that are available for the retirement of debt at a future time.

**TABLE 6. LAND, BUILDINGS, AND EQUIPMENT (IN THOUSANDS)**

	Book value at June 30, 2002	Additions	Disposals and Closed Projects	Book value at June 30, 2003
1 Land, buildings, and improvements	\$1,700,180	\$ 97,850	\$ 889	\$1,797,141
2 Furniture, equipment, books, and collections	858,891	83,642	54,660	887,873
3 Construction in progress	137,292	118,805	103,385	152,712
4 Total before accumulated depreciation	2,696,363	\$ 300,297	\$ 158,934	2,837,726
5 Accumulated depreciation	( 1,183,894 )			( 1,254,235 )
6 Land, buildings and equipment, net	\$1,512,469			\$1,583,491

**5. PHYSICAL CAPITAL**

Physical plant and equipment are stated principally at cost at date of acquisition or at fair value on the date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the useful lives of the buildings (30–100 years) and equipment (3–15 years). A full year of depreciation is taken in the year of acquisition, and no depreciation is taken in the year of disposal. Depreciation expense is reflected as a cost of physical capital.

Capital investments and withdrawals consist of net transfers to physical capital for principal payments on debt and the acquisition of capital assets.

Expenditures associated with the construction of new facilities are shown as construction in progress until the projects are completed. Land, buildings, and equipment are detailed in Table 6.

Gifts-in-kind of capital assets were approximately \$2,356,000 and \$9,408,000 for fiscal years 2002-03 and 2001-02, respectively.

Certain properties to which the university does not have title are included in physical capital at net book value as follows: (1) land, buildings, and equipment of the contract colleges aggregating \$317,759,000 and \$300,545,000 at June 30, 2003 and June 30, 2002, respectively, the acquisition cost of which was borne primarily by New York State; and (2) land, buildings, and equipment for which title rests with government and corporate agencies aggregating \$23,417,000 and \$25,652,000 at June 30, 2003 and June 30, 2002, respectively.

The university is planning to decommission and retire the Ward Center's nuclear reactor. A decommissioning plan will be submitted to the Nuclear Regulatory Commission to begin the process of fuel removal and contractor bids. Retirement costs are not available at this time.

**6. BONDS, MORTGAGES, AND NOTES PAYABLE**

The balance outstanding, interest rates, and final maturity dates of the bonds and other debt as of June 30, 2003 and June 30, 2002, are summarized in Table 7.

The total annual debt service requirements for the next five fiscal years and thereafter are shown in Table 8. Interest expense paid during fiscal year 2002-03 and 2001-02 was approximately \$21,027,000 and \$22,174,000, respectively. Debt and debt service related to borrowings by New York State for the construction and renovation of facilities of the contract colleges are not included in the *Financial Statements* because they are not liabilities of the university.

Under agreement with DASNY, certain revenues, principally rental income from facilities financed by bond proceeds plus a portion of tuition, are pledged by the university to meet debt service requirements (see note 4). Also, certain revenue bonds require compliance with an asset-to-liability ratio and an unencumbered securities-to-operating-expense ratio.

The fair value of the university's bonds, mortgages, and notes payable is approximately \$509,817,000 and \$528,875,000 at June 30, 2003 and June 30, 2002, respectively. The estimated fair value of bonds is based on quoted market prices for the same or similar issues. The market prices utilized reflect the amount a third party would pay to purchase the bonds; they do not reflect an additional liability to the university.

The university has interest rate swap agreements to exchange variable rate debt for a fixed rate obligation without the exchange of the underlying principal amount. Under these arrangements, in effect at June 30, 2003, the counter party pays the university a variable interest rate equal to the BMA index. The university will pay the counter party a fixed interest rate of 4.63 percent on a notional amount of \$83,695,000; 2.99 percent on a notional amount of \$84,505,000; 4.52 percent on a notional amount of \$43,070,000; and 4.33 percent on a notional amount of \$15,390,000. Net payments or receipts under the swap agreement are recorded as an

**TABLE 7. BONDS, MORTGAGES, AND NOTES PAYABLE (IN THOUSANDS)**

	Balance June 30, 2003	Balance June 30, 2002	Interest Rates	Maturity Date	
<b>Plant Funds</b>					
1	Dormitory Authority of the State of New York (DASNY)				
2	Revenue Bond Series				
3	1990B	59,000	59,300	2.26 to 2.57*	2025
4	1993	1,290	1,895	4.90 to 5.10	2005
5	1996	91,795	101,215	4.80 to 5.40	2014
6	2000A	64,505	65,905	2.99	2029
7	2000B	83,695	85,240	4.63	2030
8	Bond Series 1987B	15,150	16,065	11.11	2012
9	DASNY 1993 Pooled Loan Program	1,696	1,828	1.40 to 2.00*	2012
10	Commercial Paper	68,760	68,760	1.00 to 2.99*	2028
11	Industrial Development Agency				
12	2000	7,900	8,695	4.65 to 5.25	2011
13	2002A	43,070	43,225	4.52	2030
14	2002B	15,390	15,390	4.33	2015
15	Student Loan Marketing Association	6,430	6,665	5.75 to 6.50	2019
16	Urban Development Corporation	3,250	3,375	zero	2029
17	Capitalized Leases	13,213	13,600	various	2020
18	Private Foundation Line of Credit	0	5,000	zero	2003
19	Other	431	330	various	2004
20	Total Physical Capital	<u>475,575</u>	<u>496,488</u>		
<b>Student Loan Funds</b>					
21	DASNY Bond 1992 Capital Appreciation	\$ 4,083	\$ 5,129	6.60 to 6.80	2009
22	DASNY Bond 1993 Serial	0	755	4.90	2003
23	DASNY Bond 1993 Capital Appreciation	3,089	2,929	5.25 to 5.50	2007
24	DASNY Bond 1995 Serial	3,890	5,695	5.25 to 5.45	2005
25	DASNY Bond 1995 Capital Appreciation	8,111	7,652	5.70 to 6.15	2011
26	Total General Operations—Student Loans	<u>19,173</u>	<u>22,160</u>		
27	Total Bonds, Mortgages, and Notes Payable	<u>\$ 494,748</u>	<u>\$ 518,648</u>		

\* Rates presented are the actual rates paid during fiscal year 2002-03. These rates are variable based on market conditions.

**TABLE 8. ANNUAL DEBT SERVICE REQUIREMENTS (IN THOUSANDS)**

Year	Annual Installment		
	Principal	Interest	Total
1 2004	\$ 19,447	\$ 22,810	\$ 42,257
2 2005	19,708	21,691	41,399
3 2006	18,946	21,140	40,086
4 2007	19,108	20,112	39,220
5 2008	18,468	19,038	37,506
6 Thereafter	<u>399,071</u>	<u>179,340</u>	<u>578,411</u>
7 Total	<u>\$ 494,748</u>	<u>\$ 284,131</u>	<u>\$ 778,879</u>



adjustment to interest expense. The contractual relationship under these agreements will last until July 1, 2030.

The university continues to issue commercial paper under an agreement entered into in fiscal year 1998-99 for \$100,000,000. Under the agreement, a total of \$490,000,000 of principal may be issued, with a maximum of \$100,000,000 outstanding at any one time. The funds may be used for new capital projects, and to refinance earlier projects.

## **7. BENEFIT PLANS**

### **A. Pension Plans**

The university's employee pension plan coverage for Endowed Ithaca and the Medical College is provided by two basic types of plan: that based on a predetermined level of funding (defined contribution) and that based on a level of benefit to be provided (defined benefit). The primary plans for Endowed Ithaca and for exempt employees (those not subject to the overtime provisions of the Fair Labor Standards Act) at the Medical College are carried by the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, which also permit employee contributions. Medical College non-exempt employees and certain non-exempt employees of Endowed Ithaca are covered by defined benefit plans. Certain accrued benefits and an appropriate amount of the university's pension reserves are frozen in connection with plan reorganizations.

The pension liabilities recognized by the university in connection with the frozen plans were established by charges to expenses in prior years, to meet future retirement costs for current employees. Although the liabilities are considered internally funded, they are not intended to create a trust or fund in which any employee or former employee has any right or interest of any kind.

In accordance with ERISA requirements for the defined benefit plans, the university must annually fund with an independent trustee an actuarially determined amount that represents normal costs plus amortization of prior service costs over a forty-year-period that began on July 1, 1976.

The defined benefit plans' funded status, amounts recognized in the university's *Statement of Financial Position* at June 30, 2003, and assumptions used for calculations are shown in Table 9.

Total pension costs of the Endowed Ithaca and Medical College plans for the year ended June 30, 2003 and June 30, 2002, amounted to \$51,247,423 and \$47,121,663, respectively.

Employees of the contract colleges are covered under the New York State pension plan. Contributions to the state retirement system and other employee benefit costs are paid directly by the state. The amount of the direct payments applicable to the university as revenue and expenditures is not currently determinable and is not included in the *Financial Statements*. The university reimburses the state for employee benefit costs on certain salaries, principally those associated with externally sponsored programs. The amount reimbursed to the state during the years ended June 30, 2003 and June 30, 2002, was \$10,949,189 and \$9,893,852, respectively, which are included in the expenses of general operations.

### **B. Postretirement Benefits Other Than Pensions**

The university provides health and life insurance benefits for eligible retired employees and their dependents. Although there is no legal obligation for future benefits, the cost of postretirement benefits must be accrued during the service lives of employees. The university elected the prospective-transition approach and is amortizing the transition obligation over twenty years, through fiscal year 2012-13.

The plan assets for Endowed Ithaca and the Medical College are invested with an outside trustee.

Tables 10A and 10B set forth the funded status of the plans as of June 30, 2003 and June 30, 2002, the components of net periodic postretirement benefit costs for 2003 and 2002, and the assumptions used in accounting for the plans during 2003 and 2002. The accrued postretirement benefit cost shown in Table 10A is \$14,587,000 of current-year unfunded cost plus \$43,113,000 of accumulated prior-year unfunded cost.

### **C. Postemployment Benefits**

The university provides various benefits to former or inactive employees after employment, but before retirement. The expected costs of these benefits are recognized when they are earned, even though there may not be any legal requirement to continue the programs. Current-year estimated costs are allocated among the expenses of general operations.

**TABLE 9. DEFINED BENEFIT PENSION PLANS – BENEFIT OBLIGATIONS, NET ASSETS AND COST (IN THOUSANDS)**

			<u>2003</u>	<u>2002</u>
	Endowed Ithaca*	Medical College	Combined	Combined
<b>Change in benefit obligation</b>				
1	\$ 20,032	\$ 30,258	\$ 50,290	\$ 50,951
2		1,858	1,858	1,654
3	1,321	2,099	3,420	3,426
4	1,870	4,084	5,954	( 1,205 )
5	( 2,046 )	( 1,872 )	( 3,918 )	( 4,536 )
6	<u>21,177</u>	<u>36,427</u>	<u>57,604</u>	<u>50,290</u>
<b>Change in plan assets</b>				
7	28,798	31,179	59,977	70,279
8	683	1,020	1,703	( 5,766 )
9	( 2,046 )	( 1,872 )	( 3,918 )	( 4,536 )
10	<u>27,435</u>	<u>30,327</u>	<u>57,762</u>	<u>59,977</u>
11	6,258	( 6,100 )	158	9,687
12		7	7	115
13	9,261	6,544	15,805	6,746
14	<u>\$ 15,519</u>	<u>\$ 451</u>	<u>\$ 15,970</u>	<u>\$ 16,548</u>
<b>Net periodic pension cost components</b>				
15		\$ 1,858	\$ 1,858	\$ 1,654
16	\$ 1,321	2,099	3,420	3,427
17	( 2,505 )	( 2,577 )	( 5,082 )	( 6,017 )
18	<b>Net amortization and deferral of:</b>			
19				206
20		108	108	108
21	274		274	( 154 )
22	<u>(\$ 910 )</u>	<u>\$ 1,488</u>	<u>\$ 578</u>	<u>(\$ 776 )</u>

	<u>2003</u>		<u>2002</u>	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Assumptions used in accounting for the plans as of June 30</b>				
23	5.75%	5.75%	7.00%	7.00%
24	9.00%	9.00%	9.00%	9.00%
25	4.00%	6.10%	4.00%	6.10%

\* A frozen retirement plan for the non-exempt employees of the endowed colleges at Ithaca

**TABLE 10A. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS  
BENEFIT OBLIGATIONS, NET ASSETS AND COST (IN THOUSANDS)**

	2003			2002
	Endowed Ithaca	Medical College	Combined	Combined
<b>Change in benefit obligation</b>				
1 Benefit obligation at beginning of year	\$ 194,413	\$ 38,999	\$ 233,412	\$ 187,826
2 Service costs (benefits earned during the period)	6,206	2,510	8,716	6,908
3 Interest cost on projected benefit obligation	12,565	2,947	15,512	13,806
4 Actuarial loss	32,987	11,432	44,419	31,909
5 Benefits paid (outside of trust)	( 5,760 )	( 1,712 )	( 7,472 )	( 7,037 )
6 Benefit obligation at end of year	<u>240,411</u>	<u>54,176</u>	<u>294,587</u>	<u>233,412</u>
<b>Change in plan assets</b>				
7 Fair value of plan assets at beginning of year	37,809	14,785	52,594	52,814
8 Return on plan assets	( 65 )	77	12	( 5,109 )
9 Employer contribution	4,231	900	5,131	4,889
10 Fair value of plan assets at end of year	<u>41,975</u>	<u>15,762</u>	<u>57,737</u>	<u>52,594</u>
11 Excess/(deficiency) of plan assets over projected benefit obligation	( 198,436 )	( 38,414 )	( 236,850 )	( 180,818 )
12 Unrecognized obligation	26,679	9,764	36,443	40,088
13 Unrecognized prior service costs		687	687	871
14 Unrecognized net loss from past experience different than assumed	118,475	23,545	142,020	96,746
15 Prepaid/(accrued) postretirement benefit cost	<u>( \$ 53,282 )</u>	<u>( \$ 4,418 )</u>	<u>( \$ 57,700 )</u>	<u>( \$ 43,113 )</u>
<b>Net periodic postretirement benefit cost components</b>				
16 Service costs (benefits during the period)	\$ 6,206	\$ 2,510	\$ 8,716	\$ 6,908
17 Interest cost on projected benefit obligation	12,565	2,947	15,512	13,806
18 Expected return on plan assets	( 3,403 )	( 1,330 )	( 4,733 )	( 4,753 )
19 <b>Net amortization and deferral of:</b>				
20 Initial transition obligation	2,668	976	3,644	3,644
21 Prior service cost		184	184	184
22 Net loss	3,115	752	3,867	2,550
23 Net periodic postretirement benefit cost	<u>\$ 21,151</u>	<u>\$ 6,039</u>	<u>\$ 27,190</u>	<u>\$ 22,339</u>

## 8. FUNCTIONAL EXPENSES AND STUDENT AID

Table 11 shows expenses by functional category for General Operations and Physical Capital. Expenses for operations and maintenance of facilities, depreciation, and interest have been allocated to functional categories using square-footage statistics. The amount allocated for operations and maintenance was approximately \$132,085,000 for fiscal year 2002-03, and \$133,890,000 for fiscal year 2001-02.

Institutionally provided student financial assistance that is not given in exchange for services is shown as a discount against revenue rather than as an expense. Aid in excess of the institution's actual tuition and fees, of \$18,860,379 and \$16,891,196 for fiscal years 2002-03 and 2001-02, respectively, is classified as Instruction expense.

## 9. SUBSEQUENT EVENTS AND CONTINGENT LIABILITIES

The university is a defendant in various legal actions, some of which are for substantial monetary amounts, that arise out of the normal course of its operations. Although the final outcome of the actions cannot currently be determined, the university's administration is of the opinion that eventual liability, if any, will not have a material effect on the university's financial position.

The university retains self insurance for property, general liability, and certain health benefits, and has an equity interest in a multiprovider captive insurance company.

**TABLE 10B. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS  
BENEFIT OBLIGATIONS, NET ASSETS AND COST (IN THOUSANDS)**

CONTINUED

	2003		2002	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Assumptions used in accounting for the plans as of July 1</b>				
1 Discount rate	5.75%	5.75%	7.00%	7.00%
2 Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
3 Health care cost trend rate - initial	10.00%	10.00%	10.00%	10.00%
4 Health care cost trend rate - final	5.00%	5.00%	5.00%	5.00%
5 Years to reach final	5	5	6	6
	2003		2002	
	Endowed Ithaca	Medical College	Endowed Ithaca	Medical College
<b>Effect of 1 percentage point change in assumption of Health Care Cost trend rate</b>				
6 1-Percentage point increase				
7 Effect on total service cost and interest cost components	\$ 3,875	\$ 963	\$ 3,514	\$ 592
8 Effect on accumulated postretirement benefit obligation as of June 30	\$ 39,268	\$ 6,952	\$ 31,594	\$ 4,776
9 1-Percentage point decrease				
10 Effect on total service cost and interest cost components	(\$ 3,036 )	(\$ 781 )	(\$ 2,755 )	(\$ 484 )
11 Effect on accumulated postretirement benefit obligation as of June 30	(\$ 31,732 )	(\$ 5,827 )	(\$ 25,541 )	(\$ 4,013 )

**TABLE 11. FUNCTIONAL EXPENSES (IN THOUSANDS)**

	General	Physical	2003	2002
	Operations	Capital		
1 Instruction	\$ 398,191	\$ 24,551	\$ 422,742	\$ 396,872
2 Research	422,533	25,527	448,060	414,674
3 Public service	97,802	2,574	100,376	99,134
4 Academic support	133,195	29,146	162,341	149,979
5 Student services	84,107	9,219	93,326	93,702
6 Medical services	330,780	3,061	333,841	294,078
7 Institutional support	156,925	12,745	169,670	168,778
8 Enterprises and subsidiaries	148,612	21,674	170,286	159,157
9 Total expenses and deductions	<u>\$1,772,145</u>	<u>\$ 128,497</u>	<u>\$1,900,642</u>	<u>\$1,776,374</u>

**SUMMARY OF CERTAIN PROVISIONS  
OF THE LOAN AGREEMENT**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Loan Agreement pertaining to the Series 2004 Bonds and the 2004 Project. Such summary does not purport to be complete and reference is made to the Loan Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

### **Duration of Agreement**

The Loan Agreement shall remain in full force and effect until no Bonds are Outstanding and until other payments, expenses and fees payable thereunder by the University shall have been made or provision made for the payment thereof; provided, however, that pursuant to the Loan Agreement and the liabilities and the obligations of the University to provide reimbursement for or indemnification against expenses, costs or liabilities made or incurred and the obligations of the University under the Loan Agreement shall nevertheless survive any such termination. Upon such termination, an Authorized Officer of the Authority shall deliver such documents as may be reasonably requested by the University to evidence such termination and the discharge of its duties under the Loan Agreement.

*(Section 43)*

### **Construction of Projects**

The University agrees that, whether or not there are sufficient moneys available to it under the provisions of the Resolution and under the Loan Agreement, the University shall complete the acquisition, design, construction, reconstruction, rehabilitation and improving or otherwise providing and furnishing and equipping of each Project, substantially in accordance with the Contract Documents relating thereto. Subject to the conditions thereof, the Authority will, to the extent of moneys available in the applicable Construction Fund, cause the University to be reimbursed for, or pay, any costs and expenses incurred by the University which constitute Costs of the Project, provided such costs and expenses are approved by an Authorized Officer of the Authority.

To the extent that moneys are available therefor, moneys in a Construction Fund shall be disbursed as the construction of the Project for which such fund was established progresses, but not more frequently than once a month, unless otherwise agreed to in writing by an Authorized Officer of the Authority, in amounts as shall be requested by the University pursuant to a request for disbursement as provided in the Loan Agreement, but not in excess of that reasonably determined by the Authority to be needed to reimburse the University for, or to pay, any costs and expenses constituting Costs of the Project previously paid or then due which were incurred by the University in connection with the Project.

Prior to the Authority making and delivering any certificate required to be delivered to the Trustee in connection with payments to be made pursuant to the Resolution for Costs of a Project, other than interest on Outstanding Bonds, the University shall deliver to the Authority the following:

copies of all invoices, paid or unpaid;

copies of front and back of cancelled checks, if any; and

a certificate of an Authorized Officer of the University certifying that the amount of money for which payment is requisitioned has been incurred or expended for items which constitute Costs of the Project for which such certificate is delivered.

The University will receive the disbursements of moneys in each Construction Fund to be made under the Loan Agreement, and will hold the right to receive the same, as a trust fund for the purpose of paying the Costs of the Project for which each disbursement was made, and will apply the same first to such payment before using any part thereof for any other purposes.

The University shall permit the Authority and its authorized representatives, at any time during normal business hours, to enter upon the property of the University, the Projects to inspect the Projects and all materials, fixtures and articles used or to be used in construction of the Projects, and to examine all Contract Documents. The University shall furnish to the Authority and its authorized representatives, when requested, copies of such Contract Documents. The University agrees to retain all documentation of expenditures for items which constitute Costs of the Project for at least seven (7) years after the date of completion of the Project to which such documentation relates.

An Authorized Officer of the Authority, in his sole and absolute discretion, may waive, from time to time, any of the conditions set forth in Section 5 of the Loan Agreement. Any such waiver shall not be deemed a waiver by the Authority of its right to thereafter require compliance with any such condition. The University acknowledges and agrees that disbursements from a Construction Fund are to be made by the Trustee and shall be made in accordance with the Resolution only upon receipt by the Trustee of the documents required by the Resolution to be executed and delivered in connection with such disbursements. The Authority agrees to provide the University with a copy of each certificate made by the Authority and delivered to the Trustee in connection with payments from a Construction Fund for the payment of Costs of Issuance.

A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the University which certificate shall be delivered as soon as practicable after the completion of such Project, or upon delivery to the Trustee and the University of a certificate signed by an Authorized Officer of the Authority and delivered at any time after completion of such Project. Any such certificate shall comply with the requirements of the Resolution. The Authority agrees that it will not execute and deliver any such certificate unless the Authority has notified the University in writing that, in the Authority's judgment, such Project has been completed substantially in accordance with the plans and specifications for such Project and has requested the University to execute and deliver the certificate provided for in this subdivision and the University has failed to execute and deliver such certificate within thirty (30) days after such notice is given. The moneys, if any, remaining in the Construction Fund established for such Project after such Project has been deemed to be complete shall be paid as provided in the Resolution.

Notwithstanding the foregoing, if, on the date a Series of Bonds is issued a Project in connection with which such Series of Bonds is issued shall have been deemed to be complete as provided in the Loan Agreement or otherwise, the provisions of the Loan Agreement relating to the construction of Projects shall be inapplicable to such Project, unless such Project is amended to increase the scope thereof pursuant to the Loan Agreement, in which case the provisions thereof relating to the construction of Projects shall apply to such Project.

*(Section 5)*

**Amendment of a Project; Cost Increases; Additional Bonds**

A Project may be amended by the University with the prior written consent of an Authorized Officer of the Authority to decrease, increase or otherwise modify the scope thereof. Any such increase may provide for the addition of any further acquisition, design, construction, reconstruction, rehabilitation, improving, or otherwise providing, furnishing and equipping of a Project which the Authority is authorized to undertake.

The University shall provide such moneys as in the reasonable judgment of an Authorized Officer of the Authority may be required for the cost of completing a Project in excess of the moneys in the Construction Fund established for such Project, whether such moneys are required as a result of an increase in the scope of the project or otherwise. Such moneys shall be paid to the Trustee for deposit in the applicable Construction Fund within fifteen (15) days of receipt of notice from the Authority that such moneys are required.

No Contract Documents shall be entered into after the date of execution of the Loan Agreement and no material modification, addition or amendment to the Contract Documents shall be made after the date of execution thereof, including without limitation change orders materially affecting the scope or nature of a Project or where the cost of implementing the change exceeds \$50,000, without the prior written approval of an Authorized Officer of the Authority, which approval shall not be unreasonably withheld. The University agrees to furnish or cause to be furnished to the Authority copies of all change orders regardless of amount, upon the request of an Authorized



Officer of the Authority therefor.

The Authority, upon the request of the University, may, but shall not be required to, issue Bonds to provide moneys required for the cost of completing a Project in excess of the moneys in the applicable Construction Fund or issue Refunding Bonds. Nothing contained in the Loan Agreement or in the Resolution shall be construed as creating any obligation upon the Authority to issue Bonds for such purpose, it being the intent thereof to reserve to the Authority full and complete discretion to decline to issue Bonds for such purpose. The proceeds of any additional Bonds shall be deposited and applied as specified in the Series Resolution authorizing such Bonds or the Bond Series Certificate relating to such Series of Bonds.

(Section 6)

**Financial Obligations of the University; General and Unconditional Obligation; Voluntary Payments**

1. Except to the extent that moneys are available therefor under the Resolution or under the Loan Agreement, including moneys in the Debt Service Fund, but excluding interest accrued but unpaid on investments held in the Debt Service Fund, the University unconditionally agrees to pay, so long as Bonds are Outstanding, to or upon the order of the Authority, from its general funds or any other moneys legally available to it:

(a) On or before the date of delivery of the Series 2004 Bonds payments shall be made by the University in payment of the Authority Fee in the amounts set forth in the Loan Agreement to be applied against payment of the Authority Fee in connection with the issuance of the Series 2004 Bonds;

(b) On or before the date of delivery of Bonds of a Series, such amount, if any, as is specified in the Series Resolution authorizing the issuance of such Bonds or in the Bond Series Certificate relating to such Bonds, to pay the Costs of Issuance of such Bonds, and other costs in connection with the issuance of such Bonds;

(c) On the 20th day of the month preceding each interest payment date, the interest coming due on the Bonds on such interest payment date, provided that (i) for Variable Interest Rate Bonds for which the rate of interest may change during the period prior to such interest payment date, the interest rate for such period shall be assumed to be equal to the rate on the date of payment plus one percent and (ii) with respect to Variable Interest Rate Bonds bearing interest at a flexible rate or an auction rate, such payment shall be made on the Business Day preceding each interest payment date.

(d) On the 20th day of the month preceding the month in which the principal or a Sinking Fund Installment of Bonds becomes due, an amount equal to the principal and Sinking Fund Installments of such Bonds coming due;

(e) At least forty-five (45) (fifteen (15) in the case of Variable Interest Rate Bonds) days prior to any date on which the Redemption Price or purchase price in lieu of redemption of Bonds previously called for redemption or contracted to be purchased is to be paid, the amount required to pay the Redemption Price or purchase price in lieu of redemption of such Bonds;

(f) [RESERVED]

(g) On December 10 of each Bond Year, one-half (1/2) of the Annual Administrative Fee payable during such Bond Year in connection with each Series of Bonds, and on June 10 of each Bond Year the balance of the Annual Administrative Fee payable during such Bond Year; provided, however, that the Annual Administrative Fee payable shall become effective, with respect to the Series 2004 Bonds on the date set forth in the Loan Agreement and with respect to any other Series of Bonds on the date agreed to by the University and the Authority at the time Bonds of such Series are issued; and, provided, further, that the Annual Administrative Fee with respect to any Series of Bonds payable during the Bond Year during which such Annual Administrative Fee became effective shall be equal to the Annual Administrative Fee with respect to such Series of Bonds multiplied by a fraction the numerator of which is the number of calendar months or parts thereof remaining in such Bond Year and the denominator of which is twelve (12);

(h) Promptly after notice from the Authority, but in any event not later than fifteen (15) days after such notice is given, the amount set forth in such notice as payable to the Authority (i) for the Authority Fee then unpaid, (ii) to reimburse the Authority for payments made pursuant to subdivision 5 of Section 9 of the Loan Agreement and any expenses or liabilities incurred by the Authority pursuant to the Loan Agreement, (iii) for the costs and expenses incurred to compel full and punctual performance of all the provisions of the Loan Agreement, and the Resolution in accordance with the terms of the Loan Agreement and the Resolution, (iv) for the fees and expenses of the Trustee and any Paying Agent in connection with performance of their duties under the Resolution, and (v) for any external costs or expenses attributable to the issuance of a Series of Bonds or the financing or construction of a Project, including but not limited to any fees or other amounts payable under a Remarketing Agreement, a Credit Facility or a Liquidity Facility;

(i) On the date a Series of Bonds, other than the Series 2004 Bonds, is issued, an amount equal to the Authority Fee in connection with issuance of such Series of Bonds;

(j) Promptly upon demand by an Authorized Officer of the Authority (a copy of which shall be furnished to the Trustee, all amounts required to be paid by the University as a result of an acceleration pursuant to the Loan Agreement;

(k) On the date of issuance of a Series of Bonds issued to pay or provide for the payment of outstanding notes of the Authority issued to finance a Project or to renew or refund notes issued for such purpose, an amount to be determined by an Authorized Officer of the Authority, which determination shall be binding on the University, equal to either (i) the principal of the notes originally issued to finance such Project that would have been paid during the period since the delivery of the notes to be paid or for which provision for payment is to be made, to the July 1 immediately succeeding the date such Bonds are issued, assuming that the principal of the notes originally to finance such Project were being amortized through annual payments of principal and interest payable on each July 1 succeeding the date on which such notes were issued to and including the July 1 next succeeding the twentieth (20th) anniversary of the date on which such notes were issued and that the amount of principal of and interest on such notes payable on any July 1 is as nearly equal as practicable to the amount of principal and interest payable on each other July 1 or (ii) such lesser amount determined by the Authority, which amount shall be specified in a Series Resolution;

(l) Immediately upon notice to the University by an Authorized Officer of the Authority, an amount equal to the purchase price of Option Bonds tendered for purchase which Bonds have not been remarketed pursuant to a Remarketing Agreement or purchased pursuant to a Credit Facility or Liquidity Facility;

(m) Immediately upon notice to the University by an Authorized Officer of the Authority, the amount, in immediately available funds, of the discount at which Option Bonds tendered or deemed tendered have been remarketed pursuant to a Remarketing Agreement; and

(n) Promptly upon demand by an Authorized Officer of the Authority, the difference between the amount on deposit in the Arbitrage Rebate Fund available to be rebated in connection with the Bonds of a Series or otherwise available therefor under the Resolution and the amount of rebates, yield reduction payments, interest and penalty if any, required to be paid to the Department of the Treasury of the United States of America in accordance with the Code in connection with the Bonds of such Series.

(o) On the Business Day immediately preceding an interest payment date, if the amount on deposit in the Debt Service Fund is less than the amounts, respectively, required for payment of interest on the Outstanding Bonds, for the payment of principal on the Outstanding Bonds or for the payment of Sinking Fund Installments on the Outstanding Bonds due and payable on such interest payment date, the amount of any such deficiency.

(p) With respect to any Bonds held by a Liquidity Facility Issuer, promptly upon demand of an Authorized Officer of the Authority, any amounts due on such Bonds.

(q) Promptly upon demand by an Authorized Officer of the Authority, all amounts required to be paid by the Authority to a Qualified Hedge Provider in accordance with a Qualified Hedge or to reimburse the Authority

for any amounts paid to a Qualified Hedge Provider in accordance with a Qualified Hedge.

Subject to the provisions of the Resolution and the Loan Agreement, the University shall receive a credit against the amount required to be paid by the University during a Bond Year pursuant to paragraph (d) of this subdivision on account of any Sinking Fund Installments if, prior to the date notice of redemption is given pursuant to the Resolution with respect to Bonds to be redeemed through Sinking Fund Installments payable on the next succeeding principal payment date, the University delivers to the Trustee for cancellation one or more Bonds of the Series and maturity to be so redeemed on such date. The amount of the credit shall be equal to the principal July amount of the Bonds so delivered and cancelled prior to the date notice of redemption thereof is given.

The Authority directs the University, and the University agrees, to make the payments required by paragraphs (c), (d), (e), (j) and (o) of this subdivision directly to the Trustee for deposit in the Debt Service Fund and application in accordance with the Resolution, the payments required by paragraph (b) of this subdivision directly to the Trustee for deposit in a Construction Fund or other fund established under the Resolution, as directed by an Authorized Officer of the Authority, the payments required by paragraph (n) of this subdivision directly to the Trustee for deposit in the Arbitrage Rebate Fund, the payments required by paragraph (k) of this subdivision as directed by an Authorized Officer of the Authority, the payments required by paragraphs (a), (g), (h), (i), (l) and (m) of this subdivision directly to or upon the order of the Authority.

2. Notwithstanding any provisions in the Loan Agreement or in the Resolution to the contrary (except as otherwise specifically provided for in this subdivision), all moneys paid by the University to the Trustee pursuant to the Loan Agreement or otherwise held by the Trustee shall be applied in reduction of the University's indebtedness to the Authority under the Loan Agreement, first, with respect to interest and, then, with respect to the principal amount of such indebtedness, but only to the extent that, with respect to interest on such indebtedness, such moneys are applied by the Trustee for the payment of interest on Outstanding Bonds, and, with respect to the principal of such indebtedness, such moneys have been applied to, or are held for, payments in reduction of the principal amount of Outstanding Bonds and as a result thereof Bonds have been paid or deemed to have been paid in accordance with the Resolution. Notwithstanding any provision in the Loan Agreement or in the Resolution or the Series Resolution to the contrary (except as otherwise specifically provided for in this subdivision), (i) all moneys paid by the University to the Trustee pursuant to paragraphs (c), (d), (e), (f), (j) and (k) of subdivision 1 of Section 9 of the Loan Agreement (other than moneys received by the Trustee pursuant to the Resolution which shall be retained and applied by the Trustee for its own account) shall be received by the Trustee as agent for the Authority in satisfaction of the University's indebtedness to the Authority with respect to the interest on and principal or Redemption Price of the Bonds to the extent of such payment and (ii) the transfer by the Trustee of any moneys (other than moneys described in clause (i) of this subdivision) held by it in the Construction Fund to the Debt Service Fund in accordance with the applicable provisions of the Loan Agreement or of the Resolution shall be deemed, upon such transfer, receipt by the Authority from the University of a payment in satisfaction of the University's indebtedness to the Authority with respect to the Redemption Price of the Bonds to the extent of the amount of moneys transferred. Except as otherwise provided in the Resolution, the Trustee shall hold such moneys in trust in accordance with the applicable provisions of the Resolution for the sole and exclusive benefit of the Holders of Bonds, regardless of the actual due date or applicable payment date of any payment to the Holders of Bonds.

3. The obligations of the University to make payments or cause the same to be made under the Loan Agreement shall be complete and unconditional and the amount, manner and time of making such payments shall not be decreased, abated, postponed or delayed for any cause or by reason of the happening or non-happening of any event, irrespective of any defense or any right of set-off, recoupment or counterclaim which the University may otherwise have against the Authority, the Trustee or any Bondholder for any cause whatsoever including, without limiting the generality of the foregoing, failure of the University to complete a Project or the completion thereof with defects, failure of the University to occupy or use a Project, any declaration or finding that the Bonds or any Series of Bonds are, or the Resolution is, invalid or unenforceable or any other failure or default by the Authority or the Trustee; provided, however, that nothing in the Loan Agreement shall be construed to release the Authority from the performance of any agreements on its part in the Loan Agreement contained or any of its other duties or obligations, and in the event the Authority shall fail to perform any such agreement, duty or obligation, the University may institute such action as it may deem necessary to compel performance or recover damages for non-performance. Notwithstanding the foregoing, the Authority shall have no obligation to perform its obligations under

the Loan Agreement to cause advances to be made to reimburse the University for, or to pay, the Costs relating to a Project, beyond the extent of moneys available in the Construction Fund established for such Project,

The Loan Agreement and the obligations of the University to make payments under the Loan Agreement are general obligations of the University.

4. An Authorized Officer of the Authority, for the convenience of the University, shall furnish to the University statements of the due date, purpose and amount of payments to be made pursuant to the Loan Agreement. The failure to furnish such statements shall not excuse nonpayment of the amounts payable at the time and in the manner provided in the Loan Agreement. The University shall notify the Authority as to the amount and date of each payment made to the Trustee or the Tender Agent by the University.

5. The Authority shall have the right in its sole discretion to make on behalf of the University any payment required pursuant to Section 9 of the Loan Agreement which has not been made by the University when due. No such payment by the Authority shall limit, impair or otherwise affect the rights of the Authority pursuant to the Loan Agreement arising out of the University's failure to make such payment and no payment by the Authority shall be construed to be a waiver of any such right or of the obligation of the University to make such payment.

6. The University, if it is not then in default under the Loan Agreement, shall have the right to make voluntary payments in any amount to the Trustee. In the event of a voluntary payment, the amount so paid shall be deposited in accordance with the directions of an Authorized Officer of the Authority in the Debt Service Fund or held by the Trustee for the payment of Bonds in accordance with the Resolution. Upon any voluntary payment by the University, the Authority agrees to direct the Trustee to purchase or redeem Bonds in accordance with the Resolution or to give the Trustee irrevocable instructions in accordance with the Resolution with respect to such Series of Bonds; provided, however, that in the event such voluntary payment is in the sole judgment of the Authority sufficient to pay all amounts then due under the Loan Agreement and under the Resolution, including the purchase or redemption of all Bonds Outstanding, or to pay or provide for the payment of all Bonds Outstanding in accordance with the Resolution, the Authority agrees, in accordance with the instructions of the University, to direct the Trustee to purchase or redeem all Bonds Outstanding, or to cause all Bonds Outstanding to be paid or to be deemed paid in accordance with the Resolution.

*(Section 9)*

#### **Consent to Pledge and Assignment by the Authority**

The University consents to and authorizes the assignment, transfer or pledge by the Authority to the Trustee of the Authority's rights to receive the payments required to be made pursuant to the Loan Agreement to secure any payment or the performance of any obligation of the University pursuant to the Loan Agreement or arising out of the transactions contemplated by the Loan Agreement whether or not the right to enforce such payment or performance shall be specifically assigned by the Authority to the Trustee. The University further agrees that the Authority may pledge and assign to the Trustee any and all of the Authority's rights and remedies under the Loan Agreement. Upon any pledge and assignment by the Authority to the Trustee authorized the Loan Agreement, the Trustee shall be fully vested with all of the rights of the Authority so assigned and pledged and may thereafter exercise or enforce, by any remedy provided by the Loan Agreement or by law, any of such rights directly in its own name. Any such pledge and assignment shall be limited to securing the University's obligation to make all payments required under the Loan Agreement and to performing all other obligations required to be performed by the University under the Loan Agreement.

The University covenants, warrants and represents that it is or, with response to actions to be taken after the date of execution of the Loan Agreement, would be duly authorized by all applicable laws, its charter and by-laws or Resolution adopted pursuant thereto to enter into the Loan Agreement, any Remarketing Agreement and any Liquidity Facility, to incur the indebtedness contemplated thereby. The University further covenants that the provisions thereof are and shall be valid and legally enforceable obligations of the University in accordance with their terms. The University further covenants, warrants and represents that the execution and delivery thereof, and the consummation of the transaction contemplated and compliance with the provisions thereof, do not violate, conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the charter or by-laws of the University or any indenture or mortgage, or any trusts, endowments or other commitments or agreements

to which the University is party or by which it or any of its properties are bound, or any existing law, rule, regulation, judgment, order, writ, injunction or decree of any governmental authority, body, agency or other instrumentality or court having jurisdiction over the University or any of its properties.

*(Section 10)*

**Limitation on Liens**

Except as otherwise provided the Loan Agreement, so long as Bonds shall be Outstanding, the University covenants and agrees that it will not issue, assume or guarantee any Debt secured by Liens upon any Restricted Property or create, incur or assume any Liens upon any Restricted Property to secure Debt, without effectively providing that the University's indebtedness under the Loan Agreement (together with, if the University so determines, any other indebtedness or obligation thereafter created that is not subordinate in right of payment to the University's indebtedness under the Loan Agreement) shall be secured equally and ratably with or prior to all other obligations secured thereby as long as such Debt shall be so secured, except that the foregoing provisions shall not apply to:

(a) Liens to secure all or any part of the purchase price or the cost of construction of Restricted Property acquired or constructed by the University, provided (i) the Debt secured by any such Lien is non-recourse to the University, (ii) the amount of such Debt does not exceed ninety-five per centum (95%) of the purchase price or the cost of construction, (iii) such Debt and related Lien are incurred within ninety (90) days after the acquisition or completion of construction, and (iv) such Lien relates only to the Restricted Property so acquired or constructed;

(b) Liens existing on Restricted Property at the time of acquisition of such Restricted Property by the University, provided (i) the Debt secured by any such Lien is non-recourse to the University, and (ii) the amount of such Debt does not exceed ninety-five per centum (95%) of the fair market value (in the opinion of an Authorized Officer of the University) of such Restricted Property;

(c) Liens to secure Debt incurred to the Authority or to secure Bonds, bonds, notes or other obligations issued by the Authority;

(d) With the consent of the Authority, Liens upon Restricted Property to secure obligations incurred by the University to the issuer of a Credit Facility or a Liquidity Facility or pursuant to an agreement relating thereto; and

(e) Any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (a) through (d) inclusive or of any Debt secured thereby; provided, that (i) the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, (ii) such extension, renewal or replacement Lien shall be limited to all or part of substantially the same Restricted Property to which the Lien that was extended, renewed or replaced applied (plus improvements on such Restricted Property) and (iii) in the case of any Lien referred to in the foregoing clause (a) or (b), the Debt secured thereby shall be non-recourse to the University.

*(Section 11)*

**Exempted Transactions**

Notwithstanding certain of the provisions of the Loan Agreement, the University may issue, assume or guarantee Debt secured by Liens or create, incur or assume Liens to secure Debt, that would otherwise be subject to the restrictions in Section 11 of the Loan Agreement:

in the event that:

the fair market value (in the opinion of an Authorized Officer of the University) of the Restricted Property securing such Debt, together with the aggregate value (as shown on the books and records of the University upon which the most recent audited financial statements of the University are based) of all other Restricted Property of the University securing Debt (other than Restricted Property securing Debt permitted to be secured under Section 11 of the Loan Agreement), does not exceed an amount equal to twenty percent (20%) (or such higher percentage as shall

be consented to by an Authorized Officer of the Authority) of the University's total assets (as shown on the most recent audited financial statements of the University); and

the aggregate principal amount of such Debt, together with the aggregate outstanding principal amount of all other Debt secured by Liens on Restricted Property of the University (other than Debt permitted to be secured under Section 11 of the Loan Agreement, does not exceed an amount equal to twenty-percent (20%) (or such higher percentage as shall be consented to by the Authority) of the University's total assets (as shown on the most recent audited financial statements of the University);

provided that in no event (unless the conditions stated in clause (a) are fulfilled) shall the University, without the prior written consent of an Authorized Officer of the Authority, issue, assume or guarantee any Debt secured by Liens upon the University's stocks, bonds, notes or similar securities, or create, incur or assume Liens upon the University's stocks, bonds, notes or similar securities to secure Debt (other than Debt incurred to the Authority in connection with bonds, notes or other obligations of the Authority issued under a resolution of the Authority), if the market value of the stocks, bonds, notes or similar securities securing such Debt, together with the aggregate market value of all other stocks, bonds, notes or similar securities of the University securing Debt (other than Debt incurred to the Authority in connection with bonds, notes or other obligations of the Authority issued under a resolution of the Authority) would exceed five percent (5%) of the market value of the University's stocks, bonds, notes or similar securities at the end of the calendar month preceding the date on which such Debt is issued, assumed or guaranteed by the University, as such market value is set forth in a certificate of the chief financial officer of the University delivered prior to the date such Debt is issued, assumed or guaranteed, which certificate shall also set forth the outstanding principal amount of Debt, including the Debt then to be issued, assumed or guaranteed, secured by liens upon stocks, bonds, notes or similar securities of the University.

*(Section 12)*

#### **Available Assets and General Liabilities; Unrestricted Endowment**

The University warrants and represents that its Available Assets are, and covenants that on each Report Date they will be equal to not less than two (2) times the General Liabilities of the University; provided that failure to comply with this covenant shall not constitute an Event of Default under the Loan Agreement if the University has complied with the provision of Section 14 of the Loan Agreement.

The University covenants that it shall maintain, on each Report Date so long as the University shall have Short Term Debt, as an asset of the University, stocks, bonds, notes or other similar securities which (i) are not required to be used to pay any item which is a Cost of a Project, (ii) are free and clear of any pledge, lien, charge, security interest or other encumbrance, (iii) are not subject to any statutory, contractual or other restriction and (iv) have a market value at least equal to twenty-five percent (25%) of the University's annual operating expenses; provided that failure to comply with this consent shall not constitute an Event of Default under the Loan Agreement if the University has complied with the provision of Section 14 of the Loan Agreement.

*(Section 13)*

#### **Management Consultant**

a) If the University fails to comply with any of the covenants contained in Section 13 of the Loan Agreement in any fiscal year succeeding a fiscal year in which no such failure occurred, the Authority, at its election which shall be exercised within sixty (60) days of notice of such failure, may request the University to engage, at the University's expense, a Management Consultant to review the rates, operations and management of the University and any other matter deemed appropriate by the Authority and to make such recommendations with respect to such rates, operations, management and other matters as will enable the University to comply with such covenants within a reasonable period. The University shall engage a Management Consultant within sixty (60) days of such request by the Authority. Copies of the report and recommendations of the Management Consultant shall be filed with the Authority, the Trustee, the Board of trustees of the University and an Authorized Officer of the University no later than one hundred twenty (120) days following the date of engagement of such Management Consultant. The Board of trustees of the University and such Authorized Officer of the University shall each deliver to the Authority no later than thirty (30) days following the date of filing with the Authority of the report and recommendations of the Management Consultant a written report setting forth their respective comment and reaction to the report and

recommendations of the Management Consultant.

If the University fails to comply with any of the covenants contained in Section 13 of the Loan Agreement in any fiscal year succeeding a fiscal year in which such failure has occurred, the University shall engage within sixty (60) days of such failure, at the University's expense, a Management Consultant to review the rates, operations and management of the University and any other matter deemed appropriate by the Authority and to make such recommendations with respect to such rates, operations, management and other matters as will enable the University to comply with such covenants within a reasonable period. The University shall immediately notify an Authorized Officer of the Authority of such engagement. Copies of the report and recommendations of the Management Consultant shall be filed with the Authority, the Trustee, the Board of trustees of the University and an Authorized Officer of the University no later than one hundred twenty (120) days following the date of engagement of such Management Consultant. The University shall, to the extent feasible, promptly upon its receipt of such recommendations, and subject to applicable requirements or restrictions imposed by law or regulation, revise its rates, fees and charges, its methods of operation or collections or its debt and investment management and shall take such other action as shall be in conformity with such recommendations. The University shall deliver to the Authority and the Trustee:

within forty- five (45) days of receipt of such Management Consultant's report (a) a report setting forth in reasonable detail the steps the University proposes to take to implement the recommendations of such Management Consultant, and (b) a certified copy of a resolution adopted by the board of trustees of the University accepting both the Management Consultant's report and the report prepared by the University as required in clause (a) thereof.

quarterly reports demonstrating the progress made by the University in implementing the recommendations of the Management Consultant.

If the University complies in all material respects with the reasonable recommendations of the Management Consultant delivered under Section 14 of the Loan Agreement, the University will be deemed to have complied with the covenants contained in Section 13 of the Loan Agreement for the University's fiscal year in which the Management Consultant's report is delivered and the University's succeeding fiscal year.

*(Section 14)*

### **Maintenance of Corporate Existence**

The University covenants that it will maintain its corporate existence, will continue to operate as an institution for higher education, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the University as an institution for higher education providing such programs of instruction as it may from time to time determine, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, however, that if no Event of Default shall have occurred and be continuing and prior written notice shall have been given to the Authority and the Trustee, the University may (i) sell or otherwise transfer all or substantially all of its assets to, or consolidate with or merge into, another organization or corporation which qualifies under Section 501(c) (3) of the Code, or any successor provision of federal income tax law, or (ii) permit one or more corporations or any other organization to consolidate with or merge into it, or (iii) acquire all or substantially all of the assets of one or more corporations or any other organization; provided, however, (a) that any such sale, transfer, consolidation, merger or acquisition does not in the opinion of counsel satisfactory to the Authority adversely affect the exemption from federal income tax of the interest paid or payable on the Bonds, (b) that the surviving, resulting or transferee corporation, as the case may be, is incorporated under the laws of the State, and qualified under Section 501(c) (3) of the Code or any successor provision of federal income tax law, and (c) that the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of and restrictions on the University under the Loan Agreement and under any Remarketing Agreement, any Liquidity Facility, any Credit Facility and furnishes to the Authority a certificate to the effect that upon such sale, transfer, consolidation, merger or acquisition such corporation shall be in compliance with each of the provisions of the Loan Agreement and shall meet the requirements of the Act. Furthermore, such sale, transfer, consolidation, merger, acquisition or other disposition shall occur only if, after giving effect to such sale, transfer, consolidation, merger, acquisition or other disposition, (x) no Event of Default would exist under the Loan Agreement or under the Resolution and, (y) the surviving,

resulting or transferee corporation is in compliance with the covenants contained in Sections 11, 12 and 13 the Loan Agreement on the date of such sale, transfer, consolidation, merger, acquisition or other disposition.

*(Section 18)*

### **Tax-Exempt Status**

The University represents that: (i) it is an organization described in Section 501(c) (3) of the Code, or corresponding provisions of prior law and is not a “private foundation” as such term is defined under Section 509(a) of the Code; (ii) it has received a letter or other notification from the Internal Revenue Service to that effect; (iii) such letter or other notification has not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letter or other notification; (v) the facts and circumstances which form the basis of such letter or other notification as represented to the Internal Revenue Service continue to exist; and (vi) it is exempt from federal income taxes under Section 501(a) of the Code. The University agrees that: (a) it shall not perform any act or enter into any agreement which shall adversely affect such federal income tax status and shall conduct its operations in the manner which will conform to the standards necessary to qualify the University as an organization within the meaning of Section 501(c) (3) of the Code or any successor provision of federal income tax law; and (b) it shall not perform any act, enter into any agreement or use or permit a Project to be used in any manner, or for any trade or business unrelated to the educational purposes of the University, which could adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code.

The University warrants, represents and covenants that (i) at least ninety-five percent (95%) of the net proceeds of Bonds (calculated in accordance with Section 150(a) (3) of the Code) shall not be used in the trade or business of any person other than an organization described in Section 501(c) (3) of the Code or a governmental unit and (ii) all property acquired, constructed or renovated with moneys derived from the net proceeds of Bonds will be owned (within the meaning of the Code) by an organization described in Section 501(c) (3) of the Code or a governmental unit.

*(Section 16)*

### **Arbitrage; Rebate Calculations**

1. (a) The University and the Authority covenant that they shall take no action, nor approve the Trustee’s taking any action or making any investment or use of the proceeds of Bonds, which would cause the Bonds or any Series of Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use. (b) The University, or any related person, as defined in Section 147 (a) (2) of the Code, shall not, pursuant to an arrangement, formal or informal, purchase Bonds in an amount related to the amount of any obligation to be acquired from the University by the Authority. The University will, on a timely basis, provide the Authority with all necessary information and funds not in the Authority’s possession, to enable the Authority to comply with the arbitrage and rebate requirements of the Code.

The Authority shall retain in its possession, so long as required by the Code, copies of all documents, reports and computations made by it in connection with the calculation of rebate, yield reduction payments and interest and penalties and the payment of all or a portion thereof to the Department of the Treasury of the United States of America, which shall be subject at all reasonable times to the inspection of the University and its agents and representatives, any of whom may make copies thereof. Upon written request therefor from the University the Authority shall as soon as practicable provide the University with a copy of any such document, report or computation. The Authority shall also provide the University with a copy of all documents or reports filed with the Department of Treasury of the United States of America relating to the foregoing.

*(Section 36)*

### **Use of Projects**

The University agrees that at least ninety-five percent (95%) of the Projects shall be occupied or used only by or for students or members of the faculty or staff of the University, or, on a temporary basis, persons connected with educational, research or other activities incidental to the operations of the University, subject to and consistent



with the requirements of the Loan Agreement. Subject to the rights, duties and remedies of the Authority under the Loan Agreement, the University shall have sole and exclusive control of, possession of and responsibility for (i) the Projects; (ii) the operation of the Projects and supervision of the activities conducted therein or in connection with any part thereof; and (iii) the maintenance, repair and replacement of the Project.

(Section 20)

**Covenant as to Insurance**

The University shall procure and maintain, or cause to be procured and maintained, to the extent reasonably obtainable, from responsible insurers, insurance of the type and in the amounts customarily maintained by institutions for higher education providing programs substantially similar to those of the University.

2. In addition to any insurance maintained in accordance with subdivision 1 of Section 23 of the Loan Agreement, the University shall, at the times specified in the following paragraphs, procure and maintain, or cause to be procured and maintained, all insurance required by Section 23 of the Loan Agreement in accordance with the terms and conditions thereof, from responsible insurers rated at least A-IX by A.M. Best & Company and acceptable to an Authorized Officer of the Authority, as follows:

(a) builders risk insurance with respect to any building constituting a part of the Projects the construction of which shall not have been completed (and until insurance is procured pursuant to paragraph (b) of this subdivision 2), coverage to be written on all risk form. The amount of such insurance shall be on a one hundred percent (100%) replacement value basis on the insurable portion. The builders risk coverage will include the prime contractors as named insureds as their interests may appear;

(b) all risk property insurance at all times (except during a period when builders risk insurance is in effect as required by paragraph (a) of this subdivision 2) insuring against direct physical loss or damage to the Projects; provided, however, that if the Projects are insured under a blanket insurance policy or policies of the University, policy limits and coverage shall comply with the provisions of this paragraph; provided further, however, that each such policy shall be in an amount sufficient to prevent the University and the Authority from becoming co-insurers under the applicable terms of the policy;

(c) business interruption and extra expense insurance in amounts considered sufficient by the Authority;

(d) comprehensive boiler and machinery coverage including extra expense and business interruption, commencing with the date on which the Project or any part thereof is completed or first occupied, or any covered equipment or machinery is accepted, whichever occurs earlier; limits shall be in an amount considered sufficient by the Authority;

(e) commercial general liability insurance at all times protecting the Authority (as an additional insured) and the University from loss resulting from legal obligations caused by bodily injury and property damage with limits of not less than \$2,000,000 annual aggregate and \$1,000,000 per occurrence;

(f) professional liability insurance providing protection for loss resulting from legal obligations caused or allegedly caused by malpractice or alleged malpractice, with limits of at least in the amount in effect at the time of execution of this Loan Agreement but in any event not less than \$1,000,000 per occurrence and \$2,000,000 annual aggregate;

(g) at all times, workers compensation insurance and disability benefits insurance providing coverage as required by statute; and

(h) such other kinds of insurance in such amounts as from time to time may be reasonably required by the Authority.

3. Any insurance procured and maintained by the Authority or the University pursuant to Section 23

of the Loan Agreement, including any blanket insurance policy, may include reasonable deductible provisions satisfactory to an Authorized Officer of the Authority and the University. In determining whether or not any insurance required by Section 23 of the Loan Agreement is generally obtainable or if the deductible on any such insurance is a reasonable deductible, the Authority may rely solely and exclusively upon the advice and judgment of an Insurance Consultant, and any such decision by the Authority, based upon such advice and judgment, shall be conclusive.

4. The University may self insure if the following requirements are met:

(a) The University obtains the prior written approval of the Authority;

(b) The self insurance has been reviewed by an Insurance Consultant;

(c) The self-insurance program includes an actuarially sound claims reserve fund out of which each self-insured claim shall be paid. The adequacy of such fund shall be evaluated on an annual basis by an Insurance Consultant. A copy of the Insurance Consultant's actuarial report shall be submitted to the Authority at the time of closing and annually thereafter. Any deficiency in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the Insurance Consultant;

(d) The self-insured claims reserve fund shall be held in the United States of America in a separate trust fund by an independent corporate trustee; and

(e) In the event the current funding of the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by an Insurance Consultant, shall be maintained.

In no event shall the University self insure against casualty losses to any real or personal property owned, leased or used by it, including plant, property and equipment.

5. Each policy maintained pursuant to subdivision 2 of Section 23 of the Loan Agreement or the requirements of the Authority shall provide that the insurer writing such policy shall give at least thirty (30) days notice in writing to the Authority of the cancellation or non-renewal or material change in the policy unless a lesser period of notice is expressly approved in writing by the Authority. The University, not later than August 15 of each year, shall provide to the Authority a list describing all policies of insurance maintained by the University pursuant to Section 23 of the Loan Agreement stating with respect to each such policy (i) the insurer, (ii) the insured parties or loss payees, (iii) the level of coverage, and (iv) such other information as an Authorized Officer of the Authority may have reasonably-requested.

6. All policies and certificates of insurance shall be open to inspection by the Authority and the Trustee at all reasonable times. Prior to making any change in such insurance which would reduce the amount of coverage or increase the deductible, the University shall notify the Authority and the Trustee of such change which notice shall describe the proposed change in reasonable detail.

7. All policies of insurance required pursuant to subdivision 2 of Section 23 of the Loan Agreement, other than policies of workers' compensation insurance, shall include the Authority and the University, as named insureds or as loss payee as their interests may appear.

8. In the event the University fails to provide the insurance required by Section 23 of the Loan Agreement, the Authority may elect at any time thereafter to procure and maintain the insurance required by Section 23 of the Loan Agreement at the expense of the University. The policies procured and maintained by the Authority shall be open to inspection by the University at all reasonable times, and, upon request of the University, a complete list describing such policies as of the June 30 preceding the Authority's receipt of such request shall be furnished to the University by the Authority.

*(Section 23)*

## Defaults and Remedies

1. As used in the Loan Agreement the term “Event of Default” shall mean:

the University shall default in the timely payment of any amount payable pursuant to the Loan Agreement or the payment of any other amounts required to be delivered or paid in accordance with the Loan Agreement or the Resolution, and such default continues for a period in excess of ten (10) days;

the University defaults in the due and punctual performance of any other covenant in the Loan Agreement contained and such default continues for thirty (30) days after written notice requiring the same to be remedied shall have been given by the Authority or the Trustee, provided that, if in the determination of the Authority such default can not be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the University within such period and is diligently pursued until the default is corrected;

as a result of any default in payment or performance required of the University or any Event of Default under the Loan Agreement, whether or not declared, continuing or cured, the Authority shall be in default in the payment or performance of any of its obligations under the Resolution or an “Event of Default” (as defined in the Resolution) shall have been declared under the Resolution so long as such default or Event of Default shall remain uncured or the Trustee or Holders of the Bonds shall be seeking the enforcement of any remedy under the Resolution as a result thereof;

the University shall (i) be generally not paying its debts as they become due, (ii) file, or consent by answer or otherwise to the filing against it of, a petition under the United States Bankruptcy Code or under any other bankruptcy or insolvency law of any jurisdiction, (iii) make a general assignment for the benefit of its general creditors, (iv) consent to the appointment of a custodian, receiver, trustee or other officer with similar powers of itself or of any substantial part of its property, (v) be adjudicated insolvent or be liquidated or (vi) take corporate action for the purpose of any of the foregoing;

a court or governmental authority of competent jurisdiction shall enter an order appointing, without consent by the University, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or an order for relief shall be entered in any case or proceeding for liquidation or reorganization or otherwise to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the University, or any petition for any such relief shall be filed against the University and such petition shall not be dismissed within ninety (90) days;

the charter of the University shall be suspended or revoked;

a petition shall be filed by the University with the Board of Regents of the University of the State of New York, the legislature of the State of New York or other governmental authority having jurisdiction over the University to dissolve the University;

an order of dissolution of the University shall be made by the Board of Regents of the University of the State of New York, the legislature of the State of New York or other governmental authority having jurisdiction over the University which order shall remain undismissed or unstayed for an aggregate of thirty (30) days;

a petition shall be filed with a court having jurisdiction for an order directing the sale, disposition or distribution of all or substantially all of the property belonging to the University which petition shall remain undismissed or unstayed for an aggregate of ninety (90) days;

an order of a court having jurisdiction shall be made directing the sale, disposition or distribution of all or substantially all of the property belonging to the University, which order shall remain undismissed or unstayed for an aggregate of thirty (30) days; or

a final judgment for the payment of money which in the reasonable judgment of the Authority will materially adversely affect the rights of the Holders of the Bonds shall be rendered against the University and at any time after thirty (30) days from the entry thereof, (i) such judgment shall not have been discharged, or (ii) the

University shall not have taken and be diligently prosecuting an appeal therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, and shall not have caused, within thirty (30) days, the execution of or levy under such judgment, order, decree or process or the enforcement thereof to have been stayed pending determination of such appeal.

2. Upon the occurrence of an Event of Default the Authority may take any one or more of the following actions:

declare all sums payable by the University under the Loan Agreement immediately due and payable;

direct the Trustee to withhold any and all payments, advances and reimbursements from the proceeds of Bonds or any Construction Fund or otherwise to which the University may otherwise be entitled under the Loan Agreement and in the Authority's sole discretion apply any such proceeds or moneys for such purposes as are authorized by the Resolution;

withhold any or all further performance under the Loan Agreement;

maintain an action against the University under the Loan Agreement to recover any sums payable by the University or to require its compliance with the terms of the Loan Agreement;

to the extent permitted by law, (i) enter upon a Project and complete the construction of any Project in accordance with the plans and specifications with such changes therein as the Authority may deem appropriate and employ watchmen to protect the Projects, all at the risk, cost and expense of the University, consent to such entry being given by the University, (ii) at any time discontinue any work commenced in respect of the construction of any Project or change any course of action undertaken by the University and not be bound by any limitations or requirements of time whether set forth in the Loan Agreement or otherwise, (iii) assume any construction contract made by the University in any way relating to the construction of any Project and take over and use all or any part of the labor, materials, supplies and equipment contracted for by the University, whether or not previously incorporated into the construction of such Project, and (iv) in connection with the construction of any Project undertaken by the Authority pursuant to the provisions of this paragraph (g), (x) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with the construction of such Project, (y) pay, settle or compromise all bills or claims which may become liens against a Project or against any moneys of the Authority applicable to the construction of a Project, or which have been or may be incurred in any manner in connection with completing the construction of a Project or for the discharge of liens, encumbrances or defects in the title to a Project or against any moneys of the Authority applicable to the construction of a Project, and (z) take or refrain from taking such action under the Loan Agreement as the Authority may from time to time determine. The University shall be liable to the Authority for all sums paid or incurred for construction of any Project whether the same shall be paid or incurred pursuant to the provisions of this paragraph (g) or otherwise, and all payments made or liabilities incurred by the Authority under the Loan Agreement of any kind whatsoever shall be paid by the University to the Authority upon demand. For the purpose of exercising the rights granted by this subparagraph during the term of the Loan Agreement, the University irrevocably constitutes and appoints the Authority its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and to do and perform any acts in the name and on behalf of the University; and

All rights and remedies given or granted to the Authority are cumulative, non-exclusive and in addition to any and all rights and remedies that the Authority may have or may be given by reason of any law, statute, ordinance or otherwise, and no failure to exercise or delay in exercising any remedy shall effect a waiver of the Authority's right to exercise such remedy thereafter.

At any time before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of any Event of Default or before the completion of the enforcement of any other remedies under the Loan Agreement, the Authority may annul any declaration made or action taken pursuant to subdivision 2 of Section 29 of the Loan Agreement and its consequences if such Events of Default shall be cured. No such annulment shall extend or affect any subsequent default or impair any right consequent thereto.

(Section 29)

**SUMMARY OF CERTAIN PROVISIONS  
OF THE RESOLUTION**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## **SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a brief summary, prepared by Bond Counsel, of certain provisions of the Resolution. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions. Defined terms used herein shall have the meanings ascribed to them in Appendix A.

### **Resolution Constitutes a Contract**

With respect to the Bonds, in consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued under the Resolution by those who shall hold or own the same from time to time, the Resolution shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Holders from time to time of such Bonds, and the pledge and assignment made in the Resolution and the covenants and agreements set forth to be performed by or on behalf of the Authority shall be for the equal and ratable benefit, protection and security of the Holders of any and all of such Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any such Bonds, over any other Bonds except as expressly provided in the Resolution or permitted thereby.

*(Section 1.03)*

### **Pledge of Revenues**

The proceeds from the sale of any Bonds, the Revenues, the rights of the Authority to receive all payments to be made under the Loan Agreement that are to be deposited with the Trustee, and all funds and accounts, excluding the Arbitrage Rebate Fund, established under the Resolution and by any Series Resolution are pledged and assigned to the Trustee as security for the payment of the principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the Bonds and as security for the performance of any other obligation of the Authority under the Resolution and under any Series Resolution, all in accordance with the provisions thereof. The pledge made under the Resolution is valid, binding and perfected from the time when the pledge attaches and the proceeds from the sale of any Bonds, the Revenues, and the right of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Trustee, and all funds and accounts, excluding the Arbitrage Rebate Fund, established under the Resolution and by any Series Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid, binding and perfected as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof. No instrument by which such pledge is created nor any financing statement need be recorded or filed. The Bonds shall be special obligations of the Authority payable solely from and secured by a pledge of the proceeds from the sale of any Bonds, the Revenues, the right of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Trustee, and all funds and accounts, excluding the Arbitrage Rebate Fund, established under the Resolution and by any Series Resolution, which pledge shall constitute a first lien thereon.

Notwithstanding anything to the contrary contained in the Resolution, the Authority may incur Credit/Liquidity Facility Obligations which are payable from the Revenues on a parity with the Bonds and which are secured by a lien upon or pledge of the Revenues which is of equal priority with the lien created and the pledge made under the Resolution.

*(Section 5.01)*

### **Establishment of Funds and Accounts**

The following funds and separate accounts within funds are established and shall be held and maintained by the Trustee, except that a separate Construction Fund shall be established for each Project pursuant to a Series Resolution or other resolution authorizing the issuance of Notes, and each such Construction Fund shall be held and maintained by the Trustee:

Debt Service Fund

Arbitrage Rebate Fund

If prior to the adoption of a Series Resolution authorizing the issuance of Bonds to finance the Costs of a Project and a Construction Fund for such Project has been established, such Series Resolution may make reference to such Construction Fund and need not create a further such fund.

All moneys at any time deposited in any fund created under the Resolution, other than the Arbitrage Rebate Fund, or by a Series Resolution or required under the Resolution or under the Series Resolution to be created shall be held in trust for the benefit of the Holders of Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes provided in the Resolution.

*(Section 5.02)*

#### **Application of Bond Proceeds and Allocation Thereof**

Upon the receipt of the proceeds from the sale of a Series of Bonds, the Authority shall apply such proceeds as specified in the Resolution and in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

Accrued interest, if any, received upon the delivery of a Series of Bonds shall be deposited in the Debt Service Fund unless all or any portion of such amount is to be otherwise applied as specified in the Series Resolution authorizing such Series or the Bond Series Certificate relating to such Series.

*(Section 5.03)*

#### **Application of Moneys in the Construction Fund**

As soon as practicable after the delivery of each Series of Bonds, the Trustee shall deposit in the Construction Fund or Funds established for the Project or Projects in connection with which such Series of Bonds was issued the amount required to be deposited therein pursuant to the Series Resolution authorizing the issuance of such Series or the Bond Series Certificate relating to such Series.

Except as otherwise provided in the Resolution and in any applicable Series Resolution or Bond Series Certificate, moneys deposited in the Construction Fund shall be used only to pay the Costs of Issuance of Bonds and the Costs of the Project for which such fund was established. For purposes of internal accounting, a Construction Fund may contain one or more subaccounts, as the Authority or the Trustee may deem proper.

Payments for Costs of Issuance shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority stating the names of the payees, the purpose of each payment and the respective amount of each such payment. Payments for Costs of a Project shall be made by the Trustee upon receipt of, and in accordance with, a certificate or certificates signed by an Authorized Officer of the Authority, substantiated by a certificate filed with the Authority signed by an Authorized Officer of the University, describing in reasonable detail the purpose for which moneys were used and the amount thereof, and further stating that such purpose constitutes a necessary part of the Costs of the Project to which such certificate relates, except that payments to pay interest on Bonds shall be made by the Trustee upon receipt of, and in accordance with, the direction of an Authorized Officer of the Authority directing the Trustee to transfer such amount from the Construction Fund to the Debt Service Fund.

Any proceeds of condemnation or eminent domain awards received by the Trustee, the Authority or the University with respect to a Project shall be applied in accordance with the Loan Agreement and, if necessary, the Construction Fund established for such Project may be re-established for such purpose.

A Project shall be deemed to be complete upon delivery to the Authority and the Trustee of a certificate signed by an Authorized Officer of the University which certificate shall be delivered as soon as practicable after completion of such Project or upon delivery to the Trustee and the University of a certificate signed by an



Authorized Officer of the Authority which certificate may be delivered at any time after completion of such Project. Each such certificate shall identify the Project to which it relates, state that such Project has been completed substantially in accordance with the plans and specifications, if any, applicable to such Project and that such Project is ready for occupancy, and, in the case of a certificate of an Authorized Officer of the University, specify the date of completion.

Upon receipt of a certificate delivered pursuant to this subdivision, the moneys, if any, then remaining in the Construction Fund established for the Project to which such certificate relates, after making provision in accordance with the direction of an Authorized Officer of the Authority for the payment of any Costs of Issuance and Costs of the Project then unpaid, shall be paid by the Trustee as follows and in the following order of priority:

Upon the direction of an Authorized Officer, to the Arbitrage Rebate Fund, the amount set forth in such direction; and

To the Debt Service Fund or, upon the direction of an Authorized Officer of the Authority, to one or more of the Construction Funds, or to both, in the respective amounts set forth in such direction, any balance remaining.

*(Section 5.04)*

### **Deposit and Allocation of Revenues**

The Revenues and any other moneys, which, by any of the provisions of the Loan Agreement, are required to be paid to the Trustee, shall upon receipt thereof be deposited or paid by the Trustee as follows and in the following order of priority:

First: To the Debt Service Fund (i) in the case of Revenues received during the period from the beginning of each Bond Year until December 31 thereof, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on Outstanding Bonds payable on or prior to the next succeeding January 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior to the next succeeding January 1, (b) the Sinking Fund Installments of Outstanding Bonds becoming due and payable on or prior to the next succeeding January 1, and (c) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to Section 5.06 of the Resolution on or prior to the next succeeding January 1, plus accrued interest thereon to the date of purchase or redemption; and (ii) in the case of Revenues received thereafter and until the end of such Bond Year, the amount, if any, necessary to make the amount in the Debt Service Fund equal to (a) the interest on and the principal and Sinking Fund Installments of Outstanding Bonds becoming due and payable on or prior to the next succeeding July 1, including the interest estimated by the Authority to be payable on Variable Interest Rate Bonds on and prior to such July 1 and (b) the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption pursuant to Section 5.06 of the Resolution on or prior to the next succeeding July 1, plus accrued interest thereon to the date of purchase or redemption; and

Second: To the Authority, unless otherwise paid, such amounts as are payable to the Authority for: (i) any expenditures of the Authority for fees and expenses of auditing, and fees and expenses of the Trustee and Paying Agents, all as required by the Resolution, (ii) all other expenditures reasonably and necessarily incurred by the Authority in connection with the financing of the Projects, including expenses incurred by the Authority to compel full and punctual performance of all the provisions of the Loan Agreement in accordance with the terms thereof, and (iii) any fees of the Authority; but only upon receipt by the Trustee of a certificate signed by an Authorized Officer of the Authority, stating in reasonable detail the amounts payable to the Authority pursuant to this paragraph Second.

The Trustee shall notify the Authority and the University promptly after making the payments required by Section 5.05 the Resolution, of any balance of Revenues then remaining. After making the payments required by Section 5.05 the Resolution, the balance, if any, of the Revenues then remaining shall, upon the direction of an Authorized Officer of the Authority, be paid by the Trustee to the Construction Fund or the Debt Service Fund, or paid to the University, in the respective amounts set forth in such direction. Any amounts paid to the University shall be free and clear of any pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

(Section 5.05)

**Debt Service Fund**

The Trustee shall on or before the Business Day preceding each interest payment date pay to itself and any other Paying Agent out of the Debt Service Fund:

- (a) the interest due and payable on all Outstanding Bonds on such interest payment date;
- (b) the principal amount due and payable on all Outstanding Bonds on such interest payment date; and
- (c) the Sinking Fund Installments or other amounts related to a mandatory redemption, if any, due and payable on all Outstanding Bonds on such interest payment date.

The amounts paid out pursuant to Section 5.06 of the Resolution shall be irrevocably pledged to and applied to such payments.

Notwithstanding certain provisions of Section 5.06 of the Resolution, the Authority may, at any time subsequent to July 1 of any Bond Year but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, direct the Trustee to purchase, with moneys on deposit in the Debt Service Fund, at a price not in excess of par plus interest accrued and unpaid to the date of such purchase, Term Bonds to be redeemed from such Sinking Fund Installment. Any Term Bond so purchased shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date, provided that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Notwithstanding certain provisions of Section 5.06 of the Resolution, the University pursuant to the Loan Agreement may deliver, at any time subsequent to July 1 of any Bond Year, but in no event less than forty-five (45) days prior to the succeeding date on which a Sinking Fund Installment is scheduled to be due, to the Trustee for cancellation one or more Term Bonds of the Series and maturity to be so redeemed on such date from such Sinking Fund Installment. Any Term Bond so delivered to the Trustee shall be canceled upon receipt thereof by the Trustee and evidence of such cancellation shall be given to the Authority. The principal amount of each Term Bond so canceled shall be credited against the Sinking Fund Installment due on such date; provided, however, that such Term Bond is canceled by the Trustee prior to the date on which notice of redemption is given.

Moneys in the Debt Service Fund in excess of the amount required to pay the principal of Outstanding Bonds payable on or prior to the next succeeding July 1, the interest on Outstanding Bonds payable on the next succeeding interest payment date and the purchase price or Redemption Price of Outstanding Bonds theretofore contracted to be purchased or called for redemption, plus accrued interest thereon to the date of purchase or redemption, shall be retained therein or applied by the Trustee in accordance with the direction of an Authorized Officer of the Authority to: (i) the purchase of Outstanding Bonds of any Series at purchase prices not exceeding the Redemption Price applicable on the next interest payment date on which such Bonds are redeemable, plus accrued and unpaid interest to such date, at such times and in such manner as an Authorized Officer of the Authority shall direct; (ii) to the redemption of Bonds as provided in the Resolution, at the Redemption Prices specified in the Series Resolution authorizing the issuance of such Bonds or the Bond Series Certificate relating to such Bonds; or (iii) to the defeasance of the Bonds in accordance with Section 12.01 of the Resolution.

(Section 5.06)

**Arbitrage Rebate Fund**

The Trustee shall deposit to the Arbitrage Rebate Fund any moneys delivered to it by the University for deposit therein and, notwithstanding certain other provisions of the Resolution, shall transfer to the Arbitrage Rebate Fund, in accordance with the directions of an Authorized Officer of the Authority, moneys on deposit in any other funds held by the Trustee under the Resolution at such times and in such amounts as set forth in such directions;.

Moneys on deposit in the Arbitrage Rebate Fund shall be applied by the Trustee in accordance with the

direction of an Authorized Officer of the Authority to make payments to the Department of the Treasury of the United States of America at such times and in such amounts as the Authority shall determine to be required by the Code to be paid (as rebate, yield, reduction payments, interest, penalties or otherwise) to the Department of the Treasury of the United States of America. Moneys which an Authorized Officer of the Authority determines to be in excess of the amount required to be so paid shall be deposited to the Debt Service Fund in accordance with the directions of such Authorized Officer.

If and to the extent required by the Code, the Authority shall periodically, at such times as may be required to comply with the Code, determine the amount of earnings on the investment of proceeds of Bonds and direct the Trustee to (i) transfer from any other of the funds and accounts held by the Trustee under the Resolution and deposit to the Arbitrage Rebate Fund all or a portion of the amount that the Authority has determined may be required by the Code to be paid (as rebate, yield reduction payments, interest, penalties or otherwise) to the Department of the Treasury of the United States of America, and (ii) pay out of the Arbitrage Rebate Fund to the Department of the Treasury of the United States of America the amount, if any, required by the Code to be paid thereto (as rebate, yield reduction payments, interest, penalties or otherwise).

Excess moneys in the Arbitrage Rebate Fund pursuant to Section 5.08 of the Resolution shall be deposited to the Revenue Fund in accordance with the directions of such Authorized Officer.

*(Section 5.07)*

#### **Application of Moneys in Certain Funds for Retirement of Bonds**

Notwithstanding any other provisions thereof, if at any time the amounts held in the Debt Service Fund are sufficient to pay the principal or Redemption Price of all Outstanding Bonds and the interest accrued and unpaid and to accrue on such Bonds to the next date on which all such Bonds are redeemable, or to make provision pursuant to subdivision 2 of Section 12.01 of the Resolution for the payment of the Outstanding Bonds at the maturity or redemption dates thereof, the Trustee shall so notify the Authority and the University. Upon receipt of such notice, the Authority may (i) direct the Trustee to redeem all such Outstanding Bonds, whereupon the Trustee shall proceed to redeem or provide for the redemption of such Outstanding Bonds in the manner provided for redemption of such Bonds under the Resolution and by each Series Resolution, or (ii) give the Trustee irrevocable instructions in accordance with subdivision 2 of Section 12.01 of the Resolution and make provision for the payment of the Outstanding Bonds at the maturity or redemption dates thereof in accordance therewith.

*(Section 5.08)*

#### **Investment of Funds and Accounts Held by the Trustee**

Moneys held under the Resolution by the Trustee, if permitted by law, shall, as nearly as may be practicable, be invested by the Trustee, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority (which direction shall specify the amount thereof to be so invested), in Government Obligations or Exempt Obligations; provided that each such investment shall permit the moneys so deposited or invested to be available for use at the times at which the Authority reasonably believes such moneys will be required for the purposes thereof.

In lieu of the investments of moneys in obligations authorized in Section 6.02 of the Resolution, the Trustee shall, to the extent permitted by law, upon direction of the Authority given or confirmed in writing, signed by an Authorized Officer of the Authority, invest moneys in the Construction Fund in (i) interest-bearing time deposits, certificates of deposit or other similar investment arrangements including, but not limited to, written repurchase agreements relating to Government Obligations, with banks, trust companies, savings banks, savings and loan associations, or securities dealers approved by the Authority the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation; (ii) Exempt Obligations or (iii) Investment Agreements; provided that (w) each such investment shall permit the moneys so deposited or invested to be available for use at the times at, and in the amounts in, which the Authority reasonably believes such moneys will be required for the purposes thereof, (x) all moneys in each such interest-bearing time deposit, certificate of deposit or other similar investment arrangement shall be continuously and fully secured by ownership of or a security interest in Government Obligations of a market value determined by the Trustee or its agent on a daily valuation equal to the amount deposited or invested including interest accrued thereon, (y) the obligations securing such interest-bearing

time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be deposited with and held by the Trustee or an agent of the Trustee approved by an Authorized Officer of the Authority, and (z) the Government Obligations securing such time deposit or certificate of deposit or which are the subject of such other similar investment arrangement shall be free and clear of claims of any other person.

Obligations purchased or other investments made as an investment of moneys in any fund or account held by the Trustee under the provisions thereof shall be deemed at all times to be a part of such fund or account and the income or interest earned, profits realized or losses suffered by a fund or account due to the investment thereof shall be retained in, credited or charged, as the case may be, to such fund or account.

In computing the amount in any fund or account held by the Trustee under the provisions of the Resolution, obligations purchased as an investment of moneys therein or held therein shall be valued at par or the market value thereof, plus accrued interest, whichever is lower.

Notwithstanding anything to the contrary in the Resolution, the Authority, in its discretion, may direct the Trustee to, and the Trustee upon receipt of such direction shall, sell, present for redemption or exchange any investment held by the Trustee pursuant to the Resolution and the proceeds thereof may be reinvested as provided in Section 6.02 of the Resolution. Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption or exchange, any investment held by it pursuant to the Resolution whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the fund or account in which such investment is held. The Trustee shall advise the Authority and the University in writing, on or before the fifteenth (15th) day of each calendar month, of the amounts required to be on deposit in each fund and account under the Resolution and of the details of all investments held for the credit of each fund and account in its custody under the provisions thereof as of the end of the preceding month and as to whether such investments comply with the provisions of Section 6.02 of the Resolution. The details of such investments shall include the par value, if any, the cost and the current market value of such investments as of the end of the preceding month. The Trustee shall also describe all withdrawals, substitutions and other transactions occurring in each such fund and account in the previous month.

*(Section 6.02)*

### **Security for Deposits**

All moneys held under the Resolution by the Trustee shall be continuously and fully secured, for the benefit of the Authority and the Holders of the Bonds, by direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America of a market value equal at all times to the amount of the deposit so held by the Trustee; provided, however, (a) that if the securing of such moneys is not permitted by applicable law, then in such other manner as may then be required or permitted by applicable State or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds, and (b) that it shall not be necessary for the Trustee or any Paying Agent to give security for the deposit of any moneys with them pursuant to Section 5.06 or Section 12.01 of the Resolution and held in trust for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price of or interest on any Bonds, or for the Trustee to give security for any moneys which shall be represented by obligations purchased or other investments made under the provisions of the Resolution as an investment of such moneys.

*(Section 6.01)*

### **Refunding Bonds and Additional Obligations**

All or any portion of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds, one or more Series of Outstanding Bonds, a portion of a Series of Outstanding Bonds or a portion of a maturity of a Series of Outstanding Bonds. The Authority may issue Refunding Bonds in an aggregate principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of Section 2.04 the Resolution and of the Series Resolution authorizing such Series of Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds.

The Refunding Bonds of such Series shall be authenticated and delivered by the Trustee only upon receipt

by the Trustee (in addition to the documents required by the Resolution) of:

If the Bonds to be refunded are to be redeemed, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

Irrevocable instructions to the Trustee, satisfactory to it, to give the notice provided for in Section 12.01 of the Resolution to the Holders of the Bonds being refunded;

Either (i) moneys in an amount sufficient to effect payment at maturity or at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which money shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of said Section 12.01 of the Resolution, which Defeasance Securities and moneys shall be held in trust and used only as provided in said Section; and

A certificate of an Authorized Officer of the Authority containing such additional statements as may be reasonably necessary to show compliance with the requirements of Section 2.04 of the Resolution.

The proceeds, including accrued interest, of Refunding Bonds shall be applied simultaneously with the delivery of such Refunding Bonds in the manner provided in or as determined in accordance with the Series Resolution authorizing such Refunding Bonds or the Bond Series Certificate relating to such Series of Refunding Bonds

The Authority reserves the right to issue bonds, notes or any other obligations or otherwise incur indebtedness pursuant to other and separate resolutions or agreements of the Authority, so long as such bonds, notes or other obligations are not, or such other indebtedness is not, entitled to a charge or lien or right prior or equal to the charge or lien created by the Resolution, or prior or equal to the rights of the Authority and Holders of Bonds provided by the Resolution or with respect to the moneys pledged under the Resolution unless expressly permitted by Section 7.06 of the Resolution.

*(Sections 2.04 and 2.06)*

#### **Creation of Liens**

Except as permitted by the Resolution, the Authority shall not create or cause to be created any lien or charge prior or equal to the Bonds on the proceeds from the sale of any Bonds, the Revenues, the rights of the Authority to receive payments to be made under the Loan Agreement that are to be deposited with the Trustee or the funds and accounts established by the Resolution and by any Series Resolution which are pledged by the Resolution; provided, however, that the Authority may (i) issue bonds, notes or other obligations or otherwise incur indebtedness under another and separate resolution or agreement so long as the charge or lien created thereby is not prior or equal to the charge or lien created by the Resolution, (ii) incur Credit/Liquidity Facility Obligations which are secured by a lien upon and pledge of the Revenues which lien and pledge is of equal priority with the lien created and pledge made by the Resolution.

*(Section 7.06)*

#### **Tax Exemption; Rebate**

In order to maintain the exclusion from gross income for Federal income tax purposes, the Authority shall comply with the provisions of the Code applicable to the Bonds of a Series, including without limitation the provisions of the Code relating to the computation of the yield on investments of the Gross Proceeds of a Series of Bonds, reporting of earnings on the Gross Proceeds of a Series of Bonds, and rebates of Excess Earnings to the Department of the Treasury of the United States of America (all as defined in the Code). In furtherance of the foregoing, the Authority shall comply with the provisions of the Tax Certificate.

The Authority shall not take any action or fail to take any action which would cause the Bonds of a Series

to be “arbitrage bonds” within the meaning of Section 148(a) of the Code.

Notwithstanding any other provision thereof to the contrary, the Authority’s failure to comply with the provisions of the Code applicable to the Bonds of a Series shall not entitle the Holder of Bonds of any other Series, or the Trustee acting on their behalf, to exercise any right or remedy provided to Bondholders under the Resolution based upon the Authority’s failure to comply with the provisions of Section 7.14 of the Resolution or of the Code.

*(Section 7.14)*

#### **Events of Default**

An event of default shall exist under the Resolution and under each Series Resolution (called “event of default”) if:

Payment of the principal, Sinking Fund Installment, if any, or Redemption Price of any Bond shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

Payment of an installment of interest on any Bond shall not be made when the same shall become due and payable; or

The Authority shall default in the due and punctual performance of the covenants contained in the Resolution and, as a result thereof, the interest on the Bonds of a Series shall no longer be excludable from gross income under Section 103 of the Code; or

The Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Resolution or in the Bonds or any Series Resolution on the part of the Authority to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds; unless, if such default is not capable of being cured within thirty (30) days, the Authority has commenced to cure such default within said thirty (30) days and diligently prosecutes the cure thereof; or

An “Event of Default”, as defined in the Loan Agreement, arising out of or resulting from the failure of the University to comply with the requirements of the Loan Agreement shall have occurred and is continuing and all sums payable by the University under the Loan Agreement shall have been declared to be immediately due and payable, which declaration shall not have been annulled.

*(Section 11.02)*

#### **Acceleration of Maturity**

Upon the happening and continuance of any event of default specified in Section 11.02 of the Resolution, other than paragraph (c) thereof, then and in every such case the Trustee may, and upon the written request of the Holders of not less than twenty-five per cent (25%) in principal amount of the Outstanding Bonds shall, by a notice in writing to the Authority, declare the principal of and interest on all of the Outstanding Bonds to be due and payable. At the expiration of thirty (30) days from the giving of notice of such declaration, such principal and interest shall become and be immediately due and payable, anything in the Resolution or in the Bonds or any Series Resolution to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall with the written consent of the Holders of not less than twenty-five per centum (25%) in principal amount of the Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Debt Service Fund sufficient to pay all arrears of interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys shall have accumulated and be available sufficient to pay the charges,

compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agent; (iii) all other amounts then payable by the Authority under the Resolution and under each Series Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration under Section 11.02 of the Resolution) or in the Bonds or any Series Resolution shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

*(Section 11.03)*

### **Enforcement of Remedies**

Upon the happening and continuance of any event of default specified in Section 11.02 of the Resolution, then and in every such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, or, in the case of the happening and continuance of an event of default specified in paragraph (c) of Section 11.02 of the Resolution, upon the written request of the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall, proceed (subject to the provisions in the Resolution), to protect and enforce its rights and the rights of the Holders of the Bonds under the laws of the State or under the Resolution or under any Series Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained under the Resolution and under any Series Resolution or in aid or execution of any power granted in the Resolution, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

In the enforcement of any remedy under the Resolution and under each Series Resolution the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then, or during any default becoming, and at any time remaining, due from the Authority for principal or interest or otherwise under any of the provisions thereof or of any Series Resolution or of the Bonds, with interest on overdue payments of the principal of or interest on the Bonds at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under the Resolution and under any Series Resolution and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders of such Bonds, and to recover and enforce judgment or decree against the Authority but solely as provided in the Resolution and in such Bonds, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the money adjudged or decreed to be payable.

*(Section 11.04)*

### **Bondholders' Direction of Proceedings**

Anything in the Resolution to the contrary notwithstanding, the Holders of a majority in principal amount of the Outstanding Bonds or, in the case of an event of default specified in paragraph (i) of Section 11.02 of the Resolution, the Holders of a majority in principal amount of the Outstanding Bonds of the Series affected thereby, shall have the right by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Resolution and under each Series Resolution, provided such direction shall not be otherwise than in accordance with law or the provisions of the Resolution and of each Series Resolution and the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

*(Section 11.07)*

### **Limitation of Rights of Individual Bondholders**

No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Resolution, or for any other remedy under the Resolution unless such Holder previously shall have given to the Trustee written notice of the event of default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than twenty-five per cent (25%) in principal amount of the Outstanding Bonds, or in the case of an event of default under paragraph (c) of Section

11.02 of the Resolution, the Holders of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds of the Series affected thereby, shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its or their name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts or for any other remedy under the Resolution. It is understood and intended that no one or more Holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution or to enforce any right under the Resolution except in the manner provided, and that all proceedings at law or in equity shall be instituted and maintained for the benefit of all Holders of the Outstanding Bonds. Notwithstanding any other provision of the Resolution, the Holder of any Bond shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond on the stated maturity expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

*(Section 11.08)*

#### **Modification and Amendment Without Consent**

Notwithstanding any other provisions of the Resolution, the Authority may adopt at any time or from time to time Series Resolutions or Supplemental Resolutions for any one or more of the following purposes, and any such Series Resolution or Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority:

To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

To add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the Authority which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

To surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution;

To confirm, as further assurance, any pledge under the Resolution, and the subjection to any lien, claim or pledge created or to be created by provisions thereof, of the Revenues or of any other moneys, securities or funds;

To modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution or Series Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent Resolutions; or

With the consent of the Trustee, to cure any ambiguity or defect or inconsistent provision of the Resolution, or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable provided that any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect, or to modify any of the provisions of the Resolution or of any previously adopted Series Resolution or Supplemental Resolution in any other respect, provided that such modifications shall not adversely affect the interests of the



Holders in any material respect.

*(Section 9.01)*

### **Supplemental Resolutions Effective With Consent of Bondholders**

The provisions of the Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the provisions of the Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority.

*(Section 9.02)*

### **Amendment of Loan Agreement**

The Loan Agreement may not be amended, changed, modified, altered or terminated so as to adversely affect the interest of the Holders of Outstanding Bonds without the prior written consent of (a) the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, or (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modifications or amendments, the Holders of not less than a majority in aggregate principal amount of the Bonds of each Series so affected then Outstanding provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 7.11 of the Resolution; provided, further, that no such amendment, change, modification, alteration or termination will reduce the percentage of the aggregate principal amount of Outstanding Bonds the consent of the Holders of which is a requirement for any such amendment, change, modification, alteration or termination, or decrease the amount of any payment required to be made under the Loan Agreement or extend the time of payment thereof. The Loan Agreement may be amended, changed, modified or altered with the consent of the Trustee but without the consent of the Holders of Outstanding Bonds to provide necessary changes in connection with the issuance of Bonds, in connection with the acquisition, construction, reconstruction, rehabilitation and improvement of, or otherwise providing, furnishing and equipping any facility constituting a part of a Project or which may be added to a Project, to cure any ambiguity, to correct or supplement any provisions contained in the Loan Agreement which may be defective or inconsistent with any other provisions contained in the Loan Agreement or to provide other changes which will not adversely affect the interests of such Holders. Prior to execution by the Authority of any amendment, a copy thereof certified by an Authorized Officer of the Authority shall be filed with the Trustee.

For the purposes of Section 7.11 the Resolution, a Series shall be deemed to be adversely affected by an amendment, change, modification or alteration of the Loan Agreement if the same adversely affects or diminishes the rights of the Holders of the bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing provisions, Bonds of any particular Series would be adversely affected by any amendment, change, modification or alteration, and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

For all purposes of Section 7.11 the Resolution, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee with respect to whether any amendment, change, modification or alteration adversely affects the interests to any Holders of Bonds then outstanding in any material respect.

For purposes of Section 7.11 of the Resolution (i) the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase and (ii) the remarketing agent for Option Bonds of a Series, upon a mandatory tender date for such Option Bonds may consent to an amendment, change, modification or waiver of the Loan Agreement with the same affect as a consent given by the Holders of such Bonds.

*(Section 7.11)*

## Defeasance

1. If the Authority shall pay or cause to be paid to the Holders of the Bonds of a Series the principal, Sinking Fund Installments, if any, or Redemption Price of and interest thereon, at the times and in the manner stipulated therein, in the Resolution and in the applicable Series Resolution and Bond Series Certificate, then the pledge of the Revenues or other moneys and securities pledged to such Series of Bonds and all other rights granted by the Resolution to such Series of Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver such documents to evidence such discharge and satisfaction as may be reasonably required by the Authority, and all moneys or other Securities held by it pursuant to the Resolution and to the applicable Series Resolution which are not required for the payment or redemption of Bonds of such Series not theretofore surrendered for such payment or redemption shall be paid or delivered by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of the Authority; second, to the Authority the amount certified by the Authority to be then due or past due pursuant to the Loan Agreement in payment of any fees and expenses or pursuant to any indemnity; and, then, the balance thereof to the University. The moneys and securities so paid or delivered shall be released from any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

2. Bonds for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit of moneys for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of Section 12.01 of the Resolution. All Outstanding Bonds of any Series or any maturity within a Series or a portion of a maturity within a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subdivision 1 of Section 12.01 of the Resolution if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give as provided in the Resolution notice of redemption on such date of such Bonds, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (c) the Trustee shall have received the written consent to such defeasance of each Facility Provider which has given written notice to the Trustee and the Authority that amounts advanced under a Credit Facility or Liquidity Facility issued by it or the interest thereon have not been repaid to such Facility Provider, and (d) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give, as soon as practicable, by first class mail, postage prepaid, to the Holders of such Bonds at their last known addresses appearing on the bond registration books, and, if directed by an Authorized Officer of the Authority, by publication, at least twice, at an interval of not less than seven (7) days between publications, in an Authorized Newspaper, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with Section 12.01 of the Resolution and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds. The Authority shall give written notice to the Trustee of its selection of the maturity payment of which shall be made in accordance with Section 12.01 of the Resolution. The Trustee shall select the Bonds of like Series and maturity payment of which shall be made in accordance with Section 12.01 of the Resolution in the manner provided in the Resolution. Neither the Defeasance Securities nor moneys deposited with the Trustee pursuant to Section 12.01 of the Resolution nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds; provided that any moneys received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable and subject to any applicable tax covenant, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be; and provided further, however, that moneys and Defeasance Securities may be withdrawn and used by the Authority for any purpose upon (i) the simultaneous substitution therefor of either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and interest on which when

due will provide moneys which without regard to reinvestment, together with the moneys, if any, held by or deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, Sinking Fund Installments, if any, or Redemption price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) receipt by the Trustee of a letter or other written report of a firm of independent certified public accountants verifying the accuracy of the arithmetical computations which establish the adequacy of such moneys and Defeasance Securities for such purpose. Any income or interest earned by, or increment to, the investment of any such moneys so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required thereinabove to pay the principal, Sinking Fund Installments, if any, or Redemption Price, if applicable, of and interest on such Bonds, as realized, be paid by the Trustee as follows: first, to the Arbitrage Rebate Fund, the amount required to be deposited therein in accordance with the direction of an Authorized Officer of the Authority; second, to the Authority the amount certified by an Authorized Officer of the Authority to be then due or past due pursuant to the Loan Agreement for fees and expenses of the Authority or pursuant to any indemnity; and, then, the balance thereof to the University, and any such moneys so paid by the Trustee shall be released of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

3. For purposes of determining whether Variable Interest Rate Bonds shall be deemed to have been paid prior to the maturity or the redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the second sentence of subdivision 2 of Section 12.01 of the Resolution, the interest to come due on such Variable Interest Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Maximum Interest Rate permitted by the terms thereof; provided however, that if on any date, as a result of such Variable Interest Rate Bonds having borne interest at less than such Maximum Interest Rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Interest Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Interest Rate Bonds in order to satisfy subdivision 2 of Section 12.01 of the Resolution, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Arbitrage Rebate Fund in accordance with the directions of an Authorized Officer of the Authority and the balance thereof, if any, to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

4. Option Bonds shall be deemed to have been paid in accordance with the second sentence of subdivision 2 of Section 12.01 of the Resolution only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to subdivision 2 of Section 12.01 of the Resolution, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of subdivision 4 of Section 12.01 of the Resolution. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose, the Trustee shall, if requested by the Authority, pay the amount of such excess to the Arbitrage Rebate Fund in accordance with the directions of an Authorized Officer of the Authority and the balance thereof, if any, to the Authority free and clear of any trust, pledge, lien, encumbrance or security interest created by the Resolution or by the Loan Agreement.

5. Anything in the Resolution to the contrary notwithstanding, any moneys held by the Trustee or any Paying Agent in trust for the payment and discharge of any Bonds or the interest thereon which remain unclaimed for three (3) years after the date when such moneys become due and payable, upon such Bonds, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or Paying Agent at such date or for one (1) year after the date of deposit of such moneys if deposited with the Trustee or the Paying Agent after such date when all of the Bonds of such Series become due and payable, shall at the written request of the Authority, be repaid by the Trustee or Paying Agent to the Authority as its absolute property and free from trust, and the Trustee or Paying Agent shall thereupon be released and discharged with respect thereto and the Holders of such Bonds, shall look only to the Authority for the payment of such Bonds; provided, however, that, before being required to make any such payment to the Authority, the Trustee or Paying Agent may, at the expense of the Authority cause to be published in an Authorized Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after the

date of publication of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.  
(Section 12.01)

**AUCTION PROCEDURES**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## AUCTION PROCEDURES

### Definitions

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

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

**Auction Agent** means the auctioneer appointed in accordance with the Bond Series Certificates.

**Auction Agent Agreement** means an agreement by and among the Authority, the University, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Bond Series Certificates, with respect to the Series 2004 Bonds in an Auction Rate Mode, as such agreement may from time to time be amended or supplemented.

**Auction Date** means during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Bond Series Certificates, (i) if the Series 2004 Bonds are in a daily Auction Period, each Business Day, (ii) if the Series 2004 Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the Series 2004 Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date); **provided, however**, that the last Auction Date with respect to Series 2004 Bonds in an Auction Period other than a daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for such Series 2004 Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the Maturity Date for such Series 2004 Bonds; **provided, further**, that if the Series 2004 Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for such Series 2004 Bonds and (y) the Business Day next preceding the Maturity Date for the Series 2004 Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the Conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the Conversion.

**Auction Multiple** means, as of any Auction Date, the percentage of the Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Series 2004 Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage of Index
AAA/AAA/Aaa	175%
AA/AA/Aa	200
A/A/A	250
BBB/BBB/Baa	275
Below BBB/BBB/Baa	300

For purposes of this definition, the prevailing rating of the Series 2004 Bonds will be (a) AAA/Aaa, if the Series 2004 Bonds have a rating of AAA by S&P and/or a rating of Aaa by Moody's, (b) if not AAA/Aaa, then AA/Aa if the Series 2004 Bonds have a rating of AA- or better by S&P and/or a rating of Aa3 or better by Moody's, (c) if not AAA/Aaa or AA/Aa, then A/A if the Series 2004 Bonds have a rating of A- or better by S&P and/or a rating of A3 or better by Moody's, (d) if not AAA/Aaa, AA/Aa or A/A, then BBB/Baa, if the Series 2004 Bonds have a rating of BBB- or better by S&P and/or a rating of Baa3 or better by Moody's, and (e) if not AAA/Aaa, AA/Aa, A/A or

BBB/Baa, then Below BBB/Baa.

**Auction Period** means:

(i) a Special Auction Period;

(ii) with respect to Series 2004 Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(iii) with respect to Series 2004 Bonds in a seven-day Auction Period, a period of generally seven (7) days beginning on a weekday and ending on the weekday which is seven days thereafter (unless such weekday is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day);

(iv) with respect to Series 2004 Bonds in a 28-day Auction Period, a period of generally twenty-eight (28) days beginning on a weekday and ending on a weekday that is twenty-eight (28) days thereafter (unless such weekday is not followed by a Business Day, in which case on first day that is next succeeded by a Business Day);

(v) with respect to Series 2004 Bonds in a 35-day Auction Period, a period of generally thirty-five (35) days beginning on a weekday and ending on a weekday that is thirty five (35) days thereafter (unless such weekday is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day);

(vi) with respect to Series 2004 Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day); and

(vii) with respect to Series 2004 Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a Conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding January 1<sup>st</sup> or July 1<sup>st</sup> (unless such January 1<sup>st</sup> or July 1<sup>st</sup> is not followed by a Business Day, in which case ending on the first day, thereafter that is next succeeded by a Business Day).

**provided, however,** that (a) if there is a Conversion of Series 2004 Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the weekday, determined by the Authority with the consent of the University, next succeeding the weekday on which the seven-day Auction Period is to commence (unless such weekday on which such Auction Period is to end is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day) (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on a Business Day determined by the Authority with the consent of the University (unless such Business Day is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of Conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the Conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on a Business Day determined by the Authority with the consent of the University (unless such Business Day is not followed by a Business Day, in which case ending on the first day thereafter that is next succeeded by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of Conversion.



**Auction Procedures** means the procedures for conducting Auctions for Series 2004 Bonds in an Auction Rate Mode set forth in the Bond Series Certificates.

**Auction Rate** means for each Series 2004 Bond for each Auction Period (other than the initial Auction Period), (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; **provided, however**, if all of such Series 2004 Bonds are the subject of Submitted Hold Orders, the Minimum Auction Rate with respect to such Series 2004 Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Series 2004 Bonds.

**Available Bonds** means for Series 2004 Bonds on each Auction Date, the aggregate principal amount of such Series 2004 Bonds that are not the subject of Submitted Hold Orders.

**Bid** has the meaning specified in subsection (a) of Section 2.02 of Exhibit A to the Bond Series Certificates.

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

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

**Broker-Dealer Agreement** means an agreement among the Auction Agent, the University and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in Exhibit A to the Bond Series Certificates, as such agreement may from time to time be amended or supplemented.

**Default Rate** means, in respect of any Auction Period, the Maximum Rate.

**Existing Owner** means (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a person that is a Broker-Dealer and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a person that is a beneficial owner of Series 2004 Bonds.

**Hold Order** has the meaning specified in paragraph (a) of Section 2.02 of Exhibit A to the Bond Series Certificates.

**Index** shall have the meaning specified in Section 2.07 of Exhibit A to the Bond Series Certificates.

**Interest Payment Date** means:

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

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

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

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

**Minimum Auction Rate** means, as of any Auction Date, sixth-five percent (65%) of the Index in effect on such Auction Date; **provided, however**, in no event shall the Minimum Auction Rate exceed the Maximum Auction Rate. If there are three auctions at the Minimum Auction Rate, the Authority has the right to change the Minimum Auction Rate at its discretion with the consent of the University and the Broker-Dealer in accordance with the Bond Series Certificates and upon receipt of an Opinion of Bond Counsel.

**No Auction Rate** means the rate in effect for the preceding Auction Period and after three consecutive Auction Periods with no auction, the Maximum Auction Rate, provided that for Auction Periods which are greater than 35 days, the Auction Period shall be extended by 7 days and each subsequent Auction Period shall be for 7 days.

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

**Potential Owner** means any person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Series 2004 Bonds in addition to the Series 2004 Bonds currently beneficially owned by such Person, if any.

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

**Securities Depository** or **Depository** means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority which agrees to follow the procedures required to be followed by such securities depository in connection with the Series 2004 Bonds.

**Sell Order** has the meaning specified in paragraph (a) of Section 2.02 of Exhibit A to the Bond Series Certificates.

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

**Submission Deadline** means 1:00 p.m., New York City time, on each Auction Date for Series 2004 Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for Series 2004 Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agent Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

**Submitted Bid** has the meaning specified in paragraph (b) of Section 2.04 of Exhibit A to the Bond Series Certificates.

**Submitted Hold Order** has the meaning specified in paragraph (b) of Section 2.04 of Exhibit A to the Bond Series Certificates.

**Submitted Order** has the meaning specified in paragraph (b) of Section 2.04 of Exhibit A to the Bond Series Certificates.

**Submitted Sell Order** has the meaning specified in paragraph (b) of Section 2.04 of Exhibit A to the Bond Series Certificates.

**Sufficient Clearing Bids** means an Auction for which the aggregate principal amount of Series 2004 Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Series 2004 Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

**Winning Bid Rate** means the lowest rate specified in any Submitted Bid for Series 2004 Bonds which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of Series 2004 Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

### Auction Procedures

**Beneficial Interests.** Each reference to the purchase, sale or holding of Series 2004 Bonds shall refer to beneficial interests in such Series 2004 Bonds, unless the context clearly requires otherwise.

During an Auction Rate Mode, so long as the ownership of the Series 2004 Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Series 2004 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Series 2004 Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series 2004 Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of Series 2004 Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

**Orders by Existing Owners and Potential Owners.** (a) Prior to the Submission Deadline on each Auction Date:

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

(A) the principal amount of Series 2004 Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;

(B) the principal amount of Series 2004 Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to sell if the Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Owner; and

(C) the principal amount of Series 2004 Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell without regard to the Auction Rate for the next succeeding Auction Period.

(ii) one or more Broker-Dealers may contact Potential Owners to determine the principal amount of Series 2004 Bonds which each such Potential Owner irrevocably offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the interest rate per annum specified by such Potential Owner.

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

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

(A) the principal amount of Series 2004 Bonds specified in such Bid if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(B) such principal amount or a lesser principal amount of Series 2004 Bonds to be determined as described in paragraph (a)(v) of Section 2.05 of Exhibit A to the Bond Series Certificates if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(C) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Auction Rate or such principal amount or a lesser principal amount of Series 2004 Bonds to be determined as described in paragraph (b)(iv) of Section 2.05 of Exhibit A to the Bond Series Certificates if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

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

(A) the principal amount of Series 2004 Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Series 2004 Bonds as described in paragraph (b)(iv) of Section 2.05 of Exhibit A to the Bond Series Certificates if Sufficient Clearing Bids do not exist.

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

(A) the principal amount of Series 2004 Bonds specified in such Bid if the Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Series 2004 Bonds as described in paragraph (a)(vi) of Section 2.05 of Exhibit A to the Bond Series Certificates if the Auction Rate determined on such Auction Date shall be equal to such specified rate.

(c) Anything therein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Series 2004 Bonds to be held, purchased or sold in a principal amount which is not equal to the Authorized Denomination for Series 2004 Bonds or an integral multiple thereof shall be rounded down to the nearest amount that is equal to the Authorized Denomination for Series 2004 Bonds, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount; **provided, however,** (i) any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of Series 2004 Bonds which is less than \$25,000 shall be rejected and shall be deemed a Hold Order and (ii) any Bid submitted by a Potential Owner covering an aggregate principal amount of Series 2004 Bonds which is less than \$25,000 shall be rejected;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Series 2004 Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Series 2004 Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Authority of the occurrence of an Event of Default pursuant to clause (a) or (b) of Section 11.02 of the Resolution (**provided, however**, that for purposes of this provision only payment by the Provider of a Credit Facility then in effect shall be deemed to cure such Event of Default and no such suspension of the Auction Procedures shall occur), but shall resume two (2) Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

**Submission of Orders by Broker-Dealers to Auction Agent.** (a) During an Auction Rate Period each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date during the Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of Series 2004 Bonds that are subject to such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of Series 2004 Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Series 2004 Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Series 2004 Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Holder's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of one percent (1%).

(c) If an Order or Orders covering all of the Series 2004 Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Series 2004 Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; **provided, however**, that if there is a change in the length of the Auction Period pursuant to Section 2.08 of Exhibit A to the Bond Series Certificates or an amendment or modification to the Resolution in accordance therewith and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Series 2004 Bonds held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Series 2004 Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent.

(d) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Series 2004 Bonds held by any Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including the principal amount of Series 2004 Bonds held by such Existing Owner and, if the aggregate principal amount of Series 2004 Bonds subject to such Hold Orders exceeds the aggregate principal amount of Series 2004 Bonds held by such Existing Owner, the aggregate principal amount of Series 2004 Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Series 2004 Bonds held by such Existing Owner;

(ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of Series 2004 Bonds held by such Existing Owner over the aggregate principal amount of the Series 2004 Bonds subject to Hold Orders referred to in subparagraph (i) above;

(B) subject to clause (A) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Series 2004 Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the principal amount of Series 2004 Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Series 2004 Bonds equal to such excess;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids valid in the ascending order of their respective rates until the highest rate is reached of which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event the aggregate principal amount of such Series 2004 Bonds, if any, subject to Bids not valid under this subparagraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified;

(iii) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Series 2004 Bonds held by such Existing Owner over the aggregate principal amount of the Series 2004 Bonds subject to valid Hold Orders referred to in subparagraph (i) above and valid Bids referred to in subparagraph (ii) above.

(e) If more than one Bid for Series 2004 Bonds is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid for Series 2004 Bonds with the rate and the principal amount specified therein.

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

(g) Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

**Determination of Auction Rate.** (a) Not later than 9:30 a.m., New York City time, on each Auction Date for Series 2004 Bonds in an Auction Rate Mode, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic communication acceptable to the parties of the Minimum Auction Rate, the Maximum Auction Rate and the Index for the Series 2004 Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for Series 2004 Bonds in an Auction Rate Mode, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being referred to as a “Submitted Hold Order”, a “Submitted Bid” or a “Submitted Sell Order”, as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

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

(d) In the event the Auction Agent fails to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period, the Auction Rate for such Auction Period, with respect to the Series 2004 Bonds, shall be the No Auction Rate; **provided, however**, that if the Auction Procedures are suspended pursuant to clause (iv) of paragraph (c) of Section 2.02 of Exhibit A to the Bond Series Certificates with respect to any Series 2004 Bonds, the Auction Rate for the next succeeding Auction Period shall be the Default Rate.

(e) In the event that all of the conditions for a change in the Rate Mode applicable to the Series 2004 Bonds from an Auction Mode to any other Rate Mode pursuant to Section 3.03 of the Bond Series Certificates have not been met or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Series 2004 Bonds are not rated or if the Series 2004 Bonds are no longer maintained in book-entry form by the Securities Depository, then the Auction Rate shall be the Maximum Auction Rate.

**Allocation of Series 2004 Bonds.** (a) In the event of Sufficient Clearing Bids for Series 2004 Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders for such Series 2004 Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Series 2004 Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Series 2004 Bonds obtained by multiplying (A) the aggregate principal

amount of Outstanding Series 2004 Bonds which are not the subject of Submitted Hold Orders described in subparagraph (i) above or of Submitted Bids described in subparagraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004 Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Series 2004 Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Series 2004 Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Series 2004 Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Series 2004 Bonds which are not the subject of Submitted Hold Orders described in subparagraph (i) above or of Submitted Bids described in subparagraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004 Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Series 2004 Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

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

(b) In the event there are not Sufficient Clearing Bids for Series 2004 Bonds, subject to the further provisions of paragraphs (c) and (d) below, Submitted Orders, for each Series 2004 Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Series 2004 Bonds, shall be accepted, thus requiring each such Existing Owner to continue to hold the Series 2004 Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to Series 2004 Bonds, shall be accepted, thus requiring each such Potential Owner to purchase the Series 2004 Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate with respect to Series 2004 Bonds, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Series 2004 Bonds obtained by multiplying (A) the aggregate principal amount of Series 2004 Bonds subject to Submitted Bids described in subparagraph (iii) of this paragraph (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Series 2004 Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Series 2004 Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Series 2004 Bonds; and



(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the Series 2004 Bonds shall be rejected.

(c) If, as a result of the procedures described in paragraph (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Series 2004 Bonds which is not an integral multiple of the Authorized Denomination for such Series 2004 Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Series 2004 Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Series 2004 Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of the Authorized Denomination for Series 2004 Bonds, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Series 2004 Bonds on such Auction Date.

(d) If, as a result of the procedures described in paragraph (a) above, any Potential Owner would be required to purchase a principal amount of Series 2004 Bonds that is less than the Authorized Denomination for Series 2004 Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate such Bonds for purchase among Potential Owners so that the principal amount of Series 2004 Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of the Authorized Denomination for Series 2004 Bonds, even if such allocation results in one or more of such Potential Owners not purchasing such Series 2004 Bonds on such Auction Date.

**Notice of Auction Rate.** (a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing the University and each Broker–Dealer that participated in the Auction held on such Auction Date of the following with respect to Series 2004 Bonds for which an Auction was held on such Auction Date:

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

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

(iii) if such Broker–Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Series 2004 Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker–Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Series 2004 Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Series 2004 Bonds to be sold by all Existing Owners on whose behalf such Broker–Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Series 2004 Bonds to be purchased by all Potential Owners on whose behalf such Broker–Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of Series 2004 Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker–Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to Series 2004 Bonds for which an Auction was held on such Auction Date, each Broker–Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker–Dealer submitted an Order as to (A) the Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted

on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such Series 2004 Bonds to be purchased pursuant to such Bid (including, with respect to such Series 2004 Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Series 2004 Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such Series 2004 Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

**Index.** (a) The Index, on any date of determination, means, with respect to the Series 2004 Bonds, the One-Month LIBOR Rate on such date. "One-Month LIBOR Rate" means the London interbank offered rate ("LIBOR") for deposits in U.S. dollars having a maturity of one month commencing on such determination date reported by Bloomberg Financial Markets as of 9:00 a.m., New York City time, on such determination date. If such rate is not reported by Bloomberg Financial Markets, the rate will be determined based on the rate which appears on Telerate Page 3750. If such rate is not reported by Bloomberg Financial Markets and does not appear on Telerate Page 3750, such rate will be determined based upon the publication determined by the Broker-Dealer (or if there is more than one Broker-Dealer by the Market Agent) to be most comparable.

(b) If for any reason on any Auction Date the Index shall not be determined as provided in Exhibit A to the Bond Series Certificates, the Index shall be the Index for the Auction Period ending on such Auction Date.

(c) The determination of the Index as provided therein shall be conclusive and binding upon the Authority, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Series 2004 Bonds.

**Changes in Auction Period or Auction Date.** (a) **Changes in Auction Period.** (i) During any Auction Rate Mode, the Authority, with the consent of the University, may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to any of the Series 2004 Bonds specified in the notice described below in an Auction Rate Mode among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period. The Authority shall initiate the change in the length of the Auction Period by giving written notice to the University, or the Provider of a Credit Facility then in effect, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period for the Series 2004 Bonds specified in such notice shall change if the conditions described therein are satisfied and the proposed effective date of the change, at least ten (10) Business Days prior to the Auction Date for such Auction Period; **provided, however,** that in the case of a change from a Special Auction Period of ninety-two (92) or more days, the date of such change shall be the Interest Payment Date immediately following the last day of such Special Auction Period.

(ii) The change in the length of the Auction Period for Series 2004 Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this paragraph (a) and the Auction immediately preceding the proposed change.

(iii) The change in length of the Auction Period for Series 2004 Bonds shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from an Authorized Officer of the Authority consenting to the change in the length of the Auction Period specified in such certificate, (B) on or prior to such Auction Date the Trustee and the Authority receive an Opinion of Bond Counsel and (C) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Series 2004 Bonds for which there is to be a change in the length of the Auction Period except to the extent such Existing Owner submits an Order with respect to such Series 2004 Bonds. If the condition referred to in clause (A) or (B) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in clause (A) above is met but the condition referred to in clause (B) above is

not met, the Auction Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be the same Auction Period it was. If the condition referred to in (C) is not met, the Auction Period will be a seven-day Auction Period and the Auction Rate will be the Maximum Auction Rate.

(iv) On the conversion date for Series 2004 Bonds from one Auction Period to another Auction Period, any Series 2004 Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any Auction Rate Mode, the Auction Agent, with the written consent of the Authority, may specify another Auction Date for Series 2004 Bonds than the Auction Date that would otherwise be determined in accordance with the definition of “**Auction Date**”. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least thirty (30) days prior to the proposed changed Auction Date to the Trustee, the Authority, the University, the Provider of a Credit Facility then in effect, the Broker-Dealers and the Securities Depository.

#### **Miscellaneous Provisions Regarding Auctions.**

(a) In Exhibit A to the Bond Series Certificates, each reference to the purchase, sale or holding of the 2004 Bonds shall refer to beneficial interests in the Series 2004 Bonds, unless the context clearly requires otherwise.

(b) During an Auction Period with respect to the Series 2004 Bonds, the provisions of the Resolution, the Bond Series Certificates and the definitions contained therein and described in Exhibit A to the Bond Series Certificates, including without limitation the definitions of Maximum Auction Rate, Minimum Auction Rate, No Auction Rate, Index, Default Rate, Interest Payment Date, Auction Multiple and the Auction Rate, may be amended pursuant to the Resolution, by obtaining the consent of the owners of all Outstanding Series 2004 Bonds bearing interest at an Auction Rate as follows. If on the first Auction Date occurring at least twenty (20) days after the date on which the Trustee gives notice of such proposed amendment to the registered owners of the Outstanding Bonds as required by the Resolution, (i) the Auction Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Authority and the Trustee an Opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Series 2004 Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Series 2004 Bonds of such Series bearing interest at an Auction Rate.

(c) If the Securities Depository notifies the Authority that it is unwilling or unable to continue as owner of the Series 2004 Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within ninety (90) days after the Authority receives notice or becomes aware of such condition, as the case may be, the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Series 2004 Bonds. Such Series 2004 Bonds shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee. During an Auction Period, so long as the ownership of the Series 2004 Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Series 2004 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Series 2004 Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

#### **Auction Agent**

**Qualifications of Auction Agent; Resignation; Removal.** The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined

capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of National Association of Securities Dealers having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Bond Series Certificates and a member of or a participant in, the Securities Depository.

The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Bond Series Certificates by giving at least ninety (90) days notice to the Authority, the University, each Broker-Dealer and the Trustee. The Auction Agent may be removed at any time by the Authority, at the direction of the University, upon at least thirty (30) days notice, delivered to the Auction Agent, the University, each Broker-Dealer and the Trustee. Upon any such resignation or removal, the Authority or the Trustee at the direction of the Authority shall appoint a successor Auction Agent meeting the requirements of the Bond Series Certificates. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Series 2004 Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties thereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Authority and the Trustee even if a successor Auction Agent has not been appointed.

**FORM OF APPROVING  
OPINION OF BOND COUNSEL**

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

**FORM OF APPROVING OPINION OF BOND COUNSEL**

\_\_\_\_\_, 2004

Dormitory Authority of the  
State of New York  
515 Broadway  
Albany, New York 12207

Re: Cornell University Revenue Bonds, Series 2004A and 2004B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Dormitory Authority of the State of New York (the "Authority") of \$92,100,000 aggregate principal amount of the following bonds: (i) \$45,000,000 Cornell University Revenue Bonds, Series 2004A (the "Series 2004A Bonds") and (ii) \$47,100,000 Cornell University Revenue Bonds, Series 2004B (the "Series 2004B Bonds") and together with the Series 2004A Bonds, the "Bonds"), issued pursuant to the provisions of the Dormitory Authority Act, as amended, constituting Chapter 524 of the Laws of 1944 of New York, as amended (constituting Title 4 of Article 8 of the New York Public Authorities Law), and the Authority's Cornell University Revenue Bond Resolution, adopted January 26, 2000, as supplemented by the Supplemental Resolution, adopted March 24, 2004 (as so supplemented, the "Resolution"), as amended and supplemented by the Series 2004A Resolution Authorizing Up To \$100,000,000 Cornell University Revenue Bonds, Series 2004A, adopted March 24, 2004 (the "Series 2004A Resolution") and the Series 2004B Resolution Authorizing Up To \$100,000,000 Cornell University Revenue Bonds, Series 2004B, adopted March 24, 2004 (the "Series 2004B Resolution"). The Resolution, together with the Series 2004A Resolution and the Series 2004B Resolution are herein collectively referred to as the "Resolutions." Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions.

The Authority has entered into a Loan Agreement with Cornell University (the "Institution"), dated as of January 26, 2000, as supplemented as of March 24, 2004 (together, the "Loan Agreement"), providing, among other things, for a loan to the Institution for the purposes permitted thereby and by the Resolutions. Pursuant to the Loan Agreement, the Institution is required to make payments sufficient to pay the principal, sinking fund installments and redemption price of and interest on the Bonds as the same become due, which payments have been pledged by the Authority to the Trustee for the benefit of the holders of the Bonds.

The Bonds are to mature on the dates and in the years and amounts and interest on the Bonds is payable at the rates and in the amounts set forth in the Bond Series Certificates executed and delivered pursuant to the Resolutions concurrently with the issuance of the Bonds.

The Bonds are to be issued initially in fully registered form in the denomination of \$25,000 and any integral multiple thereof. The Bonds are payable, subject to redemption prior to maturity, exchangeable, transferable and secured upon such terms and conditions as are contained in the Resolutions and the Bond Series Certificates.

In such connection, we have reviewed the Resolutions, the Loan Agreement, the Tax Certificate and Agreement dated as of the date hereof (the “Tax Certificate and Agreement”) between the Authority and the Institution, opinions of counsel to the Authority and the Institution, certificates of the Authority, the Trustee, the Institution and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of the University Counsel and Secretary of the Corporation, James Mingle, Esq., regarding, among other matters, the current qualification of the Institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Institution within the meaning of Section 513 of the Code. We note that such opinion is subject to a number of qualifications and limitations. Failure of the Institution to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Institution within the meaning of Section 513 of the Code, could negatively affect several of the opinions and conclusions set forth below.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Loan Agreement, the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents and certificates, and of the legal conclusions contained in the opinions, referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Loan Agreement and the Tax Certificate and Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolutions, the Loan Agreement and the Tax Certificate and Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:



1. The Authority has been duly created and is validly existing as a body corporate and politic constituting a public benefit corporation of the State of New York.

2. The Bonds have been duly and validly authorized to be issued and constitute the valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, will be payable solely from the sources provided therefor in the Resolutions, and will be entitled to the benefit of the Resolutions and the Act.

3. The Resolutions are in full force and effect, have been duly adopted by, and constitute the valid and binding obligations of, the Authority. The Resolutions create a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Resolutions, except the Arbitrage Rebate Fund and the Bond Purchase Fund, subject to the provisions of the Resolutions permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolutions.

4. The Loan Agreement has been duly executed and delivered by the Authority and, assuming due execution and delivery thereof by the Institution, constitutes a valid and binding agreement of the Authority in accordance with its terms.

5. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of New York, and said State is not liable for the payment thereof.

6. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP